

MFC BANCORP LTD

FORM 20-F

(Annual and Transition Report (foreign private issuer))

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Sector	Financial
Fiscal Year	12/31

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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-04192

MFC BANCORP LTD.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's Name into English)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

8th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, SAR, China

(Address of executive office)

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

Not Applicable

Title of Class

Not Applicable

Name of Each Exchange on Which Registered

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

Common Shares Without Par Value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Not Applicable

Title of Class

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of the close of the period covered by the annual report.

There were 13,577,146 common shares, without par value, issued and outstanding as of December 31, 2004.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 which financial statement item the Registrant has elected to follow.

ITEM 17 ITEM 18

MFC BANCORP LTD.
(the "Company")
2004 REPORT

Dear Fellow Shareholders:

We are pleased to enclose our results for 2004. All dollar amounts in this 2004 report are expressed in U.S. currency unless otherwise indicated.

Our revenues for 2004 increased by approximately 83.0% compared to 2003, primarily as a result of the acquisitions of KHD Humboldt Wedag AG and other commodities trading operations. For the year ended December 31, 2004, revenues increased to \$579.7 million compared with \$316.9 million in the previous year. Net income for 2004 decreased 19.2% to \$30.7 million, or \$2.24 per share on a diluted basis, compared with \$38.0 million, or \$2.78 per share on a diluted basis, in the prior year.

A major concern in 2003 and 2004 has been the exchange rate fluctuation. Where our expenses are in Euros, Canadian dollars and Swiss francs, the majority of our income is denominated in U.S. dollars and Euros and our reporting currency is in Canadian dollars. Based upon the year average exchange rates in 2004, the Canadian dollar increased by approximately 7.7% in value against the U.S. dollar, compared to the year average exchange rates in 2003. As at December 31, 2004, the Canadian dollar decreased by approximately 1.0% in value against the Swiss franc, 0.1% against the Euro and increased by approximately 7.4% against the U.S. dollar since December 31, 2003.

The following table is a summary of selected financial information concerning MFC for the periods indicated:

	Year ended December 31		
	2004	2003	2002
	(U.S. Dollars in thousands, except per share amounts) (Information Only)		
Revenues	\$ 579,731	\$ 316,863	\$ 180,006
Net income	30,701	38,004	32,129
Net income per share			
Basic	2.27	2.91	2.48
Diluted	2.24	2.78	2.35

	Year ended December 31	
	2004	2003
	(U.S. Dollars in thousands) (Information Only)	
Cash and cash equivalents	\$ 179,231	\$ 112,544
Short-term securities	17,542	6,509
Total assets	501,579	313,043
Long-term debt, less current portion	11,950	21,182
Shareholders' equity	223,849	169,024

KHD Humboldt Wedag brings a key core asset into the MFC Bancorp group of companies. The nature of the KHD Humboldt Wedag services and the locations of its subsidiaries and sales offices are particularly synergistic with traditional services provided by other MFC Bancorp group companies operating in the project finance, trade finance and commodities trading fields.

KHD Humboldt Wedag employs more than 700 people around the world. At the company's headquarters in Koln, Germany, the staff of 400 includes corporate administration, design and detail engineering, research and development and manufacturing. Major subsidiaries include Humboldt Wedag India where approximately 170 staff focus on coal beneficiation projects and cement technology services for domestic and international clients. It is noteworthy that year 2004 marks the 40th anniversary of Humboldt Wedag India. In the United States, Humboldt Wedag Inc.'s Atlanta office includes a staff of 45 design and commissioning specialists providing services to clients in the Americas and Caribbean. KHD Humboldt Wedag also has full service subsidiaries in South Africa and Australia. These subsidiaries are complemented by sales offices in Russia, China and the Middle East. The China operation has been active for over 20 years. Furthermore, the company is planning to capitalize on emerging markets for a low cost manufacturing base to enhance its competitiveness for international projects.

The end product produced by KHD Humboldt Wedag, whether it is in the cement, coal or minerals processing fields, usually represents a major capital expenditure project for their clients. Further, the product of its clients is a commodity, e.g., clinker, cement, clean coal or minerals such as copper, gold, or diamonds to name a few. Consequently, the KHD Humboldt Wedag clients are potential clients for other members of the MFC group of companies. MFC can provide these clients with equity, financing, off-take agreements, etc. These associated services available through the group may serve to further differentiate KHD Humboldt Wedag from its competitors and enhances its success rate. Finally, the knowledge base of KHD Humboldt Wedag expands MFC's options for considering potential equity investments, either for its own account or on behalf of clients, to include coal washeries, exploitation of waste pile resources, etc.

Founded in 1856, KHD Humboldt Wedag is one of the leading suppliers of equipment and engineering services in the fields of cement, coal and minerals processing technologies. The order intake for KHD Humboldt Wedag for the year ended December 31, 2002 was approximately € 90 million. After acquiring our initial interest in 2003, we saw the order intake increase by over 45% and in the second year, 2004, by an additional 77% to almost € 240 million. Order intake in the first quarter alone of the current year is approaching € 100 million although one should not anticipate this rate of growth to continue unabated. Order backlog, which at the end of 2003 stood at about € 97 million, nearly doubled by the close of 2004 to reach just over € 190 million. We anticipate the backlog to exceed €250 million by the close of the first quarter. Order intake is defined as all orders which were received during the respective period under review. Order backlog is defined as orders which have been received by not yet fulfilled.

Order backlog — KHD Humboldt Wedag AG

	Euros	U.S. Dollars(2)
March 31, 2005 (estimated)	250 million(1)	338 million
December 31, 2004	190 million	257 million
December 31, 2003	97 million	131 million

(1) This amount is estimated for the period from January 1, 2005 to March 31, 2005.

(2) For easy comparison, all € amounts are translated into U.S. dollars at 1.3536, the exchange rate prevailing on December 31, 2004.

Our merchant banking activities provide specialized banking and corporate finance services and advise clients on corporate strategy and structure, including mergers and acquisitions and capital raising. They also include proprietary trading in commodities and natural resources and proprietary investing of our own capital in enterprises to realize long-term or trading gains. Such investing is generally in businesses or assets whose intrinsic value is not properly reflected in their share or other price, often as a result of financial or other distress affecting them. Such proprietary investing is generally not passive and we seek investments where our financial expertise and management can add or unlock value. Proprietary investments are generated and made as part of our overall merchant banking activities and are realized upon over time.

The fourth quarter was a disappointing period for us. Our financial services portfolio under-performed due to the lack of profitable projects within our risk profile.

Looking ahead, we have many challenges to face. We need to solve the issue that the majority of our portfolio companies will now have to pay increased corporate taxes in their respective jurisdictions. This future expense and the ever-changing foreign currencies in each of the respective portfolio countries lead us to be cautious.

While we did not achieve our targeted goal of 20% return on equity for 2004, we did achieve good development where we evolve with strong liquidity and with financial ratios being very healthy. Our book value increased to \$16.49 on a per share basis, compared to \$13.29 in the previous year. Our working capital is \$182.7 million and our total assets increased to \$501.6 million. We will continue to review our prospects to create the greatest value for the shareholders.

Respectfully submitted,

/s/ MICHAEL J. SMITH

M.J. Smith
President

We have included below our consolidated balance sheets and income statements in U.S. dollars. The presentation of our financial statements in U.S. dollars is for information purposes only and information in our financial statements is translated to U.S. dollars for convenience using year-end exchange rates, as required by Regulation S-X of the Securities Exchange Act of 1934.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(U.S. Dollars in thousands) (Information Only)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 179,231	\$ 112,544
Restricted cash	13,706	—
Securities	17,542	6,509
Loans	8,156	11,123
Receivables	81,527	38,972
Commodity investments	21,415	8,484
Inventories	9,155	—
Real estate held for sale	35,663	2,615
Contract deposits, prepaid and other	18,128	1,754
Future income tax assets	6,664	—
Total current assets	391,187	182,001
Non-current Assets		
Securities	8,190	28,281
Loans	14,165	1,932
Property, plant and equipment	18,368	48,155
Resource property	29,363	27,889
Goodwill	16,987	12,478
Equity method investments	15,362	12,307
Future income tax assets	7,957	—
Total non-current assets	110,392	131,042
	\$ 501,579	\$ 313,043
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 132,944	\$ 41,555
Notes payable	15,263	—
Long-term debt, current portion	6,790	4,582
Deposits	38,653	17,166
Provision for warranty costs	9,672	—
Stock distribution payable	—	55,501
Future income tax liability	5,213	299
Total current liabilities	208,535	119,103
Long-term Liabilities		
Long-term debt, less current portion	11,950	21,182
Pension liabilities	30,568	—
Provision for warranty costs	1,295	—
Other long-term liabilities	1,030	—
Total long-term liabilities	44,843	21,182
Total liabilities	253,378	140,285
Minority Interests		
	24,352	3,734
Shareholders' Equity		
Common stock	59,415	47,888
Equity component of convertible debt	121	—
Retained earnings	174,444	134,381
Cumulative translation adjustment	(10,131)	(13,245)
	223,849	169,024
	\$ 501,579	\$ 313,043

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2004	2003	2002
	(U.S. Dollars in thousands, except per share amounts) (Information Only)		
Financial services revenue	\$ 414,318	\$ 316,863	\$ 180,006
Industrial and engineering services	165,413	—	—
	<u>579,731</u>	<u>316,863</u>	<u>180,006</u>
Expenses			
Financial services	358,047	254,990	111,290
Industrial and engineering services	131,546	—	—
General and administrative	52,037	19,489	22,637
Goodwill impairment	—	—	10,203
Interest	6,184	3,398	6,010
	<u>547,814</u>	<u>277,877</u>	<u>150,140</u>
Income from operations before income taxes and minority interest	31,917	38,986	29,866
Recovery of (provision for) income taxes	3,463	(648)	2,214
Income from operations before minority interest	35,380	38,338	32,080
Minority interests	(4,679)	(334)	49
Net income	<u>\$ 30,701</u>	<u>\$ 38,004</u>	<u>\$ 32,129</u>
Earnings per share			
Basic	<u>\$ 2.27</u>	<u>\$ 2.91</u>	<u>\$ 2.48</u>
Diluted	<u>\$ 2.24</u>	<u>\$ 2.78</u>	<u>\$ 2.35</u>

MFC BANCORP LTD.
FORM 20-F
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PART I

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

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

Unless otherwise indicated, all dollar amounts referred to herein are in Canadian dollars.

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 for MFC prepared in accordance with Canadian generally accepted accounting principles for the five fiscal years ended December 31. Additional information is presented to show the differences which would result from the application of United States generally accepted accounting principles to MFC's financial information. For a description of the difference between Canadian generally accepted accounting principles and United States generally accepted accounting principles, see Note 23 to our consolidated financial statements included in this annual report. The information in the table was extracted from the detailed consolidated financial statements and related notes included in this annual report and should be read in conjunction with such financial statements and with the information appearing under the heading, "Item 5. Operating and Financial Review and Prospects".

Selected Financial Data
(Stated in Canadian Dollars — Calculated in accordance with Canadian GAAP)
Fiscal Year Ended December 31 (Audited)

<u>CANADIAN GAAP</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(In thousands, other than per share amounts)				
Revenues	\$ 697,764	\$ 409,513	\$ 284,339	\$ 214,246	\$ 156,220
Income from continuing operations	36,951	49,116	50,755	45,288	39,163
Income from continuing operations per share					
Basic	2.73	3.76	3.93	3.59	3.24
Diluted	2.70	3.59	3.70	3.35	3.03
Net income	36,951	49,116	50,755	45,288	39,163
Net income per share					
Basic	2.73	3.76	3.93	3.59	3.24
Diluted	2.70	3.59	3.70	3.35	3.03
Total assets	603,699	404,577	446,574	394,639	332,063
Net assets	298,731	223,273	291,041	249,118	216,915
Long-term debt	22,556	33,297	68,798	98,000	35,421
Shareholders' equity	269,421	218,447	285,290	245,997	213,134
Capital stock	71,512	61,891	70,269	76,673	65,138
Cash dividends(1)	—	—	—	—	—
Cash dividends per share(1)	—	—	—	—	—
Cash dividends (U.S.\$)(1)	—	—	—	—	—
Cash dividends per share (U.S.\$)(1)	—	—	—	—	—
Weighted average common stock outstanding, fully diluted (in thousands of shares)	13,818	14,129	14,170	14,002	13,438

(1) Paid on MFC's common shares.

Selected Financial Data
(Stated in Canadian Dollars — Calculated in accordance with U.S. GAAP)

Fiscal Year Ended December 31 (Audited)

UNITED STATES GAAP	2004	2003	2002	2001	2000
	(In thousands, other than per share amounts)				
Revenues	\$ 697,764	\$ 409,513	\$ 284,339	\$ 212,000	\$ 162,694
Income from continuing operations	36,973	49,116	50,755	43,211	45,637
Income from continuing operations per share					
Basic	2.73	3.76	3.93	3.42	3.78
Diluted	2.70	3.59	3.70	3.20	3.51
Net income	36,973	49,116	50,755	43,211	45,637
Net income per share					
Basic	2.73	3.76	3.93	3.42	3.78
Diluted	2.70	3.59	3.70	3.20	3.51
Total assets	604,203	401,235	445,342	391,489	336,523
Net assets	297,541	218,401	289,809	245,968	221,375
Long-term debt	22,720	33,297	68,798	98,000	35,421
Shareholders' equity	268,231	213,575	284,058	242,847	217,594
Capital stock	71,472	61,891	70,269	76,673	65,138
Cash dividends(1)	—	—	—	—	—
Cash dividends per share(1)	—	—	—	—	—
Cash dividends (U.S.\$)(1)	—	—	—	—	—
Cash dividends per share (U.S.\$)(1)	—	—	—	—	—
Weighted average common stock outstanding, fully diluted (in thousands of shares)	13,818	14,129	14,170	14,002	13,438

(1) Paid on MFC's common shares.

Reconciliation to United States Generally Accepted Accounting Principles

A reconciliation to United States Generally Accepted Accounting Principles is included in Note 23 to the audited consolidated financial statements. Significant differences include accounting for available for sale securities, and an allocation of fair value between debt and equity components upon issuance of convertible debt.

Disclosure of Exchange Rate History

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, for the conversion of Canadian dollars into U.S. dollars in effect at the end of the following periods, the average exchange rates during such periods (based on daily noon buying rates in New York City) and the range of high and low exchange rates for such periods:

	Years Ended December 31,				
	2004	2003	2002	2001	2000
End of period	0.8310	0.7738	0.6329	0.6279	0.6666
High for period	0.8493	0.7738	0.6619	0.6697	0.6984
Low for period	0.7177	0.6349	0.6200	0.6241	0.6397
Average for period	0.7682	0.7138	0.6368	0.6457	0.6732

The following table sets out the high and low exchange rates, based on the noon buying rate in New York City for the conversion of Canadian dollars into U.S. dollars, for the following periods:

	<u>High</u>	<u>Low</u>
2004		
September	0.7906	0.7651
October	0.8201	0.7858
November	0.8493	0.8155
December	0.8435	0.8064
2005		
January	0.8346	0.8050
February	0.8134	0.7961
March 1 to March 15	0.8305	0.8024

On March 31, 2005, the noon buying rate in New York City for the conversion of Canadian dollars into U.S. dollars was \$0.8280 per Canadian dollar.

The presentation of selected financial information in our financial statements in U.S. dollars is for informational purposes only and information in our audited consolidated financial statements is translated to U.S. dollars for convenience using year-end exchange rates, as required by Regulation S-X of the Securities Exchange Act of 1934.

D. Risk Factors

Much of the information included in this annual report includes or is based upon estimates, projections or other “forward looking statements”. Such forward looking statements include any projections or estimates made by our company and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other forward looking statements involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward looking statements.

An investment in our company and our common stock involves a number of risks. You should carefully consider the following risks and uncertainties in addition to other information in this annual report in evaluating our company and our business before purchasing shares of our company’s common stock. Our business, operating and financial condition could be harmed due to any of the following risks. The risks described below are not the only ones facing our company. Additional risks not presently known to us may also impair our business operations.

Transaction Risks

We are subject to transaction risks which 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, only underwriting securities 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, among other things, our banking, finance and advisory services, trading and proprietary investing activities, our industrial and engineering products and services, and relate to the risks of the proposed transaction. These risks include market and credit risks associated with our role in providing advisory services.

We often make investments in highly unstructured situations and in companies undergoing severe financial distress. 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 an investment and may have a material adverse effect on our business, results of operations, financial condition and cash flow.

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

In order to grow our business, we may seek to acquire or merge with or invest or make proprietary investments in new companies or opportunities. Our failure to make acquisitions or investments may limit our growth. In pursuing acquisition and investment opportunities, we may be in competition with other companies having similar growth and investment strategies. Competition for these acquisitions or investment targets could result in increased acquisition or investment prices and a diminished pool of businesses, services or products available for acquisition or investment.

Credit or Counterparty Risks

We are exposed to the risk that parties owing us money, security or other assets or that have contracted with us for the delivery of products and/or services will not perform their obligations and as a result our business, results of operations, financial condition and cash flow could be adversely affected.

We manage credit risk on an individual transaction, counterparty level and on a portfolio basis. Credit limits for clients and counterparties are established by our credit officers and management with knowledge of the client's creditworthiness. In addition, we have policies and limitations with respect to our securities lending practices. Our management also reviews and monitors exposure concentrations at a portfolio level. Nevertheless, we are exposed to the risk that parties owing us money, securities or other assets or parties that have contracted with us for the delivery of industrial and engineering products and/or services will not perform their obligations. These parties include our trading counterparties, clients, clearing agents, exchanges and other financial intermediaries, issuers whose securities we hold and parties who we contract with to provide industrial and engineering products and/or services. These parties 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 money market deposits, the extension of credit in trading and investment activities, and participation in payment, securities and commodity trading transactions on our behalf and as an agent on behalf of our clients. If any of these parties defaults on their obligations, our business, results of operations, financial condition and cash flow could be adversely affected.

Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions, we are subject to significant credit risk which could have a material adverse effect on our business, results of operations, financial condition and cash flow.

To reduce credit risk, we only place money market deposits with banks selected for their financial strength and reliability. Further, we otherwise attempt only to deal with creditworthy counterparties and obtain collateral where appropriate. However, although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the trading risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we are undersecured, for example, as a result of sudden declines in market values that reduce the value of collateral. If we are unsecured and a party defaults on its credit obligations to us, we may lose a portion or even all of our investment. If any of these risks become a reality, our business, results of operations, financial condition and cash flow could be adversely affected.

Market Risks

Market risks relate to fluctuations in the liquidity of securities and commodities, as well as volatility in market conditions generally. The markets for securities, commodities and other related products as well as the markets for our industrial and engineering products and services are affected by many factors over which we have little or no control. These factors include the financial performance and prospects of specific companies and industries, world markets and economic conditions, the availability of credit and capital, political events and perceptions of market participants.

We are exposed to the risk of a market downturn which could lead to a decline in the number and size of the transactions that we execute for our clients.

As a merchant banking company, our business is materially affected by conditions in the financial markets and economic conditions generally. In the event of a market downturn, our business, results of

operations and financial condition could be adversely affected. In addition, you cannot be assured that an active public market for our securities will continue.

A market downturn could lead to a decline in the number and size of the transactions that we execute for our clients, including transactions in which we provide financial advisory and other services, and to a corresponding decline in the revenues we receive from fees. A market downturn could also lead to a decline in the demand for our industrial and engineering products and services.

A downturn in any market could further result in losses to the extent that we own assets or have agreed to provide industrial and engineering products and services in such market. Conversely, to the extent that we have sold assets we do not own in any market, an upturn in such market could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market.

Revenues from certain of our proprietary investments may be significantly affected by changes in prices for iron ore, cobalt, aluminium and other base metals, paper and basic materials. The prices for these commodities can fluctuate widely as a result of various factors beyond our control such as supply and demand, exchange rates, inflation, changes in global economics, and political, social and other factors. Our ability, therefore, to maintain or develop revenues or realize upon such investments may be adversely affected by a sustained material reduction in the price of such materials.

Revenues from our industrial and engineering products and services, provided through KHD Humboldt Wedag, may be significantly affected by changes in the prices of and demand for cement, minerals, coal and other related products. The prices and demand for these products can fluctuate widely as a result of various factors beyond our control such as supply and demand, exchange rates, inflation, changes in global economics, and political, social and other factors. Our ability, therefore, to maintain or develop revenues from our industrial and engineering products and services may be adversely affected by a sustained material reduction in the demand or price for such products.

Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

We are exposed to political, economic, legal, operational and other risks as a result of our global operations, which could negatively affect our business, results of operations, financial condition and cash flow could be adversely affected.

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, U.S. dollars, Euros or other 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.

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 in market interest rates may decrease the fair value of our fixed interest rate financial instrument assets and a decrease in market interest rates may decrease the fair value of our fixed interest rate financial instrument liabilities, thereby resulting in a reduction in the fair value of our equity. See “Item 11 — Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk” for additional information with respect to our exposure to interest rate risk.

Similarly, fluctuations in foreign currency exchange rates may affect the fair value of our financial instruments sensitive to foreign currency exchange rates. Our reporting currency is the Canadian dollar. We hold financial instruments primarily denominated in U.S. dollars, Euros and Swiss francs. A depreciation of such currencies against the Canadian dollar will decrease the fair value of our financial instrument assets denominated in such currencies and an appreciation of such currencies against the Canadian dollar will increase the fair value of our financial instrument liabilities denominated in such currencies, thereby resulting in a reduction in our equity. See “Item 11 — Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Exchange Rate Risk” for additional information with respect to our exposure to foreign currency exchange rate risk.

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

We use a variety of instruments and strategies to manage exposure to various types of risks. For example, we 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 during this time, and unanticipated developments could impact our risk management strategies in the future.

A rise in inflation may negatively affect our business, results of operations and financial condition.

We do not believe that inflation has had a material impact on our revenues or income over the past three fiscal years. In addition, since our assets to a large extent are liquid in nature, they are not significantly affected by inflation. However, increases in inflation could result in increases in our expenses, including expenses related to the provision of industrial and engineering products and/or services, and which may not be readily recoverable in the price of such products and services provided to our clients. Also, increases in inflation in overseas countries could result in reduction in our revenues when reported in Canadian currency. To the extent inflation results in rising interest rates and has other adverse effects on capital markets, it could adversely affect our business, results of operations and financial conditions.

Market risks may increase the other risks that we face, which could adversely affect our business.

In addition to the market risks described above, market risks could exacerbate the other risks that we face. For example, if we incur substantial trading losses, our need for liquidity could rise sharply while our access to liquidity could be impaired. In addition, in conjunction with a market downturn, our clients and counterparties could incur substantial losses of their own, thereby weakening their financial condition and increasing our credit risk.

We have adopted risk management processes to facilitate, control and monitor risk taking which policies and procedures may not be fully effective.

We have adopted risk management processes to facilitate, control and monitor risk taking. Nonetheless, the policies and procedure we rely on to identify, monitor and manage risks may not be fully effective. Some of our methods for managing risks are based upon our observance of historical market behaviour. We cannot assure that these methods will accurately predict future market behaviour. As a result, our future risk exposure could be significantly greater than the historical measures indicate.

Other risk management methods that we use depend upon the evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Competition Risks

Our competitors include firms traditionally engaged in financial services such as banks, broker-dealers and investment dealers, along with other companies offering financial services such as insurance companies, mutual fund groups, merchant banks and trading and trade finance companies. An increase in competition may lead us to become involved in transactions with more risk.

We conduct our business in a global environment that is highly competitive and unpredictable. Many of our competitors are national or international companies with far greater resources, capital and access to information than us. Competition includes firms traditionally engaged in financial services such as banks, broker-dealers and investment dealers, along with other companies offering financial services such as insurance companies, mutual fund groups, merchant banks and trading and trade finance companies. Competition for our subsidiaries involved in the provision of industrial and engineering products and services includes other entities who provide industrial and process engineering products and/or services related to cement technology, mineral processing and coal technology, including feasibility studies, raw material testing,

basic and detail plant and equipment engineering, financing concepts, erection and commissioning, and personnel training. Increased competition may lead us to become involved in transactions with more risk or may lead to a decline in the demand for our industrial and engineering products and services. In addition, many non-bank competitors are not subject to the same extensive regulations that govern us.

Legal and Regulatory Risks

We are exposed to legal risks in our business which are often difficult to assess or quantify. We 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 tell them of the risks involved or that they were not authorized or permitted to enter into these transactions with us and that their obligations to us are not enforceable. During a prolonged market downturn, we would expect these types of claims to increase. We are also exposed to legal risks in our 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 provide a warranty for the industrial and engineering products and services we provide. If we receive a significant number of warranty claims, then our resulting warranty costs could be substantial and we could incur significant legal expenses evaluating or disputing such claims. We may incur significant legal expenses in defending against litigation involved with any of these risks.

Extensive regulation of our business often serves to limit our activities, including through net capital, customer protection and market conduct requirements.

The financial services industry is subject to extensive regulation. Our banking operations are subject to Swiss regulatory requirements, including capital requirements administered by the Swiss Federal Banking Commission. The Swiss Federal Banking Commission is our primary banking regulator and establishes minimum capital requirements for our banking subsidiary. Our failure to meet minimum capital requirements can result in mandatory, and possibly additional discretionary, action by the Swiss Federal Banking Commission that, if undertaken, could have a direct materially adverse effect on us. Under risk-based capital adequacy guidelines established by the Swiss Federal Banking Commission, banks in Switzerland must meet specific capital guidelines that involve quantitative measures of assets, liabilities and other off-balance sheet items, as calculated under Swiss regulatory accounting practices. Our banking operations are required to file certain reports with the Swiss Federal Banking Commission and we are subject to their examination. Our banking subsidiary is subject to restrictions on loans and extensions of credit to, and on certain other types of transactions with, affiliates.

The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties which deal with us and are not designed to protect our shareholders. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

Employment Risks

We may be dependant on the services of certain key employees and the loss of these certain key employees may have a materially adverse effect on our company.

We consider that any of our current management team are vital to our continued operations. The loss of the services of any of these individuals, for any reason, may have a materially adverse effect on our prospects. There can be no assurance in this regard nor any assurance that we will be able to find a suitable replacement for such persons. Furthermore, we do not maintain "key man" life insurance on the lives of these individuals. To the extent that the services of any of these individuals become unavailable, we will be required to retain other qualified persons; however, there can be no assurance that we will be able to do so upon acceptable terms. If we are unable to retain qualified persons when required, then our business, results of operations, financial condition and cash flow could be negatively impacted.

Enforcement Risks

All of our directors and officers are outside the United States, with the result that it may be difficult for investors to enforce any judgments obtained against us or any of our directors or officers.

The enforcement of civil liabilities by investors under applicable U.S. federal and state securities laws will be adversely affected because we are organized under the laws of the Province of British Columbia, Canada, all of our officers or directors are not residents of the U.S., and substantially all of our assets are located outside of the U.S.

As a result, it may be difficult or impossible for U.S. investors to effect service of process upon us or our officers or directors within the United States. It may also be difficult to realize against us or them upon judgments of U.S. courts for civil liabilities under applicable U.S. federal and state securities laws. Courts in Canada or elsewhere may not enforce: (i) judgments of U.S. courts obtained in actions against us or our officers or directors predicated upon the civil liability provisions of applicable U.S. federal and state securities laws; and (ii) in original actions, liabilities against us or our officers or directors predicated upon such laws.

As we are organized under the laws of the Province of British Columbia, Canada and our principal operating assets are located outside of the United States, you may have trouble enforcing U.S. bankruptcy laws and other laws in Canada or elsewhere.

We are organized under the laws of the Province of British Columbia, Canada and our principal operating assets are located outside of the United States. Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever it is located, including property situated in other countries. Courts outside of the United States may not recognize the U.S. bankruptcy court's jurisdiction. Accordingly, you may have trouble administering a U.S. bankruptcy case involving a Canadian debtor with property located outside of the United States. Any orders or judgments of a bankruptcy court in the United States may not be enforceable.

Environmental Risks

Certain of our proprietary investments are subject to stringent environmental standards and we may incur substantial costs to comply with current requirements or new environmental laws that might be adopted.

We have invested, and may further invest, in operations that are subject to extensive environmental laws and regulations. These laws and regulations impose stringent standards on us regarding, among other things, air emissions, effluent discharges and remediation of environmental contamination. We may incur substantial costs to comply with current requirements or new environmental laws that might be adopted. In addition, we may discover currently unknown environmental problems or conditions in the future and may incur substantial costs in correcting such problems or conditions.

Other Risks

Certain factors may inhibit, delay or prevent a takeover of our company which may adversely affect the price of our common stock.

Certain provisions of our charter documents and the corporate legislation which governs 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, providing for a classified board of directors with staggered, three-year terms and limiting the persons who may call special meetings of shareholders. For more information, see "Item 10. Additional Information — Articles and Bylaws".

In addition, the *Investment Canada Act* imposes limitations on the rights of non-Canadians to acquire our common shares. For more information, see "Item 10. Additional Information — Exchange Controls".

If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

Our articles contain provisions and we have entered into agreements indemnifying our officers and directors against all costs, charges and expenses incurred by them.

Our articles contain provisions and we have entered into agreements with respect to the indemnification of our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he is made a party by reason of his being or having been a director or officer of our company. Such limitations on liability may reduce the likelihood of litigation against our officers and directors and may discourage or deter our shareholders from suing our officers and directors based upon breaches of their duties to our company, though such an action, if successful, might otherwise benefit our company and our shareholders.

Investors' interests in our company will 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 common shares and class A preferred shares. 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 our company 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 do issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change of control of our company. Moreover, we may seek authorization to increase the number of our authorized shares.

Item 4 Information on MFC Bancorp Ltd.

A. History and Development of MFC Bancorp Ltd.

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. Our name was changed to "MFC Bancorp Ltd." in February 1997. Our executive office is located at 8th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, SAR, China. Our registered and records office is located at Suite 800, 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1 (Tel: 604-687-5700).

B. Overview

We are an international merchant banking company. Merchant banking encompasses a broad spectrum of activities related to the integrated combination of banking, trading in commodities and natural resources, financing of commercial trade, and proprietary investing.

We provide specialized banking and corporate finance services and advice to our subsidiaries and our clients on corporate strategy and structure, including mergers and acquisitions and capital raising. We also engage in trading of commodities, natural resources and securities, and in proprietary investing of our own capital in enterprises. We also provide industrial and engineering products and services through our subsidiaries.

We make our proprietary investments as part of our overall merchant banking activities, and seek to realize gains on such investments over time. We generally invest in businesses or assets whose intrinsic value is not properly reflected in their share or other price, often as a result of financial or other distress affecting them. We generally seek investments where our financial and management expertise can add or unlock value, rather than passive investments. From time to time, we may divest a portion or all of our interest in any of our proprietary investments to realize gains or minimize losses on such investments as determined by our management considering market conditions, other opportunities and other factors impacting the value of such investments. After such a divestiture of any portion or all of our interest in any of our proprietary investments, we may reinvest the proceeds that we receive from such divestiture or we may return surplus assets to our shareholders as determined by our board of directors and/or shareholders considering market conditions and other investment opportunities.

We conduct our merchant banking business in a highly integrated and coordinated manner. Our integrated approach provides substantial cross-selling opportunities for our subsidiaries and our clients, and permits us to participate in a broad range of businesses through our various subsidiaries. This, in turn, provides us with multiple revenue sources on a consolidated basis, and gives us substantial flexibility in structuring business relationships, revenues and transactions with the view to maximizing revenues from particular businesses or opportunities.

Our integrated approach to our banking and finance advisory services often gives our subsidiaries the opportunity to engage in commodity and natural resources trading with our clients. Our banking and finance advisory services also assist us in identifying suitable proprietary investment opportunities. Our proprietary investment strategy includes the use of our own capital to help restructure businesses, acquire interests in suitable businesses, or to refinance obligations of our clients.

Our merchant banking business generates revenues in the form of advisory, banking and corporate finance service fees, interest income, and revenues from our commodity, natural resource and securities trading activities. We also realize gains from time to time on our proprietary investments, upon their sale, upon the execution of an equity or debt restructuring, or the completion of other forms of divestment. We also generate revenues from the provision of industrial and engineering products and services through our subsidiaries.

We currently employ approximately 1,341 people, and our operations are primarily conducted in Europe and Asia. The following is a summary of our revenues by geographic region for the three most recently completed fiscal years:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
		(In thousands)	
Europe	\$ 403,804	\$ 391,282	\$ 254,564
Canada	10,042	7,872	26,006
United States	46,320	9,563	3,559
Asia	207,320	—	—
Africa	23,522	796	210
Other	6,756	—	—
	<u>\$ 697,764</u>	<u>\$ 409,513</u>	<u>\$ 284,339</u>

Description of Merchant Banking Business

Our merchant banking operations include the provision of innovative financial structuring and advisory services. We focus on meeting the financial needs of small to mid-sized companies and other business enterprises primarily in Europe and, more recently, in China. We believe that many of these clients, particularly in Europe, are under-served by the large global investment banks and financial service providers. We specialize in advising and structuring business enterprises involved in unstructured and novel situations where a strong financial partner is needed and traditional, “off-the-shelf” solutions are not workable.

We counsel our clients on business and financing strategy, and assist them in capital raising in and the execution of transactions that advance their strategic goals, including mergers, acquisitions, reorganizations and divestitures. In addition, we generate fee income by acting as an arranger and/ or provider of bridge or interim financing to business enterprises pending reorganization, prior to their going public, as a complement to our commodities and natural resources trading or investment strategy. In furtherance of such banking and advisory services, we often advise and help restructure enterprises that are undergoing financial distress or have, or are near, debt defaults.

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 clients. This often permits us to develop multiple revenue sources from the same client. For example, in addition to providing banking and advisory services, 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.

Banking, Finance and Advisory Services

Our banking, finance and advisory activities are primarily conducted through our wholly-owned subsidiary, MFC Merchant Bank S.A., a licensed full-service Swiss bank. In 2002, our banking operations were relocated from Geneva to Herisau, Switzerland. Since 1999, we have outsourced primarily the backroom banking operations to obtain a variable cost over fixed costs and have placed substantially all of MFC Merchant Bank's client deposits with other major financial institutions on a fiduciary or trust basis. MFC Merchant Bank, in turn, earns a fee calculated with reference to the amount of money deposited with each such financial institution. This is in contrast to most North American banks, which generate revenue from the spread between their cost of funds and the credit received. These fiduciary or trust deposits are off-balance sheet items and permit us to generate revenues without committing or tying up significant amounts of capital. These arrangements also let us maintain key client relationships and mandates where we can provide value-added advisory services and yet offer clients the capability and economies of scale of a large banking institution.

Our banking operations are subject to various Swiss regulatory requirements, including capital requirements administered by the Swiss Federal Banking Commission. As our primary banking regulatory authority, the Swiss Federal Banking Commission, has established minimum capital and other requirements for MFC Merchant Bank S.A. Our failure to meet such minimum capital and other requirements can result in mandatory, and possibly additional discretionary, action by the Swiss Federal Banking Commission that, if undertaken, could have a direct material effect on us. Under risk-based capital adequacy guidelines established by the Swiss Federal Banking Commission, banks in Switzerland must meet specific capital guidelines that involve quantitative measures of assets, liabilities and other off-balance sheet items, as calculated under Swiss regulatory accounting practices. MFC Merchant Bank is required to file certain reports with the Swiss Federal Banking Commission, and is subject to their examination. In addition, MFC Merchant Bank is subject to restrictions on loans and extensions of credit to, and on certain other types of transactions with, affiliates. We believe that MFC Merchant Bank has sufficient capital for its current and reasonably foreseeable operations.

Trading of Commodities and Natural Resources

Our merchant banking operations include the trade, principally for our own account, of commodities and natural resources. Such activities include purchasing and selling of such items. To a lesser extent, we also act as a trading agent for clients. We conduct our commodity and natural resources trading primarily through our subsidiary, MFC Commodities GmbH, which is based in Vienna, Austria.

Our trading activities often utilize innovative and sophisticated trading strategies and structures. We currently trade with commodity and other producers who are unable to effectively realize sales because of credit, insurance or currency issues affecting them or their principal customers. Generally we purchase the underlying commodity and resell it to an end buyer. As a result of our relative financial strength, ability to arrange credit (including letters of credit) and insurance, we are often able to facilitate purchases and sales of commodities with more efficient and effective execution than many producers and customers could on their own.

Commodity producers and end customers often work with us to better manage their internal supply, distribution risk, currency and capital requirements. In such trading activities, we try to capture various trading, financing and currency spreads. Our trading activities have allowed us to develop ongoing relationships with commodity producers, end customers, trade financiers and insurers.

We have historically focused our trading activities primarily in Europe, and in 2003 commenced trading activities with offices in China and India. We believe that the trade, finance and insurance infrastructure necessary to support the purchase and sale of commodities and natural resources in Central and Eastern Europe, China and India are not as developed as in Western Europe and North America. The location of our trading professionals in Vienna and Shanghai permits us to effectively pursue trading opportunities in Europe and Asia, in particular, to participate in trade flows.

We have broadened our trading line to include cement, clinker, non-ferrous metals, plastics, chemicals, pulp and paper. The investments we make in commodity producers are part of our proprietary investing strategy.

Proprietary Investments

Founded in 1856, KHD Humboldt Wedag is one of the leading suppliers of equipment and engineering services in the fields of cement, coal and minerals processing technologies. KHD Humboldt Wedag has operating subsidiaries in the United States, Australia, India and South Africa, and sales offices located in China, Russia and the Middle East. The order intake for KHD Humboldt Wedag for the year ended December 31, 2002 was approximately € 90 million. After acquiring our initial interest in 2003, we saw the order intake increase by over 45% and in the second year, 2004, by an additional 77% to almost € 240 million. Order intake in the firstquarter alone of the current year is approaching €100 million although one should not anticipate this rate of growth to continue unabated. Order backlog, which at the end of 2003 stood at about € 97 million, nearly doubled by the close of 2004 to reach just over € 190 million. We anticipate the backlog to exceed € 250 million by the close of the first quarter. Order intake is defined as all orders which were received during the respective period under review. Order backlog is defined as orders which have been received by not yet fulfilled.

In September 2004, we, through a subsidiary, completed the acquisition of 100% of the stated capital of AWP Aluminium Walzprodukte GmbH in Germany for a total consideration of \$0.4 million. AWP Aluminium Walzprodukte, through its subsidiary, manufactures aluminium products.

In April 2004, we, through our subsidiary, acquired 233,057 common shares of HIT International Trading AG, for a total consideration of \$3.7 million, which resulted in an approximately 60% ownership interest in HIT International Trading. HIT International Trading, through its subsidiary, trades primarily in paper products, which forms an integrated part of our financial services segment.

During the year 2004, our banking subsidiary completed the restructuring of SF Factoring AG and beneficially owns 75% equity interest in SF Factoring. Our consideration was \$1.4 million. SF Factoring is in the business of leasing and factoring, which is being integrated into our core business of financial services segment.

In March, 2004, we acquired 7,015,985 shares (resulting in an effective ownership of approximately 68%) in FAHR Beteiligungen AG (now known as MFC Industrial Holdings AG) for a purchase price of approximately \$25.3 million. The principal assets of MFC Industrial Holdings AG include industrial real estate holdings in Germany and an operating company, KHD Humboldt Wedag AG, based in Koln, Germany. As at December 31, 2004, our ownership in MFC Industrial Holdings AG increased to 72.8% as a result of additional purchases of shares in July 2004.

In March, 2004, we acquired the controlling interest in Shanghai-based Med Net International Ltd. We, through various purchases, acquired 1,494,408 common shares (resulting in an approximately 62% ownership) of Med Net for cash consideration of \$2.3 million.

Med Net operates nine technical advanced eye centers and two aesthetic centers with leading Chinese hospitals through contractual agreements, and is currently in the process of establishing two more centers per year.

Med Net also imports and distributes to Chinese hospitals ophthalmic equipment, aesthetic equipment, and supplies including excimer laser, semi-conductor laser, ruby laser, autorefractor/ keratometer, non-contact tonometer, and automatic phoropter, intro-ocular lenses and phakic lenses.

On July 24, 2003, we acquired an 80% interest in the outstanding common shares of Alson Enterprises Corporation. Mazak Limited, a wholly-owned subsidiary of Alson, acquired the zinc-based alloy and pigments business and related assets of Trident Alloys Ltd. The consideration for the acquisition of the interest in Alson was cash of \$0.8 million.

To complement our commodities and natural resources trading, in 2002, as part of our overall investment strategy, we made proprietary investments in two commodity producers to capture potential synergies through distributing and trading their end products.

In August 2002, we acquired approximately 85% of the issued and outstanding shares and certain indebtedness of Banff Resources Ltd. for nominal consideration and the provision of a contingent royalty interest to the vendor in the future cobalt production of the cobalt processing plant operated by Kasese Cobalt Company Limited — which was then a 75% owned subsidiary of Banff Resources — up to a maximum of approximately U.S.\$10.0 million. The balance of the shares of Kasese Cobalt Company are owned by the Ugandan government.

Kasese Cobalt Company owns a cobalt processing plant located in Southwest Uganda. As part of our acquisition of Banff Resources Ltd., the cobalt processing plant was put on a care and maintenance program due to weakness in the cobalt markets at the time. In the interim, we commenced selling the hydro-electricity produced by the plant's dedicated nine megawatt hydro-electric power plant. In 2004, operations recommenced at the cobalt processing plant due to significantly improved cobalt prices.

In December 2003, we sold our equity interest in Banff Resources to an independent director of that company for a nominal amount, and acquired Banff Resources' 75% equity interest in Kasese Cobalt Company through our subsidiary, Sutton Park International Ltd. In consideration of the 75% equity interest in Kasese Cobalt Company, Sutton Park International agreed to forgive Banff's indebtedness in the approximate amount of U.S.\$11.9 million. Kasese Cobalt Company also owed debt to one of our wholly-owned subsidiaries, which had a balance of over U.S.\$140 million consisting of principal and accrued interest as at December 31, 2003.

On December 31, 2003, our board of directors adopted a resolution to reorganize our operations to the extent necessary to distribute to our shareholders our interest in the Kasese Cobalt Company, and certain other Canadian cobalt assets held through our subsidiary 4025750 Canada Inc., by way of a reduction of stated capital under the Canada Income Tax Act, as they are superfluous non-core assets. During 2004, we consolidated all of our cobalt related assets into our indirect subsidiary, Blue Earth Refineries Inc. Blue Earth Refineries distributed a dividend of approximately \$2.2 million to us, as the sole shareholder, in December, 2004. On December 30, 2004, we distributed all of the ordinary shares of Blue Earth Refineries to our shareholders. As of December 30, 2004, Blue Earth Refineries ceased to be a subsidiary of our company. We still hold approximately 10% of the issued and outstanding shares of Blue Earth Refineries.

In July 2002, we acquired all of the outstanding minority interest of our 53% owned subsidiary, Trimble Resources Corporation, in consideration of 25,071 of our common shares and approximately \$205,000 in cash. In December 2002, we restructured Trimble Resources Corporation's outstanding indebtedness of approximately \$16.5 million in consideration for approximately \$3.3 million of newly issued indebtedness guaranteed by us. We initially acquired our 53% interest in Trimble Resources Corporation in October 2001, for approximately \$1.0 million.

In August 2002, we acquired approximately 93% of the outstanding shares of Euro Trade & Forfaiting, Inc. for approximately \$42.9 million. Euro Trade & Forfaiting, Inc. is engaged primarily in merchant banking in Europe. In 2003, Euro Trade & Forfaiting, Inc. and its wholly-owned subsidiary, Winford Finance Corporation, merged together to form Winford Finance Corp.

In August 2002, we divested our investment in Mymetics Corporation through a stock dividend of 0.95 common shares of Mymetics Corporation for each common share of MFC held by shareholders of record as of August 13, 2002. Approximately 12,206,957 Mymetics Corporation shares were distributed to MFC shareholders under the dividend. As a result of the dividend, MFC shareholders became direct shareholders of Mymetics Corporation. Mymetics Corporation is an international biotechnology company focused on developing tools and techniques to disarm retroviruses.

Competition

We conduct our business in a global environment that is highly competitive and unpredictable. We encounter intense competition in all aspects of our business and compete directly with other financial services companies, brokerage firms, investment banks, merchant banks, trading houses and other investment managers. We face competition in Switzerland from other banks, asset managers and a range of non-bank financial institutions and internationally from investment banks and securities dealers. Many of our competitors are national or international companies with far greater resources, capital and access to information than us. As a result, we may become involved in transactions with more risk. For more information, see "Item 3. Key Information Risk Factors".

C. Organizational Structure

As at March 31, 2005, our significant wholly-owned direct and indirect subsidiaries are as follows:

<u>Name of Wholly-Owned Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>
Blake International, Inc.	British Virgin Islands
MFC Merchant Bank S.A.	Switzerland
Sutton Park International Ltd.	Barbados
Trimble Resources Corporation	Turks & Caicos Islands
32565 Yukon Inc.	Yukon
Robabond Holding AG	Switzerland
MFC Commodities AG	Switzerland
New Image Investment Company Limited	Washington
Harfree Holdings Limited	Canada
Constitution Insurance Company of Canada	Canada
Garda Investments Corp.	British Virgin Islands
MFC Financial Services GmbH	Austria
AWP Aluminium Walzprodukte GmbH	Germany
MAW Mansfelder Aluminiumwerk GmbH	Germany

As at March 31, 2005, our significant non-wholly-owned subsidiaries are as follows:

<u>Name of Non-Wholly-Owned Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>	<u>Owner of Interests</u>	<u>Our Shareholding</u>
DTA Holding AG	Germany	MFC Bancorp Ltd.*	93%
CVD Financial Corporation	British Virgin Islands	MFC Bancorp Ltd.*	96%
Winford Finance Corp.	British Virgin Islands	MFC Bancorp Ltd.*	96%
Alson Enterprises Corp.	British Virgin Islands	Sutton Park International Ltd.	80%
Mazak Limited	United Kingdom	Alson Enterprises Corp.	100%**
Mazak Slovakia s.r.o.	Slovakia	Alson Enterprises Corp.	100%**
Hovis Commodities Trading GmbH	Austria	Garda Investments Corp.	95.5%*
MFC Commodities GmbH	Austria	Hovis Commodities Trading GmbH	100%**
JH Trade & Financial Service GmbH	Austria	MFC Commodities GmbH (Austria)	100%**
IC Management Service GmbH	Austria	MFC Commodities GmbH (Austria)	100%**
Global Bulk Transport GmbH	Austria	MFC Commodities GmbH (Austria)	100%**
MFC Pulp & Paper GmbH	Austria	MFC Commodities GmbH (Austria)	100%**
Danzas Corp.	Marshall Islands	MFC Commodities GmbH	100%**
HIT International AG	Germany	MFC Commodities GmbH	60%**
HIT Paper Trading GmbH	Austria	HIT International AG	100%**
K-Logistics GmbH	Austria	MFC Commodities GmbH	60%**
MFC Industrial Holdings AG	Germany	MFC Bancorp Ltd.*	73%
KHD Humboldt Wedag AG	Germany	MFC Industrial Holdings AG	100%**
Rhine Venture Invest S.A.	Switzerland	MFC Industrial Holdings AG	100%**
Zementanlagenbau Dessau GmbH	Germany	KHD Humboldt Wedag AG	100%**
EKOF Flotation GmbH	Germany	KHD Humboldt Wedag AG	100%**
Humboldt Wedag Australia Pty Ltd.	Australia	KHD Humboldt Wedag AG	100%**
Humboldt Wedag Inc.	U.S.A.	KHD Humboldt Wedag AG	100%**
Humboldt Wedag (S.A.) (Pty) Ltd.	South Africa	KHD Humboldt Wedag AG	100%**
Humboldt Wedag India Ltd.	India	KHD Humboldt Wedag AG	100%**
Altmark Industriepark AG	Germany	KHD Humboldt Wedag AG	94.8%**
Swiss Factoring AG	Switzerland	MFC Merchant Bank S.A.	75%**
ZAB Industrietechnik & Service GmbH	Germany	Zementanlagenbau Dessau GmbH	100%**
Med Net International Ltd.	Bermuda	MFC Bancorp Ltd.*	63%
Lasernet Ltd.	Liberia	Med Net International Ltd.	100%**
Mednet (Shanghai) Medical Technical Developing Co., Ltd.	China	Med Net International Ltd.	100%**

<u>Name of Non-Wholly-Owned Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>	<u>Owner of Interests</u>	<u>Our Shareholding</u>
MFC Shanghai Commodities Ltd.	China	MFC Asia Commodities Limited	100%**
Lasernet Medical Equipment Industrial (Shenzhen) Co. Ltd.	China	Lasernet Ltd.	100%**
Chongqing MFC Medical Management Consulting Co., Ltd.	China	Mednet (Shanghai) Medical Technical Developing Co., Ltd. and Lasernet Medical Equipment Industrial (Shenzhen) Co. Ltd.	100%**

* held by MFC Bancorp Ltd. and/or its subsidiaries

** representing shareholding by the immediate parent company

D. Property, Plants and Equipment

Office Space

We lease office space at 8th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

We believe that our existing facilities are adequate for our needs through the end of the year ended December 31, 2005. Should we require additional space at that time, or prior thereto, we believe that such space can be secured on commercially reasonable terms.

Royalty Interest – Wabush Iron Ore Mine

We indirectly participate in a royalty interest. The royalty interest consists of a mining sub-lease of the lands upon which the Wabush Iron Ore Mine is situated that commenced in 1956 and expires in 2055. The lessor is Knoll Lake Minerals Ltd., which holds a mining lease from the Province of Newfoundland, Canada. The lease requires the payment of royalties to Knoll Lake Minerals Ltd. of \$0.22 per ton on shipments of iron ore from the Wabush Iron Ore Mine. Iron ore is shipped from the Wabush Iron Ore Mine to Pointe Noire, Quebec, Canada, where it is pelletized. In 2004, 2003 and 2002, 4.0 million, 5.3 million and 4.5 million tons of iron ore, respectively, were shipped from the Wabush Iron Ore Mine. The shipment in 2004 was significantly lower as a result of a workers' strike during summer 2004.

The Wabush Iron Ore Mine is operated by an unincorporated joint venture consisting of Wabush Iron Company Limited (U.S.A.), Steel Company of Canada Limited (Canada) and Dominion Foundries & Steel Limited (Canada), which pays royalties to the holder of the royalty interest based upon the amount of iron ore shipped from the Wabush Iron Ore Mine. Pursuant to the terms of the mining sub-lease, this royalty payment by the joint venture is not to be less than \$3.25 million per annum until the expiry of the mining sub-lease in 2055. In 1987, the royalty rate specified in the base price was amended to require a base royalty rate of \$1.685 per ton with escalations as defined by agreement. Iron ore is typically sold either as a concentrate, whereby the iron ore is in granular form, or as a pellet, whereby iron ore concentrate has been mixed with a binding agent, formed into a pellet and then fired in a furnace. Iron ore pellets can be charged directly into blast furnaces without further processing and are primarily used to produce pig iron which is subsequently transformed into steel. As such, the demand and, consequently, the pricing of iron ore is dependent upon the raw material requirements of integrated steel producers. Demand for blast furnace steel is in turn cyclical in nature and is influenced by, among other things, the level of general economic activity.

Although no assurance as to the future production levels can be provided, since the operator of the Wabush Iron Ore Mine is owned by the joint venture of steel producers, production from the mine has been generally maintained at relatively consistent levels.

Real estate held for sale

We have consolidated MFC Industrial Holdings since March 2004. We currently hold 72.8% of MFC Industrial Holdings, which owns 100% interest in KHD Humboldt Wedag, which in turn owns two subsidiaries with land and buildings in Germany.

KHD Humboldt Wedag owns 94.8% interest in Altmark Industriepark AG. Altmark Industriepark currently owns approximately 650.2 acres of land with buildings which together form an industrial development area in the City of Arneburg, the State of Sachsen-Anhalt. The first major project on this site was the construction of a kraft pulp mill which started to operate in September 2004, following a total investment of

approximately € 1 billion. In December 2004, Altmak Industriepark sold a piece of property to a leading Italian manufacturer of tissue paper for the construction of a hygiene paper plant. We are currently pursuing several other projects that may lead to further real estate sales to other industries, such as a sawmill and a bio-diesel refinery.

KHD Humboldt Wedag also owns 100% interest in ZAB Zementanlagenbau GmbH, which in turn owns approximately 28.4 acres of land with buildings in the city of Dessau, the State of Sachsen-Anhalt. In the past, these properties were used as KHD Humboldt Wedag's production facilities to manufacture components for the cement industry. Currently, ZAB Zementanlagenbau focuses on engineering and project services only and such production facilities are no longer required. ZAB Zementanlagenbau is renting out the land and buildings, with an occupancy rate of approximately 90%. We are now executing plans to divest this property.

We have a parcel of undeveloped land of 17.2 acres located on Pacific Highway South in Federal Way, the State of Washington, USA. The site is zoned for office park, which permits office, commercial or light industrial and warehouse uses. This parcel represents less than 5% of our real estate portfolio.

KHD Humboldt Wedag AG

KHD Humboldt Wedag's principal business is the design and construction of production equipment for cement plants around the world. The fabrication of this equipment generally takes place in the country where the project is resident, in order to generate domestic employment activity and minimize costs. KHD Humboldt Wedag leases space for its own equipment fabrication facility in Cologne, Germany where it also produces certain specialized equipment at the customers' request.

KHD Humboldt Wedag, through its subsidiary and a fellow subsidiary, owns certain land and buildings which are classified as investment property. They are held to earn rental income and/or for capital appreciation.

Mazak Limited

In July 2003, we, acquired the zinc based alloys and pigments businesses from Trident Alloys Ltd., based in the United Kingdom and Slovakia, under the Mazak subsidiaries.

Mazak has a well established branded product range principally supplying zinc alloys for the diecasting of high volume, tight tolerance components and for the galvanizing of steel, and zinc rich anti-corrosive pigments for paints. Mazak has about 120 employees with annual sales of about 60,000 tonnes. 10,000 tonnes come from Slovakia and 50,000 tonnes from the UK which are shipped across Europe, the Middle East and South East Asia.

The group was restructured on 1 January 2005 under a new UK based trading company, Mazak Limited, with two production subsidiaries Mazak UK Ltd. and Mazak Slovakia s.r.o. based in Bloxwich, UK and Kosice, Slovakia, respectively.

Item 5 *Operating and Financial Review and Prospects*

The following discussion and analysis of our financial condition and results of operations for the three years ended December 31, 2004 should be read in conjunction with our consolidated financial statements and related notes included in this annual report. Our financial statements included in this annual report were prepared in accordance with Canadian GAAP. For a reconciliation of our financial statements included in this annual report to U.S. GAAP, see Note 23 to the financial statements. We have made certain reclassifications to the prior periods' financial statements to conform to the current period's presentation.

The presentation of selected information in our financial statements in U.S. dollars is for information purposes only and information in our financial statements is translated to U.S. dollars for convenience using year end exchange rates, as required by Regulation S-X of the Securities Act of 1934.

A. Operating Results

We are a highly integrated international financial services company that focuses on merchant banking. We provide specialized banking and corporate finance services internationally. These activities are primarily conducted through our wholly-owned subsidiary, MFC Merchant Bank S.A. Our merchant banking activities include a trading group focused on trading commodities and natural resources which we acquired in October 2001. We also commit our own capital to promising enterprises and invest and otherwise trade to 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 is generally not passive. We 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, commodity 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. Competition includes firms traditionally engaged in financial services such as banks, broker-dealers and investment dealers, along with other sources such as insurance companies, mutual fund groups, other companies offering financial services in Europe and globally and other trade and finance companies.

Our results of operations for any particular period may also be 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 can realize on our proprietary investments through a variety of methods including sales, capital restructuring or other forms of divestment.

In recent years, the financial services industry has experienced consolidation and convergence as financial institutions involved in a broad spectrum of services have merged or combined. The trend to consolidate is expected to continue and produce global financial institutions with much greater capital and other resources than we have. As a result of the economic and competitive factors discussed above, our results of operations may vary significantly from period to period. We intend to manage our business for the long-term and to mitigate the effects of such factors by focusing on our core operations.

Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003.

Based upon the year average exchange rates in 2004, the Canadian dollar decreased by approximately 0.6% in value against the Swiss franc, 2.1% in value against the Euro but increased by approximately 7.7% in value against the U.S. dollar, compared to the year average exchange rates in 2003. As at December 31, 2004, the Canadian dollar decreased by approximately 1.0% in value against the Swiss franc, 0.1% against the Euro but increased by 7.4% against the U.S. dollar since December 31, 2003.

The following table provides selected quarterly financial information for 2004 for MFC:

	2004			
	December 31	September 30	June 30	March 31
	(Canadian Dollars in thousands, other than per share amounts)			
Revenues	\$ 206,497	\$ 195,717	\$ 181,221	\$ 114,329
Expenses	199,677	189,116	167,539	103,017
Net income	7,640	7,248	10,962	11,101
Diluted earnings per share	0.56	0.53	0.80	0.81
Total assets	603,699	691,044	660,080	621,587
Shareholders' equity	269,421	257,068	262,993	245,960

In 2004, our revenues increased by 70.4% to \$697.8 million from \$409.5 million in 2003, primarily as a result of the increased volume of our trading activities and acquisitions, particularly the consolidation of the result of MFC Industrial Holdings AG since March 31, 2004. We continued our expansion into the Far East and Southern Asia.

In 2004, expenses increased by approximately 83.6% to \$659.3 million from \$359.1 million in 2003, primarily as a result of the increase in the volume of trading activities and acquisitions, particularly the consolidation of the result of MFC Industrial Holdings AG since March 31, 2004. In 2004, financial services expenses increased by approximately 30.8% to \$430.9 million from \$329.5 million in 2003. General and administrative expenses increased to \$62.6 million in 2004 from \$25.2 million in 2003. The general and administrative expenses were net of foreign currency transaction gains of \$1.2 million and \$8.3 million in 2004 and 2003, respectively. The increases in financial services and general and administrative expenses related primarily to the increase in the volume of trading activities and acquisitions, particularly the consolidation of the result of MFC Industrial Holdings AG since March 31, 2004. In 2004, we recorded an income tax recovery of \$4.2 million. In 2003, we had an income tax expense of \$0.8 million.

In 2004, our net earnings decreased to \$37.0 million, or \$2.73 per share on a basic basis (\$2.70 per share on a diluted basis), from \$49.1 million, or \$3.76 per share on a basic basis (\$3.59 per share on a diluted basis), in 2003.

Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002.

Based upon the year average exchange rates in 2003, the Canadian dollar decreased by approximately 2.9% in value against the Swiss franc, 6.2% in value against the Euro but increased by approximately 12.1% in value against the U.S. dollar, compared to the year average exchange rates in 2002. As at December 31, 2003, the Canadian dollar increased by approximately 9.4% in value against the Swiss franc, 1.7% against the Euro and 22.2% against the U.S. dollar since December 31, 2002.

The following table provides selected quarterly financial information for 2003 for MFC:

	2003			
	December 31	September 30	June 30	March 31
	(Canadian Dollars in thousands, other than per share amounts)			
Revenues	\$ 126,756	\$ 102,393	\$ 97,496	\$ 82,868
Expenses	102,465	96,233	87,308	73,122
Net income	23,050	6,123	10,125	9,818
Diluted earnings per share	1.65	0.46	0.75	0.73
Total assets	404,577	441,429	429,057	449,728
Shareholders' equity	218,447*	281,708	272,452	279,160

* after deduction of distribution payable of \$71.7 million

In 2003, our revenues increased by 44.0% to \$409.5 million from \$284.3 million in 2002, primarily as a result of the increased volume of our trading activities and acquisitions. In 2003, we expanded our trading operations by hiring additional trade professionals and expanding the breadth of products that we trade. We are also expanding geographically into the Far East and Southern Asia. Such geographic expansion of our merchant banking activities is being undertaken, in part, as we expect that over the next several years the integration of several central and eastern European countries into the European Union will result in increased competition and put downward pressure on operating margins. We included the full year's revenues from our aluminium rolling plant in the current year, which was acquired in October 2002. We also consolidated the revenue from our alloy and pigments business, which was acquired in July 2003.

In 2003, expenses increased by approximately 51.4% to \$359.1 million from \$237.2 million in 2002, primarily as a result of the increase in the volume of trading activities and acquisitions. In 2003, financial services expenses increased by approximately 87.5% to \$329.5 million from \$175.8 million in 2002. General and administrative expenses decreased to \$25.2 million in 2003 from \$35.8 million in 2002. The general and administrative expenses were net of foreign currency transaction gains of \$8.3 million and \$0.5 million in 2003 and 2002, respectively. The increases in financial services and general and administrative expenses related primarily to the increase in the volume of trading activities.

In 2002, we recorded a loss for goodwill impairment of approximately \$16.1 million relating to the goodwill associated with previously acquired subsidiaries as we determined that the carrying value of such goodwill exceeded its fair value. See "Critical Accounting Policies — Goodwill Impairment" below for more information. In 2002, we recognized a \$19.7 million gain on indebtedness of a subsidiary and a \$49.1 million gain on debt extinguishment. In 2003, interest expense decreased to approximately \$4.4 million from approximately \$9.5 million in 2002, primarily as a result of the lower indebtedness amount outstanding during the year. In 2003, we recorded an income tax expense of \$0.8 million. In 2002, we had an income tax recovery of \$3.5 million.

In 2003, our net earnings decreased to \$49.1 million, or \$3.76 per share on a basic basis (\$3.59 per share on a diluted basis), from \$50.8 million, or \$3.93 per share on a basic basis (\$3.70 per share on a diluted basis), in 2002.

B. Liquidity and Capital Resources

The following table is a summary of selected financial information concerning MFC for the periods indicated:

	December 31,		December 31,	
	2004	2003	2004	2003
	(U.S. Dollars in thousands) (for information)		(Canadian Dollars in thousands)	
Cash and cash equivalents	\$ 179,231	\$ 112,544	\$ 215,722	\$ 145,452
Short-term securities	17,542	6,509	21,113	8,412
Total assets	501,579	313,043	603,699	404,577
Long-term debt, less current portion	11,950	21,182	14,383	27,376
Shareholders' equity	223,849	169,024	269,421	218,447

We maintain a high level of liquidity, with a substantial amount of our assets held in cash and cash equivalents, and securities. The highly liquid nature of these assets provides us with flexibility in managing our business and financing. We also use this liquidity in client related service where we act as a financial intermediary for third parties and in our own proprietary investing activities.

At December 31, 2004, our cash and cash equivalents were \$215.7 million, compared to \$145.5 million at December 31, 2003. At December 31, 2004, we had short-term securities of \$21.1 million, compared to \$8.4 million at December 31, 2003.

At December 31, 2004, our long-term debt (less current portion) was \$14.4 million, compared to \$27.4 million at December 31, 2003.

As part of our merchant banking activities, we establish, utilize and maintain various kinds of credit lines and facilities with other banks, insurers, and trade finance providers. Most of these facilities are short-term. These facilities are primarily used for structured trade financing, accounts receivable financing and letters of credit. Such facilities are drawn upon and used for specific trading transactions. These credit facilities are generally secured by the subject matter of a proposed transaction, being either a receivable or the underlying commodity or natural resource being traded. We often further enhance the credit of such facilities through credit and/or performance insurance provided by governmental and/or private insurers. Such trade finance insurance is often layered with varying limitations and exceptions. The amounts drawn under the credit facilities fluctuate with the kind and level of commodities and natural resources trading transactions being undertaken by us. As such transactions are settled, proceeds are generally applied to first settle amounts drawn under such credit facilities.

At December 31, 2004, we had 27 separate credit lines and facilities used for commodities and natural resources trading aggregating approximately €119 million, \$7.7 million of which was drawn and outstanding. The kind, amount and number of credit facilities we utilize and amounts drawn thereunder fluctuate from time to time based upon the nature, level and location of, and counterparties with whom we conduct our commodities and natural resources trading activities.

At December 31, 2004, we also had \$10.8 million lines of credit drawn and outstanding, which was used for our industrial and engineering business. Other than the lines of credit drawn and outstanding for our commodities and natural resources trading and industrial and engineering business, we have debt maturities of \$8.2 million in 2005 and \$7.7 million in 2006. We expect such maturing debt to be satisfied primarily through the settlement of underlying commodities and natural resource trading transactions, industrial and engineering business, cash on hand and cash flow from operations. Much of such maturing debt may either subsequently be made re-available to us by the applicable financial institution or we may replace such facilities with similar facilities depending upon our trading and capital requirements. For more information, see Notes 12 and 13 to our consolidated financial statements included in this annual report .

In connection with its industrial and engineering business, KHD Humboldt Wedag has credit lines of up to a maximum of €35 million with a bank which issues performance bonds. Up to € 25 million of the credit lines are secured by KHD Humboldt Wedag's interest in its subsidiaries, intellectual property rights, intercompany receivable, rent receivables, inventories and a mortgage. The security for the remaining €10 million is shared with other creditors (as defined) *pari passu* on a pro rata basis.

As at December 31, 2004, performance bonds of approximately € 32.2 million (\$52.5 million) lines have been issued under the credit lines and there were no claims against KHD Humboldt Wedag under these performance bonds.

On January 15, 2004, we exercised our right of redemption to redeem all of the 8% Convertible Subordinated Bonds issued in March, 1998. We paid a total of \$0.9 million to the bondholders for redemption. The balance of the bonds were converted into our common shares.

Operating Activities

In 2004, changes in securities provided cash of \$10.9 million, compared to \$7.0 million in 2003. An increase in restricted cash used \$8.1 million in 2004. A decrease in receivables provided cash of \$18.3 million in 2004, compared to \$9.5 million in 2003. Of which, a decrease in commodity receivables provided cash of \$11.8 million in 2004, compared to an increase in the same using cash of \$4.1 million in 2003. An increase in inventories used cash of \$1.2 million in 2004. An increase in commodity investments used cash of \$11.5 million in 2004, compared to a decrease in commodity investments providing cash of \$1.1 million in 2003. An increase in properties held for sale used cash of \$71,000 in 2004, compared to a decrease in the same providing cash of \$1.1 million in 2003. An increase in accounts payable and accrued expenses provided cash of \$25.5 million in 2004, compared to a decrease in same using cash of \$2.6 million in 2003. Operating activities provided cash of \$60.2 million in 2004, compared to \$37.4 million in 2003. We expect to generate sufficient cash flow from operations to meet our working capital and other requirements.

Investing Activities

In 2004, a net increase in loans used cash of \$9.8 million, compared to a net decrease in loans providing cash of \$52.4 million in 2003. The net purchases of long-term securities used cash of \$5.1 million in 2004, compared to net sales of long-term securities providing cash of \$4.8 million in 2003. In 2004, purchases of subsidiaries, net of cash acquired, provided cash of \$31.1 million, compared to using cash of \$0.8 million in 2003. Investing activities provided cash of \$14.2 million in 2004, compared to cash of \$64.9 million provided in 2003.

Financing Activities

Net debt repayments used cash of \$14.9 million in 2004, compared to \$25.1 million in 2003. In 2004, a net increase in deposits provided cash of \$23.8 million, compared to a net decrease in deposits using cash of \$13.5 million in 2003. The net repurchase of common shares in 2004 used cash of \$10.1 million, compared to cash of \$9.7 million in 2003. Net cash provided in financing activities was \$0.3 million in 2004, compared to net cash used in financing activities of \$48.3 million in 2003.

We had no material commitments to acquire assets or operating businesses at December 31, 2004. We anticipate that there will be acquisitions of businesses or commitments to projects in the future. To achieve our long-term goals of expanding our assets and earnings, including through acquisitions, we will require substantial capital resources. The necessary resources will be generated from cash flow from operations, cash on hand, borrowing against our assets, sales of proprietary investments or the issuance of securities.

Foreign Currency

Substantially all of our operations are conducted in international markets and our consolidated financial results are subject to foreign currency exchange rate fluctuations.

We translate foreign assets and liabilities into Canadian dollars at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period. Unrealized gains or losses from these translations are recorded as shareholders' equity on the balance sheet and do not affect our net earnings. As a substantial amount of our revenues are received in Swiss francs and Euros, our financial position for any given period, when reported in Canadian dollars, can be significantly affected by the exchange rates for Swiss francs and Euros prevailing during that period. In the year ended December 31, 2004, we reported approximately a net \$4.9 million foreign exchange translation gain and, as a result, our cumulative foreign exchange translation loss at December 31, 2004 was \$12.2 million, compared to a loss \$17.1 million at December 31, 2003.

Based upon the year average exchange rates in 2004, the Canadian dollar decreased by approximately 0.6% in value against the Swiss franc, 2.1% in value against the Euro but increased by approximately 7.7% in value against the U.S. dollar, compared to the year average exchange rates in 2003. As at December 31, 2004, the Canadian dollar decreased by approximately 1.0% in value against the Swiss franc, 0.1% against the Euro but increased by 7.4% against the U.S. dollar since December 31, 2003.

We use derivative foreign exchange contracts to manage our exposure and our clients' exposure to foreign currency exchange rate risks. At December 31, 2004 and 2003, we did not hold any forward foreign exchange contracts for our own account. For more information, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk — Derivative Instruments".

Derivative Instruments

Derivatives are financial instruments, the payments of which are linked to the prices, or relationships between prices, of securities or commodities, interest rates, currency exchange rates or other financial measures. Derivatives are designed to enable parties to manage their exposure to interest rates and currency exchange rates, and security and other price risks. We use derivatives to provide products and services to clients and to manage our foreign currency exchange exposure for our own account. We also use derivatives to manage our interest rate risk on debts. For more information, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk — Derivative Instruments".

Inflation

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

Application of Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles 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, described below, that are the most important to the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements included in this annual report.

Revenue Recognition

Merchant banking revenues for banking and services are recognized as they are performed, and from commodities and natural resources trading and the sale of proprietary investments as they are completed and when the amounts of the revenues are fixed, agreed or determinable and collectibility is reasonably assured.

The majority of the contracts and services in our industrial and engineering services are long-term and we use the percentage-of-completion method to measure and recognize the revenue and related costs. The major challenges in using the percentage-of-completion method accounting are to accurately measure the extent to which the contracts are being finished, and to assess collectibility of the revenue and/or the recoverability of the costs incurred. Generally, we rely on our in-house technical specialists to estimate the progress of the contract, our finance and engineering departments to work out the cost analysis and the budget, and our credit department to assess the credit of the customers. All these analyses involve estimates and value judgments. The accurate profit amount is not known until the contract is completed and the billing is collected.

If a loss is expected on a contract-in-progress from our teamwork analysis, such loss will be recognized in the income statement immediately.

Provisions for Assets Held for Sale

We have assets held for sale in our normal operating cycle. The assets held for sale consist of commodity investments, inventories and real estate held for sale.

Our inventories consist of construction raw materials, work-in-progress and finished goods. The management must make estimates about their pricing when establishing the appropriate provisions for inventories.

For the construction raw materials and work-in-progress, we make estimates and assess their pricing on individual contract basis using the teamwork approach. Please refer to “Revenue Recognition” under “Application of Critical Accounting Policies”. For the finished goods, the estimated net selling price is the most important determining factor. However, the management also considers whether there are any alternatives to enhance the value of the finished goods, for example, by using the finished goods in other production or contract so as to increase the value of another product or contract.

Commodities investment consist primarily of metals and paper products. Management also makes estimates about the future customer demand for our products. When making these estimates, we consider general economic conditions and growth prospects within our customers’ ultimate marketplace and the market acceptance of our current and pending products. However, the general economic conditions may change within a short time or a unexpected event may cause a downturn in the general economic conditions or in a specific geographic location. Government intervention is a very critical factor in the developing countries.

We also have real estate held for sale. We are actively marketing the real estate. When the management makes estimate on the fair value of the real estate, we usually take into consideration the recent land sales in the neighborhood areas. However, the current market price of the real estate may be negatively affected by the local economic conditions. We may consider such as a temporary decline in value. When making the provision amount, we assess the medium- to long-term general and local economic trends. We also consider the short- and medium-term city planning and development where our property is situated. Since we have sufficient financial resources to adopt the hold-and-wait approach, we do not consider an allowance for real estate held for sale until we decide that the decline in value is other than temporary.

Allowance for Credit Losses

Our allowance for credit losses is to be maintained at an amount considered adequate to absorb estimated credit-related losses. Such allowances reflect management’s best estimate of the probable losses in our credit portfolio and judgments about both macro- and micro-economic conditions. The evaluation process involves estimates and judgments, which could change drastically in the near-term, and could result in a significant change to a recognized allowance. Credit losses arise primarily from loans but may also relate to other credit instruments such as guarantees and letters of credit. An allowance for credit losses may be increased by provisions which are charged to income and reduced by write-offs net of any recoveries.

We review our loan portfolio and receivables on a regular basis. Specific provisions are established on a loan-by-loan or receivable basis. In determining whether a specific provision is required or not, we consider, but such consideration is not limited to, the following factors:

- repayment history of the borrower;
- overall financial position and results of the borrower;
- the nature and quality of collateral and guarantee;
- business plan and outlook of the borrower;
- secondary market value of the loan and the collateral; and
- our business plan or strategy to divest or restructure the debt.

A general provision may be established to absorb potential credit losses attributable to the deterioration of credit quality on aggregate exposures for which specific provisions cannot yet be determined. A country risk provision may be made based on exposures in less developed countries and on management’s overall assessment of the underlying economic conditions in those countries. A market risk provision may be made based on the macro-economic factors which are specific to a particular region or industry and the micro-economic factors which are specific to a particular borrower. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Goodwill Impairment

A goodwill impairment loss should be recognized when the carrying amount of the goodwill exceeds the fair value of the goodwill. An impairment loss should not be reversed if the fair value subsequently increases.

We consider, but such consideration is not limited to, the following factors to determine the goodwill impairment:

- a significant adverse change in legal factors or in the business climate;
- an adverse action or assessment by a regulator;
- unanticipated competition;
- loss of key personnel;
- a more-likely-than-not expectation that a significant portion or all of a reporting unit will be sold or otherwise disposed of;
- the testing for write-down or impairment of a significant asset group within a reporting unit; or
- the recognition of a goodwill impairment loss in its separate financial statements by a subsidiary that is a component of the reporting unit.

Valuation of Securities

Trading account securities held by MFC Merchant Bank S.A. are stated at quoted market value, with the unrealized gain or loss included in the results of operations. Other short-term securities are carried at the lower of aggregate cost or current market value, with the unrealized loss included in the results of operations.

When there has been a loss in value of a long-term security that is other than a temporary decline, the security will be written down to recognize the loss. The write-down is included in the determination of income.

A decline in market value may be only temporary in nature or may reflect conditions that are more persistent. Declines may be attributable to general market conditions, either globally or regionally, that reflect prospects of the economy as a whole or prospects of a particular industry or a particular company. Such declines may or may not indicate the likelihood of ultimate recovery of the carrying amount of a security. We regularly review our portfolio position to determine whether an other than temporary decline exists.

In determining whether the decline in value is other than temporary, quoted market price is not the only deciding factor, particularly for thinly traded securities, large block holdings and restricted shares. We consider, but such consideration is not limited to, the following factors:

- trend of the quoted market price and trading volume;
- financial position and results for a period of years;
- liquidity or going concern problems of the investee;
- changes in or reorganization of the investee and/ or its future business plan;
- outlook of the investee's industry;
- the current fair value of the investment (based upon an appraisal thereof) relative to its carrying value; and
- our business plan and strategy to divest the security or to restructure the investee.

Warranty Costs

We provide a warranty to our customers for the contracts and services in our industrial and engineering service segment. The amount of the warranty liability reflects the estimate of the expected future costs of our obligations under the warranty, which is based on the historical material replacement costs and the labor costs, the past history of similar work, the opinion of our legal counsel and technical specialists and their interpretation of the contracts. If any of these factors change, revision to the estimated warranty liability may be required.

Pension Benefits

Our industrial and engineering service segment in Germany maintains a defined benefits plan for its employees who were employed prior to year 1997. Employees hired after 1996 are not entitled to such benefits. The employees are not required to make contribution to the plan. We rely on the actuarial report to record the pension costs and pension liabilities. The actuarial report is prepared every year as at December 31. The report is compiled and prepared, based on certain assumptions, namely, demographic assumptions and financial

assumptions. The variables in the actuarial computation include, but not limited to, the following: demographic assumptions about the future characteristics of the employees (and their dependants) who are eligible for benefits, the discount rate and future salary. Certain variables are beyond our control and any change in one of these variable may have significant impact on the estimate of the pension liability.

Under the German laws, the pension liability is a unsecured claim and does not rank in priority to any other unsecured creditors. The pension liability is non-recourse to our company.

E. 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 is material to investors.

F. Contractual Obligations

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>			
	<u>Less than 1 Year</u>	<u>2 - 3 Years</u>	<u>4 - 5 Years</u>	<u>More than 5 Years</u>
	(In thousands)			
Long-Term Debt Obligations(1)	\$ 8,173	\$ 7,657	\$6,726	\$ —
Capital Lease Obligations(1)	52	50	17	—
Operating Lease Obligations	2,710	7,491	2,863	580
Purchase Obligations	72,265(2)	—	—	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet Under GAAP	—	—	—	—
Total	\$ 83,200	\$ 15,198	\$9,606	\$ 580

(1) Principal amounts only

(2) Including \$65.0 million on purchases for industrial and engineering contracts and \$6.0 million on zinc purchases.

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth the names and business experience of each of our directors and officers, as at March 31, 2005:

<u>Name and Age</u>	<u>Present Position with MFC</u>	<u>Date of Commencement of Office with MFC</u>	<u>Expiration of Term of Office with MFC</u>
Michael J. Smith (56)	Director President, Chief Executive Officer and Secretary	1986 1996	2005 N/A
Dr. Shuming Zhao(1) (51)	Director	2004	2007
Dr. Kelvin K. Yao(1) (53)	Director	2004	2007
Dr. Stefan Feuerstein (53)	Director	2000	2006
	Vice-President	2000	N/A
Silke Brossmann(1) (37)	Director	2003	2005

(1) Member of our audit committee.

Michael J. Smith — President, Chief Executive Officer and Director

Mr. Smith has been our President and Chief Executive Officer since 1996, our Secretary since 2003 and a director of our company since 1986. Mr. Smith is the President, Secretary and a director of Blue Earth Refineries Inc., a company with its common shares registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Mr. Smith is also the Chief Executive Officer, President, Chief Financial Officer and a director of Cathay Merchant Group, Inc, a public company with its common shares registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Mr. Smith has extensive experience in advisory services, corporate finance, restructuring and international taxation planning. He leads our company's investing and merchant banking activities.

Dr. Shuming Zhao — Director

Dr. Zhao has been a director of MFC since 2004. Dr. Zhao is a professor and the Dean of the School of Business, Nanjing University and the Dean of the School of Graduate Studies, Macau University of Science and Technology. Dr. Zhao is President of Jiangsu Provincial Association of Human Resource Management and Vice President of Jiangsu Provincial Association of Business Management and Entrepreneurs. Dr. Zhao organized and held four international symposia on multinational business management in 1992, 1996, 1999 and 2002. Since 1994, Dr. Zhao has also acted as a management consultant for several Chinese and international firms. Since 1997, Dr. Zhao has been a visiting professor at the Marshall School of Business at the University of Southern California and he has lectured in countries including the United States, Canada, Japan, the United Kingdom, Germany, Australia, the Netherlands and Singapore. Since 2004, Dr. Zhao has been an independent director on the board of directors of Suning Electronic Co. Ltd. Dr. Zhao has spent less than 1% of his time on affairs of our company.

Dr. Kelvin K. Yao — Director

Dr. Yao has been a director of MFC since 2004. Dr. Yao is a professor and the Chief of the Eye Center and Institute of Ophthalmology, Zhejiang University since 1992. As an expert in ophthalmic research and practice, Dr. Yao has been a member in various professional committees including the Vice Board President of the Chinese Society of Cataract and Intra-ocular Lens, the Vice Board Director of the Society of Ophthalmology, Zhejiang Provincial Branch of the Chinese Medical Association, and the Head of the Committee of Academic Degrees of the Medical Branch of Zhejiang University. Dr. Yao is also a board member of the Chinese Medical Academy Institute and the board director of several Chinese ophthalmic publications. Dr. Yao has spent less than 1% of his time on affairs of our company.

Dr. Stefan Feuerstein — Director and Vice-President

Dr. Feuerstein has been our Vice-President and a director of our company since 2000 and the Managing Director of MFC Capital Partners AG since 2001. Dr. Feuerstein has also been the Managing Director of the Industrial Investment Council of the New German States since 1997. From 1992 to 1996, he was the President of the Thuringian Economic Development Corporation (Germany).

Silke Brossmann — Director

Ms. Brossmann has been a director of MFC since 2003. She is also a director of Blue Earth Refineries Inc. and Cathay Merchant Group, Inc., both companies with their common shares registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Ms. Brossmann was the Head of Investor Relations with Prokurist and Head of Central Administration of Koidl & Cie. Holding AG from 1999 to 2002. Ms. Brossmann has been an independent management consultant since 2002.

B. Compensation

During the fiscal year ended December 31, 2004, we paid an aggregate of approximately \$1.9 million in cash compensation to our directors and officers. There was no stock options granted to or exercised by such directors and officers or other non-cash compensation. No other funds were set aside or accrued by our company during the fiscal year ended December 31, 2004 to provide pension, retirement or similar benefits for our directors or officers pursuant to any existing plan provided or contributed to by us.

Executive Compensation

The following table provides a summary of compensation paid by us during the fiscal year ended December 31, 2004 to the senior management of our company:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation(1)		Long Term Compensation		
	Salary	Bonus	Other Annual Compensation	Securities Under Options/SARs Granted	All other Compensation
Michael J. Smith President, Chief Executive Officer, Secretary and Director(2)	\$ 301,037	\$ 223,838	Nil	Nil	\$ 15,713
Dr. Stefan Feuerstein Vice-President and Director	\$ 416,659	\$ 31,682	Nil	Nil	Nil
George Zimmerman Director — KHD Humboldt Wedag AG	\$ 323,380(3)	Nil	Nil	Nil	Nil
Herman Krager Director — KHD Humboldt Wedag AG	\$ 258,704(3)	\$ 38,806	Nil	Nil	Nil
Rudolf Pich Director — KHD Humboldt Wedag AG	\$ 266,789(3)	Nil	Nil	Nil	Nil

(1) On a cash basis, unless otherwise stated.

(2) Mr. Smith was appointed as Secretary on October 6, 2003.

(3) On an annualized basis. We acquired our interest in KHD Humboldt Wedag AG in March 2004 and have consolidated its results as of March 31, 2004.

Directors' Compensation

Our non-management directors receive U.S.\$25,000 annually for their services and U.S.\$500 for each meeting of directors that they attend. We also reimburse our directors and officers for expenses incurred in connection with their services as our directors and officers.

Employment Agreements and Termination of Employment or Change of Control

Mr. Smith entered into an amended and restated employment agreement with MFC in 2000. The agreement generally provides, subject to certain termination provisions, for the continued employment of Mr. Smith for a period of 36 months with automatic one month renewals, so that the agreement at all times has a remaining term of 36 months. The agreement provides for an annual base salary and other compensation to be paid to Mr. Smith as determined by our board of directors. His salary is currently U.S. \$240,000. In the event he is terminated without cause or resigns for good reason (as defined in the Agreement) within three years of a change of control (as defined in the Agreement), Mr. Smith will be entitled to a lump sum severance payment of three times the sum of (i) his current annual salary under the agreement, and (ii) the higher of his current annual bonus under the agreement and the highest variable pay and bonus received by him in the previous five fiscal years. If Mr. Smith is terminated without cause or resigns for good reason after three years of a change of control, he will be entitled to the same payments in equal installments over 12 months.

In addition, all unvested rights in any stock options or other equity awards made to Mr. Smith will vest in full in the event of a change of control. Mr. Smith will also be entitled, for a period of 365 days following the earlier of the date of his termination and the date of the change of control, to require us to purchase all or any part of our common shares held by Mr. Smith on the date of termination or date of change of control, at a price equal to the average closing market price of our common shares on the Nasdaq National Market for the ten preceding trading days.

C. Board Practices

Our Articles provide for three classes of directors with staggered terms. Each director holds office until the expiry of his term 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 British Columbia *Business Corporations Act*. At each annual meeting of our company, a class of directors is elected to hold office for a three year term.

Successors to the class of directors whose terms expire are identified as being of the same class as the directors they succeed and are elected to hold office for a term expiring at the third succeeding annual meeting of shareholders. A director appointed or elected to fill a vacancy on the board of directors holds office for the unexpired term of his predecessor.

Other than as discussed above, 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 Shuming Zhao, Kelvin K. Yao and Silke Brossmann. The audit committee operates pursuant to a charter adopted by the board of directors. The audit committee is appointed 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; and (iii) the independence and performance of our internal and external auditors.

We do not have a remuneration or compensation committee. A majority of our independent directors recommends to our board of directors for determination the compensation of our executive officers.

D. Employees

We currently employ approximately 1,341 people, including 320 from Med Net International Ltd. and 746 from KHD Humboldt Wedag AG. In addition, Med Net International's unincorporated equity method investee eye care and skin centers in China employ 268 people. As at December 31, 2004, 2003 and 2002, we employed approximately 1,317, 246 and 168 people, respectively .

E. Share Ownership

There were 15,149,269 common shares, no stock options and no share purchase warrants issued and outstanding as of March 15, 2005. Of the shares issued and outstanding on that date, our directors and officers owned the following common shares:

<u>Name Office Held</u>	<u>Number of Common Shares Beneficially Owned</u>	<u>Percentage(1)</u>
Michael J. Smith President, Chief Executive Officer, Secretary and Director	85,000	*%
Dr. Shuming Zhao Director	0	Nil
Dr. Kelvin K. Yao Director	0	Nil
Dr. Stefan Feuerstein Vice President and Director	0	Nil
Silke Brossmann Director	0	Nil

* Less than one percent (1%).

(1) Based on 15,149,269 common shares issued and outstanding as at March 15, 2005. Does not include 939,749 common shares owned by two wholly-owned subsidiaries and 406,000 common shares repurchased, but not yet cancelled, during the year ended December 31, 2004. Includes the 1,870,000 common shares held by the TriMaine Holdings, Inc. Liquidating Trust, which holds 1,572,123 common shares for the benefit of our wholly-owned subsidiary. On our consolidated financial statements, these 1,572,123 common shares have been eliminated, resulting in an outstanding number of 13,577,146.

Stock Option Plan

We have an incentive stock option plan that provides for the grant of incentive stock options to purchase our common shares to our directors, officers and key employees and other persons providing ongoing services to us. Our stock option plan is administered by our board of directors. The maximum number of our common shares which may be reserved and set aside for issuance under our stock option plan is 2,762,000. Each option upon its exercise entitles the grantee to one common share. The exercise price of an option may not be less than the closing market price of our common shares on the Nasdaq on the day prior to the date of grant of the

option. In the event our common shares are not traded on such day, the exercise price may not be less than the average of the closing bid and ask prices of our common shares on the Nasdaq for the ten trading days immediately prior to the date the option is granted. Options may be granted under our stock option plan for an exercise period of up to ten years from the date of grant of the option. We did not grant any options in 2004 and there are no options that are currently outstanding. The number of options available for grant under the stock option plan was 1,397,500 as at March 15, 2005.

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

There were 15,149,269 common shares issued and outstanding as of March 15, 2005. The following table sets forth, as of March 15, 2005, persons known to us to be the beneficial owner of more than five (5%) of our common shares:

Name	Amount Owned	Percent of Class(1)
Peter Kellog	3,141,550(2)	20.7%
FMR Corp.	876,285	5.8%
Liquidating Trust of TriMaine Holdings, Inc.	1,870,000	12.3%

- (1) Based on 15,149,269 common shares issued and outstanding on March 15, 2005. Does not include 939,749 common shares owned by two wholly-owned subsidiaries and 406,000 common shares repurchased, but not yet cancelled, during the year ended December 31, 2004. Includes the 1,870,000 common shares held by the TriMaine Holdings, Inc. Liquidating Trust, which holds 1,572,123 common shares for the benefit of our wholly-owned subsidiary. On our consolidated financial statements, these 1,572,123 common shares have been eliminated, resulting in an outstanding number of 13,577,146.
- (2) In his public filings, Mr. Kellog disclaims beneficial ownership of 2,821,550 of the shares, or approximately 18.6% of our issued and outstanding common shares.

There has been no significant change in the percentage ownership of any of our major shareholders during the years ended December 31, 2004, 2003 and 2002.

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

As of March 15, 2005, the registrar and transfer agent for our company reported that there were 15,149,269 common shares issued and outstanding held by 191 registered holders. Of those common shares issued and outstanding, 2,762 common shares were registered to Canadian residents (8 shareholders), 14,972,246 common shares were registered in the United States (157 shareholders) and 174,261 common shares were registered to residents of other foreign countries (26 shareholders).

To the best of our knowledge, we are not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person.

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, there have been no material transactions or loans, between January 1, 2004 and March 15, 2005, 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; and (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.

During 2004, we earned fees in the normal course of our merchant banking business from affiliates amounting to approximately \$4.0 million. In 2003 such fees amounted to \$4.6 million.

During 2004, we, through our industrial and engineering subsidiary, sold parcels of real estate to a company in which the subsidiary has a 19% equity interest. The sale resulted in a gain of \$7.8 million before the minority interest and a receivable of \$15.9 million. We also sold \$0.9 million and purchased \$19.6 million from an affiliate during 2004 in the normal course of commodities trading transactions. Our interest in the affiliate was sold in July 2004 and it was not related any more afterwards. We also purchased \$11.5 million from another affiliate during 2004 in the normal course of commodities trading transactions.

We receive dividends pursuant to a royalty interest from an affiliate at a rate of 10% annually. Dividends earned amounted to \$5.4 million in 2004, of which \$0.4 million was collected in 2004 and \$4.8 million in January 2005.

As at December 31, 2004, we had receivables of \$21.7 million due from affiliates and payables of \$1.3 million due to affiliates. We had \$9.5 million loans receivable due from affiliates and \$21.8 million deposit by affiliates. We also had \$18.5 million investment in and advances to equity method investees.

Item 8 Financial Information

Our financial statements are stated in Canadian dollars and are prepared in accordance with Canadian Generally Accepted Accounting Principles. In this annual report, unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Financial Statements filed as part of the Annual Report:

Independent Auditor's Report dated March 18, 2005 on the Consolidated Financial Statements of MFC as at December 31, 2004, 2003 and 2002

Consolidated Balance Sheets at December 31, 2004 and 2003

Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

Independent Auditors' Report on Financial Statement Schedule

Financial Statement Schedule:

I Condensed Financial Information of Registrant (Regulation 210.12.-04)

The Audited Consolidated Financial Statements for the Years Ended December 31, 2004, 2003 and 2002 can be found under Item 18 "Financial Statements".

Significant Changes

No significant change has occurred in our company's financial statements since the financial year ended December 31, 2004.

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 include large claims for punitive damages. Some of these legal actions and proceedings may result in adverse judgments, penalties or fines.

In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which substantial damages are sought, we cannot state what the eventual outcome of pending matters will be. We are contesting the allegations made in each pending matter and believe, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on or consolidated financial condition, but may be material to our operating results for any particular period, depending on the level of our income for such period.

Dividend Distributions

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 consideration as our board of directors considers relevant.

Item 9 *The Offer and Listing*

Markets and Price History

Our common shares quoted on the Nasdaq National Market under the symbol “MXBIF” and on the Frankfurt Stock Exchange under the symbol “MFC.GR”. The following table sets forth the high and low sales of prices of our common shares on the Nasdaq for the periods indicated.

	Nasdaq	
	High	Low
	(U.S.\$)	(U.S.\$)
Annual Highs and Lows		
2000	10.00	6.75
2001	11.60	7.13
2002	11.51	6.45
2003	18.42	6.81
2004	27.65	15.25
Quarterly Highs and Lows		
2003		
First Quarter	8.35	6.74
Second Quarter	9.87	7.92
Third Quarter	14.35	8.25
Fourth Quarter	18.42	13.27
2004		
First Quarter	27.65	17.50
Second Quarter	25.45	15.75
Third Quarter	19.90	15.25
Fourth Quarter	21.69	16.55
Monthly Highs and Lows		
2004		
October	19.23	16.55
November	21.69	16.57
December	20.90	18.90
2005		
January	20.48	17.03
February	20.44	17.57
March (to March 22, 2005)	22.97	20.18

The transfer of our common shares is managed by our transfer agent, Mellon Investor Services, LLC, 85 Challenger Road, Ridgefield Park, NJ 07660.

Item 10 *Additional Information*

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We are continued under the laws of the Province of British Columbia, Canada and have been assigned the continuation number C0707841.

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 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 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 which is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series.

Holders of our common shares are entitled to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote, receive any dividend declared by MFC and, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares, receive the remaining property of MFC upon dissolution.

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 MFC.

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.

Our Articles provide for three classes of directors with staggered terms. Each director holds office until the expiry of his term 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 British Columbia *Business Corporations Act*. At each annual meeting of our company, a class of directors is elected to hold office for a three year term. Successors to the class of directors whose terms expire are identified as being of the same class as the directors they succeed and are elected to hold office for a term expiring at the third succeeding annual meeting of shareholders. A director appointed or elected to fill a vacancy on the board of directors holds office for the unexpired term of his predecessor.

An annual meeting of shareholders must be held at such time in each year not later than 15 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 the Yukon Territory, or in our charter documents. See "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 MFC, including authorizing the issuance by our board of directors of preferred stock in series, providing for a classified board of directors with staggered, three-year terms 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.

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

C. Material Contracts

The following summary of certain material provisions of the agreements referenced below is not complete and these provisions are qualified in their entirety by reference to the full text of such agreements.

On December 31, 2004, we entered into a Deed of Assumption and Consent with Blue Earth Refineries Inc., Newmont Australia Limited and Newmont LaSource S.A.S.

On December 1, 2004, we entered into a Limited Guarantee Agreement whereby we agreed to guarantee the payment obligations of Mazak UK Limited up to a maximum of GBP750,000 plus interest and reasonable legal fees.

On November 29, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligation of Mazak Limited up to a maximum of U.S.\$3,000,000 until January 31, 2006.

On November 18, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of MFC Aluminiumfolie GmbH up to a maximum of € 3,500,000 until March 31, 2005.

On October 29, 2004, we entered into a Credit Guarantee Agreement whereby we agreed to guarantee the payment obligations of JH Trade & Financial Services GmbH up to a maximum of € 5,000,000 plus interest and reasonable legal fees.

On October 28, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of Mazak Limited up to a maximum of U.S.\$3,000,000 until February 15, 2005 and thereafter up to a maximum of U.S.\$1,800,000.

On August 18, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of Mansfelder Aluminiumwerke GmbH up to a maximum of €1,041,372.92.

On August 18, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of Mansfelder Aluminiumwerke GmbH up to a maximum of €1,045,665.13.

On August 18, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of MAW Mansfelder up to a maximum of € 3,600,000.

Pursuant to an Indemnity Agreement between MFC Bancorp Ltd., we undertook to guarantee the payment of certain obligations of Mazak Limited which arise pursuant to that certain Business Finance Agreement, dated July 24, 2003, with Mazak Limited.

On July 19, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of MFC Commodities GmbH up to a maximum of € 3,000,000 plus interest and reasonable legal fees.

On July 19, 2004, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the payment obligations of MFC Commodities GmbH up to a maximum of € 7,500,000 plus interest and reasonable legal fees.

On July 13, 2004, we entered into an Arrangement Agreement with Sutton Park International Limited, Blue Earth Refineries Inc., New Nature Canco Inc., 4025750 Canada Inc. and new Sutton Canco Inc., whereby we agreed to transfer the one common share we own in Blue Earth Refineries (Canada) Inc. to Blue Earth Refineries Inc. in exchange for the issuance by Blue Earth Refineries Inc. to us of one common share in the capital of Blue Earth Refineries Inc.

On July 4, 2004, we agreed to deliver a Bill of Exchange to secure payment of a line of credit up to a maximum of € 6,000,000 in the name of MFC Commodities GmbH.

On March 29, 2004 we entered into a Guarantee Agreement whereby we agreed to guarantee the obligations of Mazak Slovakia, s.r.o. up to a maximum of € 370,000.

On March 17, 2004, we entered into a Guarantee Agreement whereby we agreed to guarantee the obligations of MFC Commodities GmbH up to a maximum of € 3,000,000.

On February 3, 2004, we entered into a Guarantee Agreement whereby we agreed to guarantee the obligations HIT Paper Trading GmbH up to a maximum of € 1,000,000.

On February 1, 2004, we entered into a Letter Agreement whereby we agreed to reimburse and indemnify with respect to certain obligations of MFC Commodities GmbH under certain factoring agreements.

On February 1, 2004, we entered into a Letter Agreement whereby we agreed to reimburse and indemnify with respect to the obligations of MFC Pulp & Paper GmbH under certain factoring agreements.

On January 22, 2004, we entered into an Advance Payment Guarantee Agreement whereby we agreed to guarantee the obligations of MFC Commodities GmbH up to a maximum of U.S.\$2,000,000.

Effective January 7, 2004, we issued an aggregate of € 3.2 million of convertible bonds to third parties. The bonds bear interest at the rate of 4.4% per annum, mature on December 31, 2009 and are convertible into shares of our common stock at various prices depending on the time of conversion. At any time on or after December 31, 2005, we may, at our option, redeem the bonds in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon.

In December 2003, pursuant to an Assignment and Assumption of Debt Agreement with Sutton Park International Limited, we assigned to Sutton Park International Limited all of the obligations and liabilities of Banff Resources Ltd. owed to us, including, and any interest payable thereon, and any legal or equitable interests or claims held by us over the assets of Banff Resources Ltd.

In December 2003, pursuant to a Share Transfer Agreement between Sutton Park International Limited and Banff Resources Limited, Sutton Park International Limited purchased all of the shares of Kasese Cobalt Company Limited owned by Banff Resources Limited in consideration of Sutton Park International Limited agreeing to set-off the purchase price for such shares against the all indebtedness of Banff Resources Limited owed to Sutton Park International Limited.

Pursuant to a Share Purchase Agreement, dated December 9, 2003, we sold our equity interest in Banff Resources to an independent director of that company for a nominal amount.

On December 19, 2003, we entered into a Payment Guarantee Agreement whereby we agreed to guarantee the obligations of Mazak Ltd. up to a maximum of U.S.\$2,000,000.

In December 2003, we entered into a Guarantee Agreement whereby we agreed to guarantee the payment of any existing and future outstanding obligations of MFC Commodities which are related to MFC Commodities' commodity business operations.

In December 2003, we entered into a Guarantee Agreement whereby we agreed to guarantee a portion of the payment obligations of IC Management Service GmbH under a credit facility agreement and factoring agreement.

In November 2003, we entered into a Guarantee Agreement whereby we agreed to guarantee the amount of € 350,000 with respect to the obligations of Mazak Slovakia, s.r.o.

On September 25, 2003, we entered into a Guarantee Agreement whereby we agreed to guarantee the amount of € 500,000 with respect to the obligations of Altmark Industriepark AG.

On July 18, 2003, we entered into a Loan and Security Agreement with respect to the financial assistance given to Mazak Limited.

On March 27, 2003, we entered into a Guarantee Agreement in respect of the indebtedness of Med Net (Shanghai) Medical Technical Developing Co. Ltd. extending the term of the original guarantee dated November 20, 2002 to January 31, 2005.

On March 27, 2003, we entered into a Guarantee Agreement in respect of the indebtedness of MFC Commodities GmbH, extending the term of the original guarantee dated August 30, 2002 to January 31, 2005.

Pursuant to various agreements in July 2003 with Trident Alloys Ltd., Lloyds TSB Bank plc and Lloyds TSB Development Capital Limited, we acquired an 80% interest in the outstanding common shares of Alson Enterprises Corporation. Mazak Ltd., a wholly-owned subsidiary of Alson Enterprises, acquired the zinc-based alloy and pigments business and related assets of Trident Alloys Ltd. The consideration for the acquisition of the interest in Alson was cash of \$0.8 million.

On August 7, 2002, we entered into a Share Sale Agreement among Newmont Australia Limited and Newmont LaSource S.A.S.

August 7, 2002, we entered into a Royalty Deed with Newmont Australia Limited and Newmont LaSource S.A.S.

D. Exchange Controls

There are presently no governmental laws, decrees or regulations in Canada which restrict the export or import of capital, or which 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 United States residents are subject to a 15% withholding tax (5% if the beneficial owner of the dividends is a

corporation owning at least 10% of our voting shares) pursuant to the Canada-U.S. Tax Convention (1980), as amended (the “Treaty”). See “Item 10. Additional Information — Taxation”.

Except as provided in the ICA, there are no limitations specific to the rights of non-Canadians to hold or vote our common shares under the laws of Canada or the Yukon Territory, 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 acquisition of Canadian businesses 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. Industry Canada may review any transaction which results in the direct or indirect acquisition of control of a Canadian business, where the gross value of corporate assets exceeds certain threshold levels (which are higher for investors from members of the World Trade Organization, including Americans, or World Trade Organization member-controlled companies) or where the activity of the business is related to Canada’s cultural heritage or national identity. No change of voting control will be deemed to have occurred, for purposes of the *Investment Canada Act*, if less than one-third of the voting control of a Canadian corporation is acquired by an investor.

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, may be required to divest itself of control of the Canadian business that is the subject of the investment.

Certain transactions relating to our common shares would be exempt from the *Investment Canada Act*, including:

- 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;
- the acquisition of control of MFC 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*; and
- the acquisition of control of MFC by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of MFC, through ownership of our common shares, remains unchanged.

E. Taxation

Certain Canadian Federal Income Tax Consequences

We consider that the following general summary fairly describes the principal Canadian federal income tax consequences applicable to a holder of our common shares who is a resident of the United States, who is not, will not be and will not be deemed to be a resident of Canada for purposes of the *Income Tax Act* (Canada) and any applicable tax treaty and who does not use or hold, and is not deemed to use or hold, his common shares in the capital of MFC in connection with carrying on a business in Canada (a “non-resident holder”).

This summary is based upon the current provisions of the *Investment Tax Act*, the regulations thereunder (the “Regulations”), the current publicly announced administrative and assessing policies of the Canada Customs and Revenue Agency and the Treaty. This summary also takes into account the amendments to the *Investment Tax Act* and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (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 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 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.

Dividends

Dividends paid on our common shares to a non-resident holder will be subject under the *Investment Tax Act* to withholding tax at a rate of 25% subject to a reduction under the provisions of an applicable tax treaty, which tax is deducted at source by MFC. The Treaty provides that the *Investment Tax Act* standard 25% withholding tax rate is reduced to 15% on dividends paid on shares of a corporation resident in Canada (such as MFC) to residents of the United States, and also provides for a further reduction of this rate to 5% where the beneficial owner of the dividends is a corporation resident in the United States that owns at least 10% of the voting shares of the corporation paying the dividend.

Capital Gains

A non-resident holder is not subject to tax under the *Investment Tax Act* in respect of a capital gain realized upon the disposition of a common share of MFC unless such share represents “taxable Canadian property” (as defined in the *Investment Tax Act*) to the holder thereof. Our common shares generally will be considered taxable Canadian property to a nonresident holder if:

- the non-resident holder;
- persons with whom the non-resident holder did not deal at arm’s length; or
- the non-resident holder and persons with whom such non-resident holder did not deal at arm’s length,

owned, or had an interest in an option in respect of, not less than 25% of the issued shares of any class of our capital stock at any time during the 60 month period immediately preceding the disposition of such shares. In the case of a non-resident holder to whom shares of MFC represent taxable Canadian property and who is resident in the United States, no Canadian taxes will generally be payable on a capital gain realized on such shares by reason of the Treaty unless the value of such shares is derived principally from real property situated in Canada.

Certain United States Federal Income Tax Consequences

The following is a general discussion of certain possible United States Federal foreign 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 peculiar to persons subject to special provisions of Federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. See “Certain Canadian Federal Income Tax Consequences” above.

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, published Internal Revenue Service (“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 which, if enacted, could be applied, possibly on a retroactive basis, at any time. No assurance can be given that the IRS will agree with such statements and conclusions, or will not take, or 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 made. Accordingly, holders and prospective holders of common shares should

consult their own tax advisors with respect to Federal, state, local, and foreign tax consequences of purchasing, owning and disposing of our common shares.

U.S. Holders

As used herein, a “U.S. Holder” includes a holder of less than 10% of our common shares who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, any entity which is taxable as a corporation for U.S. tax purposes and any other person or entity whose ownership of our common shares is effectively connected with the conduct of a trade or business in the United States. A U.S. Holder does not include persons subject to special provisions of Federal income tax law, such as tax-exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals or foreign corporations whose ownership of our common shares is not effectively connected with the conduct of a trade or business in the United States and 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 will generally be taxable as dividend income to the U.S. Holder for U.S. federal income tax purpose to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions which are taxable dividends and which meet certain requirements will be “unqualified dividend income” and taxed to U.S. Holders at a maximum U.S. federal rate of 15%. 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 U.S. 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 U.S. 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 U.S. 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

A U.S. Holder who pays (or has had withheld from distributions) Canadian income tax with respect to the ownership of our common shares may be entitled, at the option of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. 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. This election is made on a year-by-year basis and generally applies to all foreign income taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations which apply to the tax credit, among which is an ownership period requirement and the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder’s United States 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 domestic sources. Complex rules govern this classification process. There are further limitations on the foreign tax credit for certain types of income such as “passive income”, “high withholding tax interest”, “financial services income”, “shipping income”, and certain other classifications of income. **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 a passive foreign investment corporation (a “PFIC”). However, since PFIC status depends upon the composition of a company’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 tax consequences could apply to the U.S. Holder.

If we are treated as a PFIC for any taxable year, gains recognized by such 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 taxation as described above. Certain elections may 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.

H. Documents on Display

Documents and agreements concerning our company may be inspected at the offices of Clark, Wilson, Suite 800-885 West Georgia Street, Vancouver, British Columbia, Canada.

I. Subsidiary Information

As at March 31, 2005, our significant wholly-owned direct and indirect subsidiaries are as follows:

Name of Wholly-Owned Subsidiary	Jurisdiction of Incorporation or Organization
Blake International, Inc.	British Virgin Islands
MFC Merchant Bank S.A.	Switzerland
Sutton Park International Ltd.	Barbados
Trimble Resources Corporation	Turks & Caicos Islands
32565 Yukon Inc.	Yukon
Robabond Holding AG	Switzerland
MFC Commodities AG	Switzerland
New Image Investment Company Limited	Washington
Harfree Holdings Limited	Canada
Constitution Insurance Company of Canada	Canada
Garda Investments Corp.	British Virgin Islands
MFC Financial Services GmbH	Austria
AWP Aluminium Walzprodukte GmbH	Germany
MAW Mansfelder Aluminiumwerk GmbH	Germany

As at March 31, 2005, our significant non-wholly-owned subsidiaries are as follows:

Name of Non-Wholly-Owned Subsidiary	Jurisdiction of Incorporation or Organization	Owner of Interests	Our Shareholding
DTA Holding AG	Germany	MFC Bancorp Ltd.*	93%
CVD Financial Corporation	British Virgin Islands	MFC Bancorp Ltd.*	96%
Winford Finance Corp.	British Virgin Islands	MFC Bancorp Ltd.*	96%
Alson Enterprises Corp.	British Virgin Islands	Sutton Park International Ltd.	80%
Mazak Limited	United Kingdom	Alson Enterprises Corp.	100%**
Mazak Slovakia s.r.o	Slovakia	Alson Enterprises Corp.	100%**
Hovis Commodities Trading GmbH	Austria	Garda Investments Corp.	95.5%*
MFC Commodities GmbH	Austria	Hovis Commodities Trading GmbH	100%**
JH Trade & Financial Service GmbH	Austria	MFC Commodities GmbH (Austria)	100%**

<u>Name of Non-Wholly-Owned Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>	<u>Owner of Interests</u>	<u>Our Shareholding</u>
IC Management Service GmbH	Austria	MFC Commodities GmbH (Austria)	100% **
Global Bulk Transport GmbH	Austria	MFC Commodities GmbH (Austria)	100% **
MFC Pulp & Paper GmbH	Austria	MFC Commodities GmbH (Austria)	100% **
Danzas Corp.	Marshall Islands	MFC Commodities GmbH	100% **
HIT International AG	Germany	MFC Commodities GmbH	60% **
HIT Paper Trading GmbH	Austria	HIT International AG	100% **
K-Logistics GmbH	Austria	MFC Commodities GmbH	60% **
MFC Industrial Holdings AG	Germany	MFC Bancorp Ltd.*	73%
KHD Humboldt Wedag AG	Germany	MFC Industrial Holdings AG	100% **
Rhine Venture Invest S.A.	Switzerland	MFC Industrial Holdings AG	100% **
Zementanlagenbau Dessau GmbH	Germany	KHD Humboldt Wedag AG	100% **
EKOF Flotation GmbH	Germany	KHD Humboldt Wedag AG	100% **
Humboldt Wedag Australia Pty Ltd.	Australia	KHD Humboldt Wedag AG	100% **
Humboldt Wedag Inc.	U.S.A.	KHD Humboldt Wedag AG	100% **
Humboldt Wedag (S.A.) (Pty) Ltd.	South Africa	KHD Humboldt Wedag AG	100% **
Humboldt Wedag India Ltd.	India	KHD Humboldt Wedag AG	100% **
Altmark Industriepark AG	Germany	KHD Humboldt Wedag AG	94.8% **
Swiss Factoring AG	Switzerland	MFC Merchant Bank S.A.	75% **
ZAB Industrietechnik & Service GmbH	Germany	Zementanlagenbau Dessau GmbH	100% **
Med Net International Ltd.	Bermuda	MFC Bancorp Ltd.*	63%
Lasernet Ltd.	Liberia	Med Net International Ltd.	100% **
Mednet (Shanghai) Medical Technical Developing Co., Ltd.	China	Med Net International Ltd.	100% **
MFC Shanghai Commodities Ltd.	China	MFC Asia Commodities Limited	100% **
Lasernet Medical Equipment Industrial (Shenzhen) Co. Ltd.	China	Lasernet Ltd.	100% **
Chongqing MFC Medical Management Consulting Co., Ltd.	China	Mednet (Shanghai) Medical Technical Developing Co., Ltd. and Lasernet Medical Equipment Industrial (Shenzhen) Co. Ltd.	100% **

* held by MFC Bancorp Ltd. and/or its subsidiaries

** representing shareholding by the immediate parent company

Item 11 *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to market risks from changes in interest rates, foreign currency exchange rates and equity prices which may affect our results of operations and financial condition and, consequently, our fair value. We manage these risks through internal risk management policies as well as the use of derivative instruments. We use derivative instruments to manage our exposure and our clients' exposure to currency exchange rate risks. The use of derivative instruments depends on our management's perception of future economic events and developments. These types of derivative instruments are generally highly speculative in nature. They are also very volatile as they are highly leveraged given that margin requirements are relatively low in proportion to 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.

Derivative Instruments

At December 31, 2004 and 2003, we had an interest rate swap of a notional amount of \$8.8 million and \$13.3 million, respectively, with the purpose of converting a variable interest rate debt into a fixed interest rate debt. We recognized a fair value loss of \$14,000 and \$79,000, respectively, in 2004 and 2003.

At December 31, 2002, we did not hold any forward foreign exchange contracts. We have provided a loan, in the principal amount of € 30.0 million, which has an embedded derivative feature which fixes the exchange rate at €1.00 = U.S.\$0.9731 in the event the Euro falls below this exchange rate. The loan was repaid in 2003. No gain or loss was recognized on this embedded derivative in 2003 or 2002. At December 31, 2001, we held four forward foreign exchange contracts in the aggregate notional amount of \$24.7 million which covered the period through March 31, 2002. We entered into these contracts for our own account to manage our exposure to foreign currency exchange risks.

Interest Rate Risk

Fluctuations in interest rates may affect the fair value of fixed interest rate financial instruments sensitive to interest rates. An increase in market interest rates may decrease the fair value of our financial instrument assets and increase the fair value of our financial instrument liabilities. A decrease in market interest rates may increase the fair value of our financial instrument assets and decrease the fair value of our financial instrument liabilities. An increase in interest rates may also increase the risk of defaults on loans. However, since our loans are collateralized and the majority of our loans are fixed interest rate, we do not consider that these loans are subject to interest rate risk. Unsecured loans are subject to interest rate risk. Our financial instruments which may be sensitive to interest rate fluctuations are investments, loans, debt obligations and interest rate swap. The following tables provide information about our exposure to interest rate fluctuations for the carrying amount of financial instruments that may be sensitive to such fluctuations as at December 31, 2004 and 2003, respectively, and expected cash flows from these instruments.

As at December 31, 2004

	Carrying Value	Fair Value	Expected Cash Flow*					
			2005	2006	2007	2008	2009	Thereafter
			(In thousands)					
Investments(1)	\$ 50,201	\$ 50,201	\$ 19,461	\$4,900	\$4,900	\$4,900	\$4,900	\$ 35,640
Loans(2)	9,667	9,667	229	3,220	—	—	—	11,240
Debt obligations	19,133	19,249	8,220	8,812	432	723	6,976	—
Interest rate swap liability	93	93	87	37	—	—	—	—

* Including interest and dividends where applicable.

(1) Investments consist of debt securities and preferred stock.

(2) Unsecured loans.

As at December 31, 2003

	Carrying Value	Fair Value	Expected Cash Flow*					
			2004	2005	2006	2007	2008	Thereafter
			(In thousands)					
Investments(1)	\$ 57,248	\$ 57,248	\$ 12,681	\$6,859	\$ 13,307	\$5,132	\$9,002	\$ 36,343
Debt obligations(2)	19,072	21,733	2,390	—	2,855	—	—	—
Interest rate swap liability	81	81	125	79	34	—	—	—

* Including interest and dividends where applicable.

(1) Investments consist of debt securities and preferred stock.

(2) Debt obligations consist of the bonds with carrying value of \$16.3 million which mature on April 1, 2008 and bear interest at 8% per annum, the majority of which was converted into common stock with the balance redeemed in cash for approximately \$0.9 million in early 2004.

Foreign Currency Exchange Rate Risk

Our reporting currency is the Canadian dollar. We hold financial instruments primarily denominated in U.S. dollars, Euros and Swiss francs. A depreciation of such currencies against the Canadian dollar will decrease the fair value of our financial instrument assets and liabilities. An appreciation of such currencies against the Canadian dollar will increase the fair value of our financial instrument assets and liabilities. Our financial instruments which may be sensitive to foreign currency exchange rate fluctuations are investments, loans, deposits, debt obligations and interest rate swap. The following tables provide information about our exposure to foreign currency exchange rate fluctuations for the carrying amount of financial instruments that may be sensitive to such fluctuations as at December 31, 2004 and 2003, respectively, and expected cash flows from these instruments:

As at December 31, 2004

	Carrying Value	Fair Value	Expected Future Cash Flow*					
			2005	2006	2007	2008	2009	Thereafter
			(In thousands)					
Investments(1)	\$ 28,820	\$ 29,321	\$ 19,345	\$ —	\$ —	\$ —	\$ —	\$ 9,886
Loans(2)	26,865	26,865	10,551	8,466	110	110	110	14,333
Deposits(3)	37,021	37,021	37,021	—	—	—	—	—
Debt obligations(4)	40,927	41,042	30,666	8,812	432	723	6,976	—
Interest rate swap liability	93	93	87	37	—	—	—	—

* Including interest and dividends where applicable.

- (1) Investments consist of debt securities and equity securities, both of which are denominated in U.S. dollars, Euros or Swiss francs.
- (2) Loans are denominated in U.S. dollars, Euros or Swiss francs.
- (3) Deposits consist of cash deposits with MFC Merchant Bank S.A.
- (4) Debt obligations consist of the bonds and other debt, all of which are denominated in U.S. dollars, Euros or Swiss francs.

As at December 31, 2003

	Carrying Value	Fair Value	Expected Future Cash Flow*					
			2004	2005	2006	2007	2008	Thereafter
			(In thousands)					
Investments(1)	\$ 37,465	\$ 34,602	\$ 12,627	\$ 1,959	\$ 8,407	\$ 232	\$ 4,102	\$ 11,714
Loans(2)	15,390	15,390	13,368	158	103	103	2,459	—
Deposits(3)	22,185	22,185	22,185	—	—	—	—	—
Debt obligations(4)	33,297	35,958	7,273	4,719	7,412	—	—	—
Interest rate swap liability	81	81	125	79	34	—	—	—

* Including interest and dividends where applicable.

- (1) Investments consist of debt securities and equity securities, both of which are denominated in U.S. dollars, Euros or Swiss francs.
- (2) Loans are denominated in U.S. dollars, Euros or Swiss francs.
- (3) Deposits consist of cash deposits with MFC Merchant Bank S.A.
- (4) Debt obligations consist of the bonds and other debt, all of which are denominated in U.S. dollars or Euros. The majority of the convertible bonds was converted into common shares of MFC with the balance redeemed in cash in early 2004.

Equity Price Risk

Changes in trading prices of equity securities may affect the fair value of equity securities or the fair value of other securities convertible into equity securities. An increase in trading prices will increase the fair value and a decrease in trading prices will decrease the fair value of equity securities or instruments convertible into equity securities. Our financial instruments which may be sensitive to fluctuations in equity prices are

investments and debt obligations. The following tables provide information about our exposure to fluctuations in equity prices for the carrying amount of financial instruments sensitive to such fluctuations as at December 31, 2004 and 2003, respectively, and expected cash flows from these instruments:

As at December 31, 2004

	Carrying Value	Fair Value	Expected Future Cash Flow*					
			2005	2006	2007	2008	2009	Thereafter
Investments(1)	\$ 52,658	\$ 53,159	\$ 12,359	\$4,900	\$4,900	\$4,900	\$4,900	\$ 45,700

* Including interest and dividends where applicable.

(1) Investments consist of equity securities.

As at December 31, 2003

	Carrying Value	Fair Value	Expected Future Cash Flow*					
			2004	2005	2006	2007	2008	Thereafter
Investments(1)	\$ 61,198	\$ 57,856	\$ 12,732	\$4,900	\$4,900	\$4,900	\$4,900	\$ 53,366
Debt obligations(2)	16,340	19,001	861	—	—	—	—	—

* Including interest and dividends where applicable.

(1) Investments consist of equity securities.

(2) Debt obligations consist of the bonds which are convertible into common shares of MFC at a fixed price, the majority of which were converted into common shares of MFC with the balance redeemed in cash in early 2004.

Item 12 Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13 Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15 Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, 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, being December 31, 2004. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president and chief executive officer. Based upon that evaluation, our company's president and chief executive officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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 Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission'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 Exchange Act is accumulated and communicated to management, including our company's president and chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

Item 16 *Reserved*

Item 16A. *Audit Committee Financial Expert*

Our board of directors has determined that it does not have a member of its audit committee that qualifies as an "audit committee financial expert" as defined in Item 401(e) of Regulation S-B, and is "independent" as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended.

We believe that the members of our board of directors are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. In addition, we believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our circumstances given the nature of our business as an international merchant bank.

Item 16B. *Code of Ethics*

Code of Ethics

Effective January 27, 2004, our company's board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's president (being our principal executive officer) and our company's secretary (being our principal financial and accounting officer and controller), as well as persons performing similar functions. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's personnel shall be accorded full access to our president and secretary with respect to any matter which may arise relating to the Code of Business Conduct and Ethics. Further, all of our company's personnel are to be accorded full access to our company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our president or secretary.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our company's president or secretary. If the incident involves an alleged breach of the Code of Business Conduct and Ethics by the president or secretary, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

Our Code of Business Conduct and Ethics was filed as Exhibit 11.1 to our 2003 annual report on Form 20-F filed on April 26, 2004. We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request. Requests can be sent to: MFC Bancorp. Ltd., 8th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, SAR, China.

Item 16C. Principal Accountant Fees and Services*Audit Fees*

Our board of directors appointed Peterson Sullivan P.L.L.C. as independent auditors to audit our financial statements for the fiscal year ended December 31, 2004. The aggregate fees billed by Peterson Sullivan P.L.L.C. for professional services rendered for the audit of our annual financial statements included in this Annual Report for the fiscal year ended December 31, 2004 were \$542,966 (U.S.\$417,250).

Audit Related Fees

For the fiscal year ended December 31, 2004, Peterson Sullivan P.L.L.C. did not perform any assurance and related services relating to our quarterly financial statements which are not reported under the caption "Audit Fees" above.

Tax Fees

For the fiscal year ended December 31, 2004, the aggregate fees billed for tax compliance, tax advice and tax planning on United States tax matters by Peterson Sullivan P.L.L.C. were \$255,195 (U.S.\$196,108).

All Other Fees

For the fiscal year ended December 31, 2004, Peterson Sullivan P.L.L.C. did not perform any other non-audit professional services, other than those services listed above.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Peterson Sullivan P.L.L.C. is engaged by us or our subsidiaries to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee pre-approves all services provided by our independent auditors. The pre-approval process has just been implemented in response to the new rules. 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 by Peterson Sullivan P.L.L.C., and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining Peterson Sullivan P.L.L.C. independence.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Company and Affiliated Purchasers

During the year ended December 31, 2004, our board of directors approved the repurchase of up to 600,000 shares of our common stock. The repurchase program commenced on December 5, 2004 and will close on December 5, 2005, unless extended or shortened by our board of directors. The repurchases will be made from time to time on the open market at prevailing market prices from cash on hand. In the year ended December 31, 2004, we purchased the following shares of our common stock:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
December 1 to 31, 2004	406,000	U.S. \$ 20.58	406,000	194,000

PART III

Item 17 *Financial Statements*

Refer to Item 18 — Financial Statements.

Item 18 *Financial Statements*

Financial Statements Filed as Part of the annual report:

Independent Auditors' Report on the Consolidated Financial Statements of MFC as at December 31, 2004, 2003 and 2002

Consolidated Balance Sheets at December 31, 2004 and 2003 (audited)

Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002 (audited)

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2004, 2003 and 2002 (audited)

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 (audited)

Notes to Consolidated Financial Statements

Independent Auditors' Report on Financial Statement Schedule

Financial Statement Schedule:

I Condensed Financial Information of Registrant (Regulation 210.12.-04)



PETERSON SULLIVAN PLLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders
MFC Bancorp Ltd.

We have audited the accompanying consolidated balance sheets of MFC Bancorp Ltd. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 2004, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MFC Bancorp Ltd. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years ended December 31, 2004, 2003 and 2002, in conformity with accounting principles generally accepted in Canada, which differ from accounting principles generally accepted in the United States as described in Note 23 to the consolidated financial statements.

/s/ Peterson Sullivan PLLC

March 18, 2005

MFC BANCORP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(Canadian dollars, in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 215,722	\$ 145,452
Restricted cash	16,496	—
Securities	21,113	8,412
Loans	9,816	14,375
Receivables	98,126	50,367
Commodity investments	25,775	10,964
Inventories	11,019	—
Real estate held for sale	42,924	3,380
Contract deposits, prepaid and other	21,819	2,267
Future income tax assets	8,021	—
Total current assets	<u>470,831</u>	<u>235,217</u>
Non-current Assets		
Securities	9,858	36,551
Loans	17,049	2,497
Property, plant and equipment	22,108	62,235
Resource property	35,341	36,044
Goodwill	20,445	16,127
Equity method investments	18,490	15,906
Future income tax assets	9,577	—
Total non-current assets	<u>132,868</u>	<u>169,360</u>
	<u>\$ 603,699</u>	<u>\$ 404,577</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 160,012	\$ 53,705
Notes payable	18,371	—
Long-term debt, current portion	8,173	5,921
Deposits	46,523	22,185
Provision for warranty costs	11,641	—
Stock distribution payable	—	71,730
Future income tax liability	6,274	387
Total current liabilities	<u>250,994</u>	<u>153,928</u>
Long-term Liabilities		
Long-term debt, less current portion	14,383	27,376
Pension liabilities	36,792	—
Provision for warranty costs	1,559	—
Other long-term liabilities	1,240	—
Total long-term liabilities	<u>53,974</u>	<u>27,376</u>
Total liabilities	<u>304,968</u>	<u>181,304</u>
Minority Interests	29,310	4,826
Shareholders' Equity		
Common stock, without par value; authorized unlimited number	71,512	61,891
Equity component of convertible debt	146	—
Retained earnings	209,961	173,674
Cumulative translation adjustment	(12,198)	(17,118)
Total shareholders' equity	<u>269,421</u>	<u>218,447</u>
	<u>\$ 603,699</u>	<u>\$ 404,577</u>

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

MFC BANCORP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2004	2003	2002
	(Canadian dollars, in thousands, except earnings per share)		
Revenue			
Financial services	\$ 498,672	\$ 409,513	\$ 284,339
Industrial and engineering services	199,092	—	—
	<u>697,764</u>	<u>409,513</u>	<u>284,339</u>
Expenses			
Financial services	430,945	329,549	175,792
Industrial and engineering services	158,329	—	—
General and administrative	62,632	25,187	35,758
Goodwill impairment	—	—	16,116
Interest	7,443	4,392	9,493
	<u>659,349</u>	<u>359,128</u>	<u>237,159</u>
Income from operations before income taxes and minority interests	38,415	50,385	47,180
Recovery of (provision for) income taxes	4,168	(837)	3,497
Income from operations before minority interests	42,583	49,548	50,677
Minority interests	(5,632)	(432)	78
Net income	<u>\$ 36,951</u>	<u>\$ 49,116</u>	<u>\$ 50,755</u>
Earnings per share			
Basic	<u>\$ 2.73</u>	<u>\$ 3.76</u>	<u>\$ 3.93</u>
Diluted	<u>\$ 2.70</u>	<u>\$ 3.59</u>	<u>\$ 3.70</u>

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

MFC BANCORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2004, 2003 and 2002

	Common Stock		Equity Component of Convertible Debt	Retained Earnings	Cumulative Translation Adjustment	Total
	Number of Shares	Amount				
Balance at December 31, 2001	13,177,156	\$ 76,673	\$ —	\$ 164,872	\$ 4,452	\$ 245,997
Net income	—	—	—	50,755	—	50,755
Shares issued for exercise of stock options	157,500	1,635	—	—	—	1,635
Shares issued for purchase of minority interest in consolidated subsidiary	25,071	397	—	—	—	397
Repurchase of shares	(546,100)	(8,660)	—	—	—	(8,660)
Shares issued for compensation	18,227	224	—	—	—	224
Translation adjustment	—	—	—	—	14,281	14,281
Dividend in equity securities, at carrying value	—	—	—	(19,339)	—	(19,339)
Balance at December 31, 2002	12,831,854	70,269	—	196,288	18,733	285,290
Net income	—	—	—	49,116	—	49,116
Shares issued for exercise of stock options	487,500	4,281	—	—	—	4,281
Shares issued for conversion of bonds	72,261	1,294	—	—	—	1,294
Repurchase of shares	(672,183)	(13,953)	—	—	—	(13,953)
Translation adjustment	—	—	—	—	(35,851)	(35,851)
Distribution of assets declared, at carrying value	—	—	—	(71,730)	—	(71,730)
Balance at December 31, 2003	12,719,432	61,891	—	173,674	(17,118)	218,447
Net income	—	—	—	36,951	—	36,951
Issuance of convertible debt, equity component	—	—	186	—	—	186
Shares issued for conversion of bonds	965,837	16,904	(40)	—	—	16,864
Repurchase of shares	(406,000)	(10,058)	—	—	—	(10,058)
Shares re-issued as a result of liquidation of a subsidiary	297,877	2,775	—	—	—	2,775
Translation adjustment	—	—	—	—	4,920	4,920
Pre-consolidation income of purchased subsidiaries	—	—	—	81	—	81
Adjustment to the recorded value of assets distributed	—	—	—	(745)	—	(745)
Balance at December 31, 2004	13,577,146	\$ 71,512	\$ 146	\$ 209,961	\$ (12,198)	\$ 269,421

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

MFC BANCORP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2004	2003	2002
	(Canadian dollars, in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 36,951	\$ 49,116	\$ 50,755
Adjustments for:			
Goodwill impairment	—	—	16,116
Gain on debt reduction	(843)	—	(19,746)
Amortization and depreciation	10,333	1,487	1,528
Equity (income) loss on equity method investments	(1,206)	905	—
Minority interests	5,632	432	(78)
Debt extinguishment	—	—	(49,122)
Financial advisory services revenue	—	(6,089)	—
Gain on sales of securities and assets, net	—	(17,574)	—
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions			
Restricted cash	(8,090)	—	—
Securities	10,880	7,021	12,179
Receivables	18,295	9,459	1,621
Commodity investments	(11,531)	1,080	(6,026)
Inventories	(1,192)	—	—
Real estate held for sale	(71)	1,064	13,487
Accounts payable and accrued expenses	25,523	(2,617)	3,767
Provision for warranty costs	(1,350)	—	—
Future income taxes	(5,444)	—	(4,604)
Contract deposits, prepaid and other	(18,282)	(1,572)	—
Other	604	(5,349)	970
CASH FLOWS FROM OPERATING ACTIVITIES	60,209	37,363	20,847
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease (increase) in loans	(9,761)	52,438	(4,778)
Sales (purchases) of long-term securities, net	(5,118)	4,788	(5,441)
Purchases of property, plant and equipment	(3,693)	—	—
Disposition of subsidiaries, net of cash disposed	(207)	—	—
Sale of equity method investment	—	—	25,915
Purchases of subsidiaries, net of cash acquired	31,133	(755)	(34,978)
Proceeds from sale of assets	—	10,634	—
Other	1,797	(2,175)	204
CASH FLOWS FROM INVESTING ACTIVITIES	14,151	64,930	(19,078)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	23,842	(13,516)	33,894
Borrowings	15,579	6,649	38,660
Debt repayments	(30,459)	(31,722)	(52,005)
Issuance (repurchase) of common stock, net	(10,058)	(9,672)	(7,025)
Issuance of shares by a subsidiary	1,392	—	—
Other	12	(31)	—
CASH FLOWS FROM FINANCING ACTIVITIES	308	(48,292)	13,524
Exchange rate effect on cash and cash equivalents	(4,398)	(10,962)	9,954
Increase in cash and cash equivalents	70,270	43,039	25,247
CASH AND CASH EQUIVALENTS, beginning of year	145,452	102,413	77,166
CASH AND CASH EQUIVALENTS, end of year	\$ 215,722	\$ 145,452	\$ 102,413

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Summary of Significant Accounting Policies

The consolidated financial statements and accompanying notes have been prepared in conformity with generally accepted accounting principles applicable in Canada. The notes are stated in Canadian dollars, as rounded to the nearest thousand (except per share amounts).

Nature of Operations

MFC Bancorp Ltd. and Subsidiaries (“the Company”) is in the financial services business and its principal activities focus on merchant banking. This includes financial advisory services, proprietary investing, and trading activities on an international basis which are facilitated by the Company’s banking and trading subsidiaries. The Company seeks investments in many industries while emphasizing those business opportunities where the perceived intrinsic value is not properly recognized. The Company uses its financial and management expertise to add value within a relatively short time period. The Company also trades in various basic materials primarily on its own account.

In March 2004, the Company acquired a controlling interest in MFC Industrial Holdings AG, formerly Fahr Beteiligungen AG (“MFC Industrial”). MFC Industrial, through its major subsidiaries, KHD Humboldt Wedag AG group of companies (“KHD”), is engaged in the business of industrial and engineering services in the fields of cement, coal and minerals processing technologies.

As a result of the MFC Industrial acquisition, effective from April 1, 2004, the Company operates in two reportable business segments: financial services and industrial and engineering services.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company uses the equity method to account for investments when it has the ability to significantly influence the investee’s operating and financial policies. Under the equity method, the investment is initially recorded at cost, then reduced by distributions and increased or decreased by the Company’s proportionate share of the investee’s net earnings or loss. When there is an other than temporary decline in value, the investment is written down and the unrealized loss is included in the results of operations.

In December 2003, the board of directors declared a distribution of assets consisting of the shares in a subsidiary with a carrying value of \$64,718 and an investment in an equity method investee with a carrying value of \$7,012, totaling \$71,730. Both entities are involved in natural resources production. In December 2004, the Company completed the distribution of the shares. An adjustment of \$745 was made to increase the carrying value of the assets distributed to reflect the change in the carrying value since December 2003.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are generally interest bearing. The Company regularly maintains cash balances in financial institutions in excess of insured limits. Interest paid on a cash basis was \$6,569, \$4,001 and \$7,188 for the years ended December 31, 2004, 2003 and 2002, respectively. Income tax of \$847 was paid in 2004 and income tax paid in 2003 and 2002 were not material.

As at December 31, 2004, cash of \$16,496 (none for 2003) was restricted for use as follows:

Security for current industrial and engineering contracts	\$	11,006
Collateral for debt currently due		5,122
Other		368
	\$	<u>16,496</u>

Nonmonetary transactions in 2004 were: (1) the liquidation of a non-wholly owned subsidiary and subsequent distribution of common stock of the Company owned by the subsidiary to minority shareholders of the subsidiary, resulting in an increase to common stock of \$2,775, (2) the conversion of a \$2,074 loan receivable into shares of common stock of a company accounted for on the equity method, and (3) the conversion of a \$2,442 loan receivable into shares of common stock of a company acquired in 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Nonmonetary transactions in 2003 include (1) receipt of debentures for financial advisory services in the amount of \$6,089, valued based on the fair value of the debentures received, and (2) the reduction of a mining tax liability on resource property of \$1,943. At December 30, 2002, the Company exchanged assets located in Europe with a carrying value of \$7,292 for a 49% interest in Equitable Industries Limited Partnership. No gain or loss was recorded as a result of the exchange. It was treated as a nonmonetary transaction with an affiliate in 2002.

Securities

Securities are classified, based on management's intentions, as trading account securities, short-term securities and long-term investment securities.

Trading account securities, which are purchased for sale in the near term by the Company's banking subsidiary, are stated at their quoted market value with the unrealized gain or loss included in the results of operations. Short-term securities are carried at the lower of aggregate cost or quoted market value. At December 31, 2004 and 2003, the Company had no securities classified as trading account securities.

Long-term investment securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost unless there has been an other than temporary decline in value, at which time the security is written down and the write-down is included in the results of operations.

Realized gains or losses on sales of securities are determined on the specific identification basis.

Loans and Receivables

Loans are stated at their principal balances net of any allowances for credit losses, accrued interest, reimbursable expenses and unamortized loan fees. Receivables are stated at their principal balances net of any allowance for credit losses. Receivables are considered past due on an individual basis based on the terms of the contracts.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a contractual payment is 90 days past due, loans are automatically classified as impaired unless they are fully secured and in the process of collection. When a loan is deemed impaired, its carrying amount is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate in the loan or, as a practical expedient, based on a loan's observable market price or the fair value of collateral if the loan is collateral dependent. In subsequent periods, any increase in the carrying value of the loan is credited to the provision for credit losses. Impaired loans are returned to performing status when there is no longer reasonable doubt regarding timely collection of principal and interest, all amounts in arrears including interest have been collected, and all charges for loan impairment have been reversed. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on the accrual basis when there is no longer any reasonable doubt regarding collectibility of principal and interest, and payments are not 90 days past due. Collateral is obtained for loans and receivables if, based on an evaluation of credit-worthiness, it is considered necessary for the overall credit facility.

Assets acquired in satisfaction of loans are recorded at the lesser of their fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of such assets are treated as write-offs and recoveries.

Interest income from loans is recognized when earned using the interest method unless the loan is classified as impaired at which time recognition of interest income ceases. Interest on impaired loans is credited to the carrying value of the loan when received. Loan origination fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the term of the loan. Commitment fees are amortized to income over the commitment period when it is unlikely that the commitment will be called upon; otherwise, they are deferred and amortized to interest income over the term of the resulting loan. Loan syndication fees are recognized in income unless the yield on any loans retained by the Company is less than that of other comparable lenders involved in the financing. In such cases, an appropriate portion of the fee is deferred and amortized to interest income over the term of the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Allowance for Credit Losses

The Company's allowance for credit losses is to be maintained at an amount considered adequate to absorb estimated credit-related losses. Such allowance reflects management's best estimate of the losses in the Company's credit portfolio 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 loans or receivables but may also relate to other credit instruments such as guarantees and letters of credit. An allowance for credit losses may be increased by provisions which are charged to income and reduced by write-offs net of any recoveries.

Specific provisions are established on a loan-by-loan or receivable basis. A general provision may be established to absorb potential credit losses attributable to the deterioration of credit quality on aggregate exposures for which specific provisions cannot yet be determined. A country risk provision may be made based on exposures in less developed countries and on management's overall assessment of the underlying economic conditions in those countries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

No loans were considered impaired at December 31, 2004 and 2003 and the Company did not consider it necessary to reserve for any specific loans or receivables, country risks or general risks.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. These instruments are either exchange-traded or negotiated. Derivatives may be designated as hedges, provided certain criteria are met. As at December 31, 2004 and 2003, the Company has no derivative financial instruments which have been designated as hedges.

The Company enters into derivative contracts usually to meet the needs of its customers, to take trading positions and to manage the interest rate fluctuation of its debt. These derivatives are marked to market with any unrealized gains or losses recognized immediately in the determination of income.

The Company held one interest rate swap derivative financial instrument with a notional amount of \$8,880 at December 31, 2004 and \$13,309 at December 31, 2003. The Company recognized a fair value loss on this derivative of \$14 and \$79 in 2004 and 2003, respectively, which is included in the determination of net income.

During 2002, the Company entered into a loan agreement with a client for \$49,691, which contained an embedded derivative clause. This embedded derivative was designed to eliminate an inherent foreign currency risk. The loan was repaid in 2003 and there was no realized gain or loss on this embedded derivative.

Commodity Investments

Commodity investments consist primarily of metals and paper products held for sale. These investments are stated at the lower of cost (specific identification method) or market and are subject to world-wide market price fluctuation.

Inventories

Inventories consist of construction raw materials, work-in-progress (costs and estimated earnings in excess of billings on uncompleted contracts), and finished goods. Inventories are recorded at the lower of cost (specific identification and first-in first-out methods) or market and consist of the following at December 31, 2004:

Raw materials	\$	4,073
Work in progress		3,907
Finished goods		3,039
	\$	<u>11,019</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Real Estate Held for Sale

Real estate held for sale is stated at cost unless the estimated future undiscounted cash flows expected to result from disposition is less than carrying value, in which case a loss is recognized based on the fair value of similar real estate in the same geographic region. No such losses have been recorded in these consolidated financial statements. The Company's real estate is being actively marketed and is, therefore, classified as a current asset. Profit or loss on sales of real estate is recognized when the amount of revenue is determinable, certain down payment requirements are met and no significant further involvement remains with respect to the real estate being sold.

Resource Property

Resource property is stated at cost. Amortization is provided on the straight-line basis over the period revenue is to be received which will end in 2055. However, if expected future undiscounted cash flows are less than carrying value, a loss will be recognized. No such losses have been recorded in these consolidated financial statements. Accumulated amortization was \$2,286 and \$1,583 as of December 31, 2004 and 2003, respectively. Amortization expense was \$703 in each of 2004, 2003, and 2002.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, net of accumulated depreciation. Property, plant and equipment are reviewed periodically for impairment in value using the estimated future undiscounted cash flows. Any resulting write-downs to fair value are charged to the results of operations. No such losses have been recorded in these consolidated financial statements.

Properties used in natural resource processing facilities were depreciated using the units-of-production method. Units-of-production rates were based on estimated production from existing facilities using current operating methods. Other property, plant, and equipment are depreciated according to the following lives and methods:

	<u>Lives</u>	<u>Method</u>
Buildings	15 to 20 years	straight-line
Investment property (buildings)	20 years	straight-line
Manufacturing plant equipment	3 to 20 years	straight-line
Office equipment	3 to 10 years	straight-line

Depreciation expense of property, plant and equipment amounting to \$9,630 in 2004, \$784 in 2003, and \$825 in 2002, is included in cost of sales and general and administrative expenses, as applicable. Repairs and maintenance are charged to expense as incurred.

Asset Retirement Obligations

The Company accounts for obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of long-lived assets under Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3110 "Asset Retirement Obligations." Under these rules, the fair value of the liability is initially recorded and the carrying value of the related asset is increased by the corresponding amount. The liability is accreted to its present value and the capitalized cost is amortized over the useful life of the related asset. The Company does not currently have any assets subject to asset retirement obligation accounting.

Goodwill

Goodwill represents the difference between the acquisition cost of a business and the fair value of its net tangible assets after an allocation has been made for intangible assets with indefinite and finite lives. Goodwill is not amortized but is subject to fair value impairment tests, on at least an annual basis. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying value of the reporting unit with its fair value. If any potential impairment is identified, then the amount of the impairment is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. Any impairment of goodwill is charged to the results of operations in the period in which the impairment is determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Equity Component of Convertible Debt

The Company's convertible bonds include both a debt and equity component. The proceeds from the bonds have been allocated to those components on a relative fair value basis. The value of the equity component has been accounted for as debt discount which is being amortized to interest expense over the term of the bonds using the effective interest method.

Revenue Recognition

Revenues from trading in various basic materials are recognized as agreed upon activities are performed or as assets are disposed of with no substantial further involvement by the Company and collectibility is reasonably assured. Revenues from other financial services are recognized as services are provided and collectibility is reasonably assured.

Revenue from construction contracts in the Company's industrial and engineering segment is generally recognized under the percentage of completion method, measured by costs incurred to date to total estimated cost for each contract. This method is used because management considers total cost to be the best available measure of progress on contracts. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used may change in the near term.

Contract costs include all direct material and labor costs as well as any other direct and indirect cost attributable to each individual contract. General and administrative expenses are charged to expense when incurred. If estimated costs to complete a contract indicate a loss, provision is made in the current period for the total anticipated loss.

The asset, "costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in advance of amounts billed and is included in our inventories. The liability, "billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in advance of revenue recognized and is included in accounts payable and accrued expenses.

Provision for Warranty

The contracts and services of the Company's industrial and engineering segment are generally covered by product and service warranty that is generally good for one year. Many of the Company's construction contracts guaranty the plants for a predefined term against technical problems. Each contract defines the conditions under which a customer may make a claim. The provision is calculated per contract based on experience with past contracts. A liability for the estimated warranty expenses is established when the contracts and services are performed and completed, and the warranty expenses are charged to the cost of sales.

Pensions

The Company has one defined benefit pension plan for employees of certain KHD companies in Germany who were hired prior to 1997. Employees hired after 1996 are not eligible for such benefits. The liability recognized in the consolidated balance sheet with respect to the defined benefit plan is the present value of the defined obligation at the balance sheet date. The Company relies on independently prepared actuarial reports to record pension costs and pension liabilities, using the projected unit credit method. The report is prepared based on certain demographic and financial assumptions. The variables in the actuarial computation include, but are not limited to, the following: demographic assumptions about the future characteristics of the employees (and their dependants) who are eligible for benefits, the discount rate, and future salary.

Foreign Currency Translation

The Company translates foreign assets and liabilities of its self-sustaining foreign subsidiaries at the rate of exchange at the balance sheet date. Revenues and expenses have been translated at the average rate of exchange throughout the year. Unrealized gains or losses from these translations are included in the equity section of the consolidated balance sheets. The translation adjustments do not recognize the effect of income tax because the Company expects to reinvest the amounts indefinitely. Transaction gains that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

amounting to \$1,233, \$8,348, and \$453 in 2004, 2003, and 2002, respectively, have been included in general and administrative expenses in the consolidated statements of income.

Taxes on Income

The Company uses the asset and liability method to provide for income taxes on all transactions recorded in these consolidated financial statements. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses to be carried forward to future years for tax purposes that are likely to be realized using expected tax rates in which the temporary differences are expected to be recovered or settled.

Stock-Based Compensation

Until December 31, 2003, the Company followed the intrinsic value based method of accounting for compensation resulting from the granting of stock options to employees, in accordance with CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. Effective January 1, 2004, the Company adopted the amended Handbook Section 3870, which requires share-based transactions to be measured on a fair value basis using an option-pricing model. Stock based payments to non-employees are to be expensed based on the fair value of shares or options issued. There have been no stock based payments to non-employees.

There were no stock options granted during 2004, 2003 or 2002. There was no effect on net income and earnings per share for compensation expense recognized on the basis of fair value of employee stock options granted. Therefore, no reconciliation is provided for the proforma net income and earnings per share.

Earnings Per Share

Basic earnings per share is determined by dividing net income applicable to common shares by the average number of common shares outstanding for the year. 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 potential dilutive effect of stock options and warrants granted as well as convertible debt computed under the treasury stock method. The treasury stock method determines the number of additional common shares by assuming that outstanding stock warrants and options whose exercise price is less than the average market price of the Company's common stock during the period are exercised and then reduced by the number of common shares assumed to be repurchased with the exercise proceeds. However, such potential dilution is not recognized in a loss year.

Estimates

The preparation of financial statements in conformity with Canadian and United States generally accepted accounting principles 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. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to allowance for credit losses, fair value of financial investments, provisions for warranties, other than temporary impairments of investment securities, accounting for construction contracts, and valuation of commodity investments, property plant and equipment, resource property, goodwill, future income tax assets and provision for income taxes among other items. Therefore, actual results could differ from those estimates.

Reclassifications

Certain 2003 and 2002 amounts have been reclassified to conform to the 2004 presentation.

New Canadian Accounting Standards

Accounting Guideline AcG-15, Consolidation of Variable Interest Entities

This guideline was issued to provide guidance in determining when a variable interest or special purpose entity is to be consolidated. Management is analyzing the requirements of this new guideline.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounting Guideline AcG-18, Investment Companies

This guideline was issued to provide guidance regarding an investment company's measurement of its investments; determining whether an entity is an investment company, and when an investor in an investment company should account for the investment company's investments in the same manner as the investment company accounts for those investments. This guideline will have no effect on the Company.

Financial Instruments

The CICA issued revisions to Handbook Section 3860 *Financial Instruments — Disclosure and Presentation*, which changes the accounting for certain financial instruments that have liability and equity characteristics. It requires instruments that meet specific criteria to be classified as liabilities on the balance sheet. These revisions became effective on January 1, 2005. Management is analyzing the requirements of this new section.

The CICA issued Section 3855 of the CICA Handbook, *Financial Instruments — Recognition and Measurement*, describing the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Management is analyzing the requirements of this new section.

Comprehensive Income

The CICA issued Handbook Section 1530, *Comprehensive Income*, describing how to report and disclose items of comprehensive income and its components. This section is effective for years beginning on or after October 1, 2006.

The CICA also revised Handbook Section 3250, *Surplus*, and reissued it as Handbook Section 3251, *Equity*. The section is also effective for years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530, *Comprehensive Income*. Management is analyzing the requirements of these new sections.

Hedges

The CICA issued Handbook Section 3865, *Hedges*, describing when and how hedge accounting may be applied. The section is effective for years beginning on or after October 1, 2006. Management is analyzing the requirements of this new section.

Note 2. Acquisitions

In March 2004, the Company acquired a controlling interest in MFC Industrial for consideration of \$25,296, including capitalized expenses, representing an effective ownership interest of approximately 68% in MFC Industrial. The acquisition of MFC Industrial was accounted for on a step-by-step basis, including the cost of the Company's pre-existing non-controlling investment in MFC Industrial of \$9,091, for a total purchase price of \$34,387. Pre-consolidation equity in MFC Industrial's income in the amount of \$81 was recorded on the date of acquisition. MFC Industrial was consolidated since its acquisition date in March 2004. This acquisition is consistent with the Company's business of proprietary investing. As of December 31, 2004, the Company had increased its ownership of MFC Industrial to 72.8%. No goodwill or other intangible assets were recorded as a result of this acquisition. The fair value of the assets acquired and liabilities assumed at the date of acquisition was allocated as follows:

Current assets	\$ 89,639
Property, plant and equipment and real estate held for sale	55,714
Loans and other non-current assets	38,156
Total assets acquired	183,509
Current liabilities	73,523
Debt and other long-term liabilities	57,254
Minority interest	18,345
Total liabilities assumed	149,122
Net assets acquired	\$ 34,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In March 2004, the Company, through various purchases, acquired 1,494,408 common shares of Med Net International, Ltd. (“Med Net”), for cash consideration of \$2,285, which resulted in an effective ownership of approximately 62% in Med Net. The acquisition was accounted for on a step-by-step basis, including the cost of the Company’s pre-existing non-controlling investment of \$1,057, for a total purchase price of \$3,342. This acquisition was not considered a material business combination. No goodwill or other intangible assets were acquired. Med Net was consolidated since its acquisition date. Med Net operates technically advanced eye care centers in China. Med Net also markets medical supplies.

In April 2004, the Company, through its subsidiary, acquired 233,057 common shares of HIT International Trading AG (“HIT”), for total consideration of \$3,656, which resulted in an effective ownership of approximately 60% in HIT. This acquisition was not considered a material business combination. Goodwill of \$302 was recorded in connection with this acquisition. HIT was consolidated since its acquisition date. No other intangible assets were acquired. HIT, through its subsidiary, trades primarily in the paper products, which forms an integrated part of the Company’s financial services segment.

In September 2004, the Company, through its subsidiary, completed the acquisition of 100% of the stated capital of AWP Aluminium Walzprodukte GmbH (“AWP”) in Germany for total consideration of \$416. This acquisition was not considered a material business combination. Goodwill of approximately \$2,763 was recorded in connection with this acquisition. No other intangible assets were acquired. AWP was consolidated since its acquisition date. AWP, through its wholly-owned subsidiary, manufactures aluminium products, which forms an integrated part of the Company’s financial services segment.

During 2004, the Company’s banking subsidiary completed the restructuring of SF Factoring AG (“SF Factoring”) and beneficially owns a 75% equity interest in SF Factoring. Consideration paid was \$1,361 and goodwill of \$1,229 was recorded in connection with this acquisition. No other intangible assets were acquired. This acquisition was not considered a material business combination. SF Factoring was consolidated since its acquisition date. SF Factoring is in the business of leasing and factoring, which forms an integrated part of the Company’s financial services segment.

The following unaudited proforma information presents the results of operations of the Company as if the acquisitions had taken place on January 1, 2004 and 2003, respectively. The proforma information is not necessarily indicative of the results that would have occurred had the acquisitions taken place at the beginning of the periods presented. Further, the proforma information is not necessarily indicative of future results.

	Year Ended December 31,	
	2004	2003
	(Unaudited)	
Revenues	\$ 796,021	\$ 714,117
Net income	35,248	40,615
Earnings per share		
Basic	2.61	3.11
Diluted	2.57	2.99

Note 3. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2004	2003
Balance at beginning of year	\$ 16,127	\$ 16,412
Acquisitions	4,294	—
Exchange rate effect	24	(285)
Balance at end of year	\$ 20,445	\$ 16,127

Based on a review of the fair value of the Company’s reporting units, management has determined that no impairment of goodwill was necessary at December 31, 2004 and 2003, and an impairment of \$16,116 was necessary at December 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 4. Securities

Short-term securities consisted of debt securities of \$13,654 and \$580 (having stated interest rates ranging from 4.125% to 6.0%), preferred shares of \$903 and \$1,096 and common shares of \$6,556 and \$6,736 at December 31, 2004 and 2003, respectively. Holding gains of \$8, \$12 and \$415 were included in the results of operations for years ended December 31, 2004, 2003 and 2002, respectively.

Long-term securities consist of the following at December 31:

	Unrealized Gains and Losses							
	2004				2003			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt	\$ —	\$ —	\$ —	\$ —	\$ 19,229	\$ —	\$ —	\$ 19,229
Preferred shares	299	—	—	299	299	—	—	299
Common shares	9,559	501	—	10,060	17,023	—	3,342	13,681
	<u>\$ 9,858</u>	<u>\$ 501</u>	<u>\$ —</u>	<u>\$ 10,359</u>	<u>\$ 36,551</u>	<u>\$ —</u>	<u>\$ 3,342</u>	<u>\$ 33,209</u>

At December 31, 2004 and 2003, the Company had long-term investments in the common shares of eleven and six affiliates with a carrying value of \$8,922 and \$13,460, respectively.

The maturity of securities is as follows at December 31, 2004:

	Remaining Terms						2004 Total	2003 Total
	Within 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	No Specific Maturity			
Short-term securities:								
Debt:								
Governments	\$ —	\$ 5,493	\$ 1,292	\$ —	\$ —	\$ 6,785	\$ —	
Other issuers	1,222	2,473	2,571	603	—	6,869	580	
	1,222	7,966	3,863	603	—	13,654	580	
Equities:								
Preferred shares	—	—	—	—	903	903	1,096	
Common shares	—	—	—	—	6,556	6,556	6,736	
	—	—	—	—	7,459	7,459	7,832	
Total	1,222	7,966	3,863	603	7,459	21,113	8,412	
Long-term securities:								
Debt:								
Governments	—	—	—	—	—	—	12,289	
Other issuers	—	—	—	—	—	—	6,940	
	—	—	—	—	—	—	19,229	
Equities:								
Preferred shares	—	—	—	—	299	299	299	
Common shares	—	—	—	—	9,559	9,559	17,023	
	—	—	—	—	9,858	9,858	17,322	
Total	—	—	—	—	9,858	9,858	36,551	
Total securities	<u>\$ 1,222</u>	<u>\$ 7,966</u>	<u>\$ 3,863</u>	<u>\$ 603</u>	<u>\$ 17,317</u>	<u>\$ 30,971</u>	<u>\$ 44,963</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5. Loans

	2004	2003
Bank loans, collateralized by traded securities and other assets, amounts due from one company of \$5,489 and \$5,091 at December 31, 2004 and 2003, respectively, are collateralized by patents	\$ 6,382	\$ 6,899
Other loans, collateralized by traded securities, receivables, inventories and other tangible assets, due from two companies \$18,145 at December 31, 2004 and due from two companies \$6,319 at December 31, 2003	20,483	9,973
	<u>\$ 26,865</u>	<u>\$ 16,872</u>

Loan maturities:

	Within 1 Year	1 — 5 Years	More than 5 Years	2004 Total
Bank loans	\$ 1,532	\$ 4,850	\$ —	\$ 6,382
Other loans	8,284	2,338	9,861	20,483
	<u>\$ 9,816</u>	<u>\$ 7,188</u>	<u>\$ 9,861</u>	<u>\$ 26,865</u>

Bank loans generally earn interest ranging from 3.5% to 7.2% and other loans generally earn interest ranging from 3.1% to 7.0% as of December 31, 2004.

At December 31, 2004, other loans include \$9,546 due from four affiliates in which the Company has a less than 20% equity interest. At December 31, 2003, other loans include \$1,482 due from two affiliates in which the Company has a less than 20% equity interest.

Note 6. Receivables

	2004	2003
Commodity transactions	\$ 32,959	\$ 32,369
Industrial and engineering services	31,449	—
Sale of a subsidiary	—	4,884
Sale of investment	—	6,556
Short-term advances	—	1,277
Investment income	5,628	400
Pension plan recovery	1,812	1,587
Government taxes	2,080	646
Due from affiliates	16,664	373
Other	7,534	2,275
	<u>\$ 98,126</u>	<u>\$ 50,367</u>

Note 7. Property, Plant and Equipment

	2004			2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Natural resource processing facility	\$ —	\$ —	\$ —	\$58,165	\$ —	\$ 58,165
Buildings	2,424	(1,030)	1,394	—	—	—
Investment property	12,232	(3,657)	8,575	—	—	—
Manufacturing plant equipment	16,026	(5,086)	10,940	3,579	(254)	3,325
Office equipment	2,626	(1,427)	1,199	1,477	(732)	745
	<u>\$33,308</u>	<u>\$ (11,200)</u>	<u>\$ 22,108</u>	<u>\$63,221</u>	<u>\$ (986)</u>	<u>\$ 62,235</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Contracts in Progress

Information relative to contracts in progress at December 31, 2004, is as follows:

Costs incurred to date on uncompleted contracts	\$ 69,660
Estimated earnings recognized to date on these contracts	13,957
	<u>83,617</u>
Less billings to date	(120,526)
	<u>\$ (36,909)</u>

This amount is included in the balance sheet as follows:

Costs and estimated earnings in excess of billings on uncompleted contracts (included in inventories)	\$ 3,907
Billings in excess of costs and estimated earnings on uncompleted contracts (included in accounts payable and accrued expenses)	(40,816)
	<u>\$ (36,909)</u>

The following represents the Company's backlog of contracts as of December 31, 2004, which includes executed contracts only:

Contracts in process	
Total contract amount	\$ 392,350
Less revenue recognized through December 31, 2004	(83,617)
Total backlog at December 31, 2004	<u>\$ 308,733</u>

There were no contracts in progress at December 31, 2003.

KHD has facilities under credit lines of up to a maximum of \$57,000 with a bank which issues performance bonds. The credit lines relate to KHD's industrial and engineering contracts. As of December 31, 2004, \$52,500 of the available credit lines has been committed, however, there are no claims outstanding against the credit lines at that date. Up to \$40,730 of the credit lines are collateralized by KHD's interest in its subsidiaries and certain other assets.

Note 9. Accounts Payable and Accrued Expenses

	2004	2003
Accounts payable	\$ 98,115	\$ 40,444
Billings in excess of costs and estimated earnings on uncompleted contracts	40,816	—
Bank overdrafts	1,044	3,137
Property and other taxes	4,165	1,487
Affiliates	906	1,138
Commissions and severance	1,626	803
Interest	975	392
Other	12,365	6,304
	<u>\$ 160,012</u>	<u>\$ 53,705</u>

Note 10. Deposits

All deposits at December 31, 2004 and 2003, were payable to clients of the Company's banking subsidiary on demand and bear interest at not more than .25%. The banking subsidiary conducts limited commercial banking. At December 31, 2004, deposits from three affiliates in which the Company has a more than 20% equity interest amounted to \$21,759. At December 31, 2003, deposits from three affiliates in which the Company has a less than 20% equity interest amounted to \$12,694.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Provision for Warranty

Warranty activity in 2004 consisted of:

Balance at the time of the acquisition of KHD	\$	15,225
Costs incurred		(3,876)
Warranty reserves established on completed contracts		3,625
Reversal of reserves at end of warranty period		(1,587)
Exchange differences		(187)
Balance, December 31, 2004	\$	<u>13,200</u>

Included in the consolidated balance sheet as follows:

Current portion	\$	11,641
Long-term portion		1,559
	\$	<u>13,200</u>

Note 12. Notes Payable

The Company's financial services segment has line of credit arrangements with banks under which it may borrow up to a maximum aggregate amount of \$193,875 (€ 119,000) currently, of which \$7,700 and none was outstanding as of December 31, 2004 and 2003, respectively. The lines expire at various dates beginning from April 2005 and require quarterly interest payments at interest rates ranging from 2.6% to 3.88%. Certain of the lines are on a revolving basis with termination rights retained by the banks. The lines are collateralized by commodity transaction receivables of \$24,819, cash deposits of \$1,701, and commodity investments of \$9,598 at December 31, 2004.

The Company's industrial and engineering services segment has line of credit arrangements with banks under which it may borrow up to a maximum aggregate amount of \$10,787 (€ 6,621) currently, of which \$10,671 and none was outstanding as of December 31, 2004 and 2003, respectively. The lines are due on demand and require monthly interest payments at interest rates ranging from 3.61% to 13%. The lines are collateralized by real estate at December 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13. Long-term Debt

	<u>2004</u>	<u>2003</u>
Bonds payable, US\$12,647 at December 31, 2003, interest at 8%, unsecured, non-recourse. Redeemed in full in 2004.	\$ —	\$ 16,340
Bonds payable, €2,523 at December 31, 2004, interest at 4.4%, interest due annually in December, principal due December 2009, unsecured. These bonds are convertible into common shares of the Company at various contractually fixed prices increasing each year over the next five years ranging from € 17.36 to € 22.15 per share.	3,995	—
Bonds payable, US\$1,316 and US\$1,674 at December 31, 2004 and 2003, respectively, interest at 5%, principal and interest due December 2006, unsecured.	1,584	2,163
Note payable to a bank, € 5,450 at December 31, 2004, interest at six-month Euribor plus 1.5% (resulting in a rate of 4.61%), interest and principal payments of \$2,220 (€ 1,363) due semi-annually beginning June 2003, due in full December 2006, secured by commodity transactions receivables.	8,880	13,309
Note payable to a corporation, interest at six-month Euribor plus 2% (resulting in a rate of 3.98%), interest due annually and principal due on demand, secured by cash deposit of \$3,421.	3,421	—
Note payable to a bank, interest at 10% due annually and principal due December 2009, secured by real estate.	2,441	—
Note payable to a bank, interest at 3.5% due annually and principal due March 2006, secured by a building.	1,581	—
Other	654	1,485
	<u>22,556</u>	<u>33,297</u>
Less current portion	(8,173)	(5,921)
	<u>\$ 14,383</u>	<u>\$ 27,376</u>

As of December 31, 2004, the principal maturities of debt are as follows:

<u>Maturity</u>	<u>Amount</u>
2005	\$ 8,173
2006	7,657
2007	—
2008	290
2009	6,436
	<u>\$ 22,556</u>

Note 14. Income Taxes

Income before income taxes and minority interests consists of:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Canadian	\$ 3,339	\$ 4,587	\$ 36,427
Foreign	35,076	45,798	10,753
	<u>\$ 38,415</u>	<u>\$ 50,385</u>	<u>\$ 47,180</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The recovery of (provision for) income taxes consists of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current			
Canadian	\$ (109)	\$ (202)	\$ (1,004)
Foreign	(1,247)	(529)	(589)
Future			
Canadian	(89)	221	301
Foreign	5,613	(327)	4,789
	<u>\$ 4,168</u>	<u>\$ (837)</u>	<u>\$ 3,497</u>

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income before income taxes and minority interests	\$ 38,415	\$ 50,385	\$ 47,180
Computed provision for income taxes at statutory rates	\$ (12,339)	\$ (17,191)	\$ (17,041)
(Increase) decrease in taxes resulting from:			
Nontaxable dividend income	1,733	1,695	1,795
Foreign statutory tax rate differences	1,926	3,740	2,286
Other permanent differences	933	4,731	7,807
Valuation allowance, net of acquisitions	3,840	12,480	2,526
Non-capital tax loss carryforwards lost from change in subsidiary's jurisdiction	—	(5,323)	—
Non-capital tax loss carryforwards acquired from purchase of subsidiary	8,200	—	6,124
Other, net	(125)	(969)	—
Recovery of (provision for) income taxes	<u>\$ 4,168</u>	<u>\$ (837)</u>	<u>\$ 3,497</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effect of temporary differences that give rise to significant components of future tax assets and liabilities are as follows:

	<u>2004</u>	<u>2003</u>
Future income tax assets:		
Non-capital tax loss carryforwards:		
Canada	\$ 1,900	\$ 227
Switzerland	1,090	1,682
Austria	2,060	3,103
Germany	39,100	—
England	120	—
	<u>44,270</u>	<u>5,012</u>
Pension liability	2,740	—
Other	1,570	—
	<u>48,580</u>	<u>5,012</u>
Valuation allowance	(30,982)	(5,012)
Future income tax assets	<u>\$ 17,598</u>	<u>\$ —</u>
Future income tax assets are included in the consolidated balance sheet as follows:		
Current	\$ 8,021	\$ —
Non-current	9,577	—
	<u>\$ 17,598</u>	<u>\$ —</u>
Future income tax liabilities:		
Difference in tax basis of assets acquired in the United States	\$ —	\$ (387)
Uncompleted contracts	(4,606)	—
Other	(1,668)	—
Future income tax liabilities	<u>\$ (6,274)</u>	<u>\$ (387)</u>

Management believes that, due to the nature of its operations, the Company's available tax loss carryforwards may not be fully utilized.

At December 31, 2004, the Company had estimated accumulated non-capital losses which expire in the following countries as follows:

<u>Year</u>	<u>Canada</u>	<u>Switzerland</u>	<u>Austria</u>	<u>Germany</u>	<u>England</u>
2005	\$ —	\$ —	\$ —	\$ —	\$ —
2006	4	—	—	—	—
2007	2,136	340	—	—	—
2008	—	250	—	—	—
2009	1,380	—	—	—	—
2010-2020	2,390	2,800	—	—	—
Indefinite	—	—	6,430	121,700	375
	<u>\$ 5,910</u>	<u>\$ 3,390</u>	<u>\$ 6,430</u>	<u>\$ 121,700</u>	<u>\$ 375</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 15. Earnings Per Share

Earnings per share data for years ended December 31 from operations is summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Basic earnings from operations available to common shareholders	\$ 36,951	\$ 49,116	\$ 50,755
Effect of dilutive securities			
Interest on convertible bonds	327	1,599	1,735
Diluted earnings from operations	<u>\$ 37,278</u>	<u>\$ 50,715</u>	<u>\$ 52,490</u>

	<u>Shares</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Basic earnings per share, weighted average number of common shares outstanding	13,520,221	13,054,727	12,931,117
Effect of dilutive securities:			
Convertible bonds	298,153	1,020,951	1,030,038
Options	—	52,943	209,006
Weighted average number of common shares outstanding — diluted	<u>13,818,374</u>	<u>14,128,621</u>	<u>14,170,161</u>

Note 16. Stock Option Plan

The Company has a stock option plan which enables certain employees and directors to acquire common shares. Under the plan, options vest on grant and have a five-year term. The Company is authorized to issue up to 2,762,000 shares under this plan, of which 1,397,500 had been granted and exercised, and 1,364,500 are available for granting in future periods.

Following is a summary of the status of the plan:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding at December 31, 2001	1,025,000	\$ 10.77
Exercised	(157,500)	(10.49)
Forfeited	(372,500)	(11.43)
Outstanding at December 31, 2002	495,000	10.05
Exercised	(487,500)	(10.04)
Forfeited	(7,500)	(10.50)
Outstanding at December 31, 2003 and 2004	<u>—</u>	<u>\$ —</u>

Note 17. Commitments and Contingencies

Leases

Future minimum commitments under long-term non-cancelable leases are as follows for the next five years:

<u>Year</u>	<u>Amount</u>
2005	\$ 2,710
2006	5,257
2007	2,234
2008	1,495
2009	1,368
	<u>\$ 13,064</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rent expense was \$6,884, \$1,919 and \$1,166 for the years ended December 31, 2004, 2003 and 2002, respectively.

Litigation

The Company and its subsidiaries are subject to litigation in the normal course of business. Management considers the aggregate liability which may result from such litigation not material at December 31, 2004.

Guarantees

The Company has provided a five-year guarantee expiring August 2007 to a former affiliate with respect to a \$1,656 asset sale transaction. The Company has provided a guarantee expiring March 2005 to a former subsidiary with respect to their contractual payment obligations to a vendor for up to a maximum of € 3,500 (\$5,702 at December 31, 2004). During 2004, a subsidiary issued several performance bonds aggregating \$277. Our banking subsidiary had guarantees in the amount of \$313 outstanding as of December 31, 2004. KHD had outstanding guarantees to customers and suppliers aggregating \$47,736 as of December 31, 2004, relating to its contract performance and its product warranty. Guarantees are provided in the normal course of the Company's business.

Regulations

The Company's wholly-owned banking subsidiary is located in Switzerland. The subsidiary is subject to the rules and regulations of the Swiss Federal Banking Commission which require equity capital amounting to \$8,088 to be maintained as of December 31, 2004. The subsidiary is in compliance with this regulation as of December 31, 2004.

Note 18. Interest Rate Sensitivity Position

Management has analyzed the bank subsidiary's interest rate sensitivity position at December 31, 2004. Because of the current nature (over 80% of assets and liabilities and off-balance sheet positions are due within three months) of the bank subsidiary's position, the total interest rate gap is not significant at December 31, 2004, assuming no interest rate hedging is undertaken over the next twelve months.

Note 19. Pension Benefits

The Company maintains a defined benefit plan that provides pension benefits for the employees of certain KHD companies in Germany who were hired prior to 1997, as a result of the Company's acquisition of MFC Industrial in March 2004. Employees of KHD hired after 1996 are not eligible for such benefits. The employees are not required to make contributions to the plan.

The defined benefit plan is unfunded and, therefore, does not have any plan assets. Also, the plan has no unamortized prior service costs or gains or losses.

The table below shows the net pension expense and the change in benefit obligations of the plan.

Accrued benefit obligation, at the time of acquisition of MFC Industrial	\$	36,330
Current service cost		33
Interest cost		1,389
Net pension cost		1,422
Cash benefit payments		(1,468)
Exchange difference		508
Accrued benefit obligation, end of year	\$	<u>36,792</u>

An actuarial report is completed yearly as at December 31. Significant actuarial assumptions for the accrued benefit obligation (which approximates the projected benefit obligation) and the benefit cost as at December 31, 2004, and for the year then ended are:

Weighted average discount rate		5.5%
Rate of increase in future compensation		1.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Under the German laws, the pension liability is an unsecured claim and does not rank in priority to any other unsecured creditors. The pension liability is non-recourse to the Company.

Note 20. Business Segment Information

Effective from April 2004, the Company operates in two reportable business segments: financial services and industrial and engineering services. The segments are managed separately because each business requires different production and marketing strategies. Intersegment transactions are accounted for under normal business terms.

Summarized financial information concerning the segments for 2004 is shown in the following table. No such segment information is provided for 2003 and 2002 since the Company operated in only one segment during those years.

	<u>Year ended December 31, 2004</u>		
	<u>Financial Services</u>	<u>Industrial and Engineering Services</u>	<u>Total</u>
Revenues from external customers	\$ 498,672	\$ 199,092	\$ 697,764
Intersegment revenues	274	120	394
Interest expense			
External	3,904	3,539	7,443
Intersegment	120	80	200
Income from operations before income taxes and minority interests	21,359	17,056	38,415
	<u>As at December 31, 2004</u>		
	<u>Financial Services</u>	<u>Industrial and Engineering Services</u>	<u>Total</u>
Segment assets	\$ 359,491	\$ 254,905	\$ 614,396
Less: intercorporate investment			(10,697)
Consolidated total assets			<u>\$ 603,699</u>
Equity method investments	10,353	8,137	18,490
Cash expenditures for capital assets and goodwill	1,426	2,267	3,693

The following table presents revenues attributed to Canada, the Company's country of domicile, and other geographic areas based upon the customer's location:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Canada	\$ 10,042	\$ 7,872	\$ 26,006
Europe	403,804	391,282	254,564
United States	46,320	9,563	3,559
Asia	207,320	—	—
Africa	23,522	796	210
Other	6,756	—	—
	<u>\$ 697,764</u>	<u>\$ 409,513</u>	<u>\$ 284,339</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents long-lived and total assets by geographic area based upon the location of the assets.

	2004		2003	
	Long-lived	Total	Long-lived	Total
Canada	\$ 35,345	\$ 74,359	\$ 36,062	\$ 58,884
Europe	40,560	427,587	20,179	271,778
United States	302	36,171	—	15,047
Asia	932	42,868	—	—
Africa	191	9,330	58,165	58,868
Other	564	13,384	—	—
	<u>\$ 77,894</u>	<u>\$ 603,699</u>	<u>\$ 114,406</u>	<u>\$ 404,577</u>

There were no revenue concentrations in 2004, 2003, or 2002.

Note 21. Fair Value of Financial Instruments

The fair value of financial instruments at December 31 otherwise not disclosed in the financial statements is summarized as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (including restricted cash)	\$ 232,218	\$ 232,218	\$ 145,452	\$ 145,452
Short-term securities	21,113	21,113	8,412	8,412
Loans	26,865	26,865	16,872	16,872
Receivables	98,126	98,126	50,367	50,367
Accounts payable and accrued expenses	160,012	160,012	53,705	53,705
Deposits	46,523	46,523	22,185	22,185
Notes payable and debt	40,927	41,042	33,297	35,958
Interest rate swap derivative contract, liability	93	93	79	79

The fair value of cash and cash equivalents is based on reported market value. The fair value of short-term securities is based on quoted market prices. The fair value of loans is based on the value of similar loans. The fair value of receivables and accounts payable and accrued expenses approximates carrying value as they are subject to normal trade credit terms. The fair value of deposits approximates their carrying value as they are all due on demand. The fair value of debt was determined using discounted cash flows at prevailing market rates or based on reported market value for the Company's publicly traded debt. The fair value of the interest rate swap is obtained from dealer quote. This value represents the estimated amount the Company would pay to terminate the agreement taking into consideration current interest rates, the credit-worthiness of the counterparties, and other factors. The Company does not anticipate nonperformance with respect to any of its derivative financial instruments.

Note 22. Transactions with Affiliates

During 2004, a subsidiary of the Company sold real estate properties to a corporation in which the subsidiary owns approximately 19%. The majority shareholder of the purchaser corporation placed cash deposits and other securities with the Company's banking subsidiary. The Company has an irrevocable right to deduct the purchase price from the cash deposits and other securities account. The sale resulted in a gain of \$7,843 and the Company has a receivable of \$15,868 at December 31, 2004, of which \$3,781 was collected in cash in February 2005. The receivable is non-interest bearing and is secured by the cash deposits and other securities account and the real estate sold. Neither the Company nor its subsidiaries have any continuing involvement with the property.

The Company sold \$926 and purchased \$19,574 from an affiliate during 2004 in the normal course of commodities trading transactions. The Company's interest in the affiliate was sold in July 2004 and it was not related after that date. The Company also purchased \$11,531 from another affiliate during 2004 in the normal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

course of commodities trading transactions. The Company also sold commodities amounting to \$7,840 and \$3,490 in the normal course to three affiliates and one affiliate during 2003 and 2002, respectively, \$2,967 and \$2,856 of which is included in receivables from commodity transactions at December 31, 2003 and 2002, respectively.

During 2004, 2003 and 2002, the Company earned fees in the normal course from affiliated entities amounting to \$4,025, \$4,579 and \$9,164 (of which \$4,115 was a merchant bank client where the Company's president is also the president of the affiliate), respectively. In 2002, the Company sold real estate to an affiliate for \$4,202 on which no gain or loss has been recognized. The Company earned dividends of \$5,395, \$4,900 and \$4,900 on preferred shares of stock in an affiliate in 2004, 2003 and 2002, respectively, of which \$4,995 is included in other receivables at December 31, 2004. Of this dividend receivable, \$4,756 was collected in cash in January 2005. In addition, the Company had a long-term liability of \$415 payable to an affiliate. Generally, the Company has representation on the board of an affiliate and/or a significant equity interest.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the affiliated parties.

Note 23. United States Generally Accepted Accounting Principles

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which conform in all material respects with those in the United States (U.S.), except as set forth below:

	December 31		
	2004	2003	2002
Reconciliation of Net Income			
Net income in accordance with Canadian GAAP	\$ 36,951	\$ 49,116	\$ 50,755
Interest accretion on convertible bonds	22	—	—
Net income in accordance with U.S. GAAP	<u>\$ 36,973</u>	<u>\$ 49,116</u>	<u>\$ 50,755</u>
Basic earnings per common share U.S. GAAP	<u>\$ 2.73</u>	<u>\$ 3.76</u>	<u>\$ 3.93</u>
Diluted earnings per common share U.S. GAAP	<u>\$ 2.70</u>	<u>\$ 3.59</u>	<u>\$ 3.70</u>
Retained earnings in accordance with U.S. GAAP	<u>\$ 208,453</u>	<u>\$ 172,144</u>	<u>\$ 194,758</u>
Comprehensive Income			
Net income in accordance with U.S. GAAP	\$ 36,973	\$ 49,116	\$ 50,755
Other comprehensive income, net of tax			
Foreign currency translation adjustment	4,920	(35,851)	14,281
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	647	(3,524)	2,151
Reclassification adjustment for gains realized in net income	—	(182)	(233)
Reclassification adjustment for shares becoming trading securities	(58)	—	—
Reclassification adjustment for shares becoming subsidiaries or equity method investments	3,257	—	—
Reclassification adjustment for other than temporary decline in value	—	66	—
Net unrealized gains (losses)	<u>3,846</u>	<u>(3,640)</u>	<u>1,918</u>
Other comprehensive income	<u>8,766</u>	<u>(39,491)</u>	<u>16,199</u>
Comprehensive income	<u>\$ 45,739</u>	<u>\$ 9,625</u>	<u>\$ 66,954</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Securities

U.S. GAAP requires that certain investments be classified into available-for-sale or trading securities categories and be stated at their fair values. Any unrealized holding gains or losses are to be reported as a component of other comprehensive income until realized for available-for-sale securities, and included in earnings for trading securities.

At December 31, 2004, investment in one trading security represented approximately 28% of total investments in trading securities. At December 31, 2003, investment in one trading security represented approximately 58% of total investment in trading securities.

The fair value of trading securities is summarized as follows:

	December 31	
	2004	2003
Debt securities	\$ 13,654	\$ 580
Preferred shares	903	1,096
Common shares	4,796	6,736
	<u>\$ 19,353</u>	<u>\$ 8,412</u>

Available-for-sale securities consist of common shares at December 31, 2004. Available-for-sale securities consist of common shares, preferred shares and debt securities at December 31, 2003 and 2002. At December 31, 2004 and 2003, securities in one and three companies represented 96% and 54%, respectively, of the total available-for-sale securities of \$902 and \$33,209. The cost of these securities was \$398 and \$36,551 at December 31, 2004 and 2003, respectively. The proceeds from the sale of these securities amounted to nil, \$2,519, and \$1,330, which resulted in realized gains of nil, \$182, and \$233, during 2004, 2003 and 2002, respectively. At December 31, 2004, 2003 and 2002, respectively, net unrealized holding gains (losses) included in accumulated other comprehensive income was \$504, \$(3,342), and \$298. No available-for-sale securities at December 31, 2004, were in a loss position.

Convertible Bonds

The Company accounts for its convertible bonds in accordance with their contractual terms and, as such, they are presented in the financial statements in their liability and equity component parts. Under U.S. GAAP, the entire face value of the convertible bonds is treated as debt, with interest expense based on the coupon rate of 4.4%.

New United States Accounting Standards

Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), Share-Based Payments (“SFAS 123R”) eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees, to stock compensation awards issued to employees. Management is analyzing the requirements of this statement.

SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 deals with inventory pricing with respect to abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. Management is analyzing the requirements of this new standard and believes that its adoption will not have any significant impact on the Company’s financial statements.

SFAS No. 153, Exchanges of Nonmonetary Assets amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Management is analyzing the requirements of this new standard and believes that its adoption will not have any significant impact on the Company’s financial statements.

FIN No. 46(R) revised FIN No. 46, “Consolidation of Variable Interest Entities”, requiring the consolidation by a business of variable interest entities in which it is the primary beneficiary. Management is analyzing the requirements of this new standard and believes that its adoption will not have any significant impact on the Company’s financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Emerging Issues Task Force (“EITF”) reached consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (“EITF 03-1”) which provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. The FASB issued FSP EITF 03-1-1, “Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, ‘The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments’”, which delays the effective date for the measurement and recognition criteria contained in EITF 03-1 until final application guidance is issued. The Company does not expect the adoption of this consensus or FSP to have a material impact on its consolidated financial statements.

The EITF reached a consensus on Issue No. 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings Per Share” (“EITF 04-8”), which addresses when the dilutive effect of contingently convertible debt instruments should be included in diluted earnings (loss) per share. Upon ratification by the Financial Accounting Standards Board, EITF 04-8 will become effective for reporting periods ending after December 15, 2004. The adoption of EITF 04-8 did not have an impact on diluted earnings (loss) per share.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders
MFC Bancorp Ltd.

Our report on the consolidated financial statements of MFC Bancorp Ltd. is included on page 46 of this Form 20-F. In connection with our audits of such financial statements, we have also audited the related financial statement Schedule I of this Form 20-F.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Peterson Sullivan PLLC

Seattle, Washington
March 18, 2005

MFC BANCORP LTD.
SCHEDULE I: CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS

	As at December 31,	
	2004	2003
(Dollars in thousands)		
ASSETS		
Current		
Cash and securities	\$ 253,331	\$ 153,864
Loans	9,816	14,375
Receivables	98,126	50,367
Commodity investments	25,775	10,964
Inventories	11,019	—
Real estate held for sale	42,924	3,380
Contract deposits, prepaid and other	21,819	2,267
Future income tax assets	8,021	—
Total current assets	<u>470,831</u>	<u>235,217</u>
Non-current		
Securities	9,858	36,551
Loans	17,049	2,497
Property, plant and equipment	22,108	62,235
Resource property	35,341	36,044
Goodwill	20,445	16,127
Equity method investments	18,490	15,906
Future income tax assets	9,577	—
Total non-current assets	<u>132,868</u>	<u>169,360</u>
	<u>\$ 603,699</u>	<u>\$ 404,577</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 160,012	\$ 53,705
Notes payable and debt	26,544	5,921
Deposits	46,523	22,185
Provision for warranty costs	11,641	—
Stock distribution payable	—	71,730
Future income tax liability	6,274	387
Total current liabilities	<u>250,994</u>	<u>153,928</u>
Long-term liabilities		
Debt	14,383	27,376
Pension liabilities	36,792	—
Other long-term liabilities	2,799	—
	<u>53,974</u>	<u>27,376</u>
Total liabilities	<u>304,968</u>	<u>181,304</u>
Minority interests	29,310	4,826
Shareholders' equity	<u>269,421</u>	<u>218,447</u>
	<u>\$ 603,699</u>	<u>\$ 404,577</u>

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
Financial services revenue	\$ 498,672	\$ 409,513	\$ 284,339
Industrial and engineering services revenue	199,092	—	—
Expenses			
Financial services	430,945	329,549	175,792
Industrial and engineering services	158,329	—	—
General and administrative	62,632	25,187	35,758
Goodwill impairment	—	—	16,116
Interest	7,443	4,392	9,493
Income taxes recovery (provision)	4,168	(837)	3,497
Minority interest	(5,632)	(432)	78
Net income	<u>\$ 36,951</u>	<u>\$ 49,116</u>	<u>\$ 50,755</u>

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
Net cash provided by operating activities	\$ 60,209	\$ 37,363	\$ 20,847
Net cash (used in) provided by investing activities	14,151	64,930	(19,078)
Net cash (used in) provided by financing activities	308	(48,292)	13,524
Exchange rate effect on cash and cash equivalents	(4,398)	(10,962)	9,954
Net change in cash	70,270	43,039	25,247
Cash and cash equivalents, beginning of year	145,452	102,413	77,166
Cash and cash equivalents, end of year	<u>\$ 215,722</u>	<u>\$ 145,452</u>	<u>\$ 102,413</u>

Item 19 Exhibits*Exhibits Required by Form 20-F*

Exhibit Number	Description
1.1	Articles of Amalgamation.(1)
1.2	By-laws.(1)
1.3	Certificate of Continuance(6)
1.4	Notice of Articles(6)
1.5	Articles**
2.1	Master Trust Indenture between MFC and Norwest Bank Minnesota, National Association, as trustee, dated March 31, 1998.(1)
2.2	Trust Indenture between MFC and Computershare Trust Company of Canada, dated January 7, 2004(7)
4.1	Memorandum of Agreement between MFC and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc. dated November 24, 1987.(2)
4.2	Amendment to Mining Lease between MFC and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc. dated January 1, 1987.(2)
4.3	First Amendment to Memorandum of Agreement between MFC and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc.(2)
4.4	Assignment Agreement between MFC and Prada Holdings Ltd. Dated as of January 1 1992.(1)
4.5	Separation Agreement between Mercer International Inc. and MFC dated for reference March 29, 1996.(1)
4.6	Purchase Agreement between MFC and Volendam Securities C.V. dated for reference May 17, 1996.(1)
4.7	Purchase Agreement between MFC and Volendam Securities C.V. dated for reference May 27, 1996.(1)
4.8	Share Purchase Agreement between MFC and Frederick Wong dated June 6, 1996.(1)
4.9	Subscription Agreement between MFC and Drummond Financial Corporation dated June 20, 1996.(1)
4.10	Share Purchase Agreement between MFC and Med Net International Ltd. Dated June 20, 1996.(1)
4.11	Share Purchase Agreement among MFC and various shareholders of Logan International Corp. dated June 20, 1996.(1)
4.12	Subscription Agreement between Drummond Financial Corporation and Logan International Corp. dated June 20, 1996. Incorporate by reference to Logan International Corp.'s Form 8-K dated June 27, 1996.
4.13	Share Purchase Agreement between Lehman Brothers Bankhats AG and MFC dated October 3, 1996.(1)
4.14	Purchase Agreement between MFC and Robabond Holding AG dated June 27, 1997.(1)
4.15	Share Purchase Agreement between MFC and Procom Holding AG dated September 22, 1997.(1)
4.16	Supplementary Agreement to Share Purchase Agreement between MFC and Procom Holding AG dated September 22, 1997.(1)
4.17	Agreement between MFC and the holders of MFC's Class A Preferred Shares dated December 1, 1996.(1)
4.18	Subscription Agreement between MFC and Logan International Corp. dated December 2, 1996. Incorporated by reference to MFC's Schedule 13D/A (Amendment No. 1) dated December 16, 1996 with respect to Logan International Corp.
4.19	Shareholder Protection Rights Plan Agreement between MFC and Montreal Trust Company of Canada dated as of May 18, 1993.(1)
4.20	Amended 1997 Stock Option Plan of MFC.(1)
4.21	Amended and Restated Employment Agreement between MFC and Michael J. Smith made effective as of November 20, 2000.(1)
4.22	Director's Indemnity Agreement between MFC and Michael J. Smith dated for reference November 20, 2000.(1)
4.23	Indemnity Agreement between MFC and Roy Zanatta dated for reference November 20, 2000.(1)

Exhibit Number	Description
4.24	Investment and Restructuring Agreement among Sutton Park International Limited, Garda Investments Corp., MFC, Glamiox Beteiligungsverwaltungs GmbH, Hovis GmbH, Jurriaan J. Hovis, Johannes Hovis and Ferdinand Steinbauer dated for reference October 1, 2001.(1)
4.25	Owners' Agreement among Garda Investments Corp., Glamiox Beteiligungsverwaltungs GmbH, Jurriaan J. Hovis and Ferdinand Steinbauer dated for reference October 1, 2004.(1)
4.26	Dividend Trust Settlement Agreement between MFC and The Dividend Trust Committee of the Board of Directors of MFC Bancorp Ltd. dated for reference December 21, 2001.(1)
4.27	Share Sale Agreement among Newmont Australia Limited, Newmont LaSource S.A.S., and MFC dated August 7, 2002.(4)
4.28	Royalty Deed among MFC, Newmont Australia Limited and Newmont LaSource S.A.S. dated August 7, 2002.(4)
4.29	Arrangement Agreement between Trimble Resources Corporation Resources Corporation and MFC dated May 17, 2002.(4)
4.30	Stock Purchase Agreement among Occidental (East Shabwa) LLC, Intercap Yemen, Inc. and MFC dated July 23, 2002.(4)
4.31	Share Purchase Agreement between Mazak Ltd. and Trident Alloys Ltd. dated July 24, 2003(5)
4.32	Trust Indenture, dated January 7, 2004, between MFC Bancorp Ltd. and Computershare Trust Company of Canada, as Trustee, for the issuance of 4.4% Convertible Unsecured Subordinated Bonds due December 31, 2009.**
4.33	General Security Agreement made as of October 11, 2004 between Med Net International Ltd., as Debtor, and MFC Bancorp Ltd., MFC Commodities GmbH and Sutton Park International Ltd., as Secured Parties, as security for the present and future indebtedness of the Debtor and as a supplement to the existing demand guarantee.**
4.34	Share Pledge Agreement made as of October 12, 2004 between Med Net International Ltd., as Pledgor, and MFC Bancorp Ltd., MFC Commodities GmbH and Sutton Park International Ltd., as additional security for the Secured Liabilities.**
4.35	General Security Agreement made as of October 12, 2004 between Lasernet Limited, as Debtor, and MFC Bancorp Ltd., MFC Commodities GmbH and Sutton Park International Ltd., as Secured Parties, as security for the present and future indebtedness of the Debtor and as a supplement to the existing demand guarantee.**
4.36	Share Pledge Agreement made as of October 12, 2004 between Lasetnet Limited, as Pledgor, and MFC Bancorp Ltd., MFC Commodities GmbH and Sutton Park International Ltd., as additional security for the Secured Liabilities.**
4.37	Variation Agreement, dated December 22, 2004, between MFC Bancorp Ltd. and Sutton Park International Limited, varying MFC Bancorp's interest obligation to Sutton Park International Limited in respect of the 4.4% Convertible Unsecured Subordinated Bond in the principal amount of €6,786,436, maturing December 31, 2009.**
8.1	Significant subsidiaries of MFC Bancorp Ltd.: Blake International, Inc. MFC Merchant Bank S.A. Sutton Park International Ltd. Trimble Resources Corporation 32565 Yukon Inc. Robabond Holding AG MFC Commodities AG New Image Investment Company Limited Harfree Holdings Limited Constitution Insurance Company of Canada Garda Investments Corp. MFC Financial Services GmbH AWP Aluminium Walzprodukte GmbH MAW Mansfelder Aluminiumwerk GmbH DTA Holding AG CVD Financial Corporation Winford Finance Corp. Alson Enterprises Corp. Mazak Limited Mazak Slovakia s.r.o.

Exhibit Number	Description
	Hovis Commodities Trading GmbH
	MFC Commodities GmbH
	JH Trade & Financial Service GmbH
	IC Management Service GmbH
	Global Bulk Transport GmbH
	MFC Pulp & Paper GmbH
	Danzas Corp.
	HIT International AG
	HIT Paper Trading GmbH
	K-Logistics GmbH
	MFC Industrial Holdings AG
	KHD Humboldt Wedag AG
	Rhine Venture Invest S.A.
	Zementanlagenbau Dessau GmbH
	EKOF Flotation GmbH
	Humboldt Wedag Australia Pty Ltd.
	Humboldt Wedag Inc.
	Humboldt Wedag (S.A.) (Pty) Ltd.
	Humboldt Wedag India Ltd.
	Altmark Industriepark AG
	Swiss Factoring AG
	ZAB Industrietechnik & Service GmbH
	Med Net International Ltd.
	Lasernet Ltd.
	Mednet (Shanghai) Medical Technical Developing Co., Ltd.
	MFC Shanghai Commodities Ltd.
	Lasernet Medical Equipment Industrial (Shenzhen) Co. Ltd.
	Chongqing MFC Medical Management Consulting Co., Ltd.
11.1	Code of Ethics(7)
12.1**	Section 302 Certification under Sarbanes-Oxley Act of 2002 for Michael J. Smith.
13.1**	Section 906 Certification under Sarbanes-Oxley Act of 2002 for Michael J. Smith

** Filed herewith.

- (1) Incorporated by reference to our Form 20-F's filed in prior years.
- (2) Incorporated by reference to our Form 10-K for the year ended December 31, 1989.
- (3) Incorporated by reference to our Schedule 13D dated June 27, 1996 with respect to Logan International Corp.
- (4) Incorporated by reference to our Form 20-F filed with the Securities and Exchange Commission on April 28, 2003.
- (5) Incorporated by reference to our Form 6-K filed with the Securities and Exchange Commission on August 7, 2003.
- (6) Incorporated by reference to our Form 6-K filed with the Securities and Exchange Commission on November 23, 2004.
- (7) Incorporated by reference to our Form 20-F filed with the Securities and Exchange Commission on April 26, 2004.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

MFC Bancorp Ltd.

Per:

/s/ MICHAEL J. SMITH

Michael J. Smith,
Chief Executive Officer
(Principal Executive, Financial and
Accounting Officer)

Dated: April 6, 2005

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Smith, President, Chief Executive Officer and Secretary of MFC Bancorp Ltd., 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(s) 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)) 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) 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
 - (c) 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(s) 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.

/s/ MICHAEL J. SMITH

Michael J. Smith
President, Chief Executive Officer and Secretary
(Principal Executive Officer and
Principal Financial Officer)

Date: April 6, 2005

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Michael J. Smith, President, Chief Executive Officer and Secretary of MFC Bancorp Ltd., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the annual report on Form 20-F of MFC Bancorp Ltd. for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of MFC Bancorp Ltd.

/s/ MICHAEL J. SMITH

Michael J. Smith
*President, Chief Executive Officer and Secretary
(Principal Executive Officer and
Principal Financial Officer)*

Dated: April 6, 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to MFC Bancorp Ltd. and will be retained by MFC Bancorp Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

End of Filing