MFC BANCORP LTD.

2003 ANNUAL REPORT

CORPORATE PROFILE

MFC Bancorp Ltd. is an international merchant bank with offices in Shanghai, Hong Kong, Vienna and Berlin. Through MFC Merchant Bank S.A., a subsidiary based in Herisau, Switzerland, MFC Bancorp provides customized financial and consulting services to institutions and corporations. MFC Bancorp also invests for its own account by acquiring undervalued assets and restructuring them to realize their full potential, and by facilitating and financing international trade with a focus on commodities and emerging markets. MFC Bancorp invests actively in opportunities where its management, financial and trade expertise can unlock latent value. MFC Bancorp Ltd. common shares trade in the United States on the NASDAQ National Market (symbol: MXBIF) and in Europe on the Frankfurt Stock Exchange (symbol: MFC GR).

Cover: For millennia, the wealth of trade opportunities waiting in China has drawn merchants from Europe to cross the vast, arid lands of central Asia, seeking the fabled East. *(Merchant caravan painted by: Gabriel Alexandre Decamps. Louvre.)*

A MATTER OF OPPORTUNITY

Whether on the trade side or the investment side, successful merchant banking is a matter of recognizing and capitalizing on opportunities, while managing the associated risks.

Merchant bankers cultivate a long-term perspective and a sense of historical context that help them recognize both risks and opportunities. MFC Bancorp recognizes that the early years of the Third Millennium have seen a major, historic shift in world economic patterns: China, after two centuries of relative economic eclipse, is emerging as the major industrial, economic and trading power it was for thousands of years before.

This historic change, which is certain to exceed in importance even the emergence of Japan as the world's #2 economic power in the second half of the 20th century, has created an extraordinary array of merchant banking opportunities in both trade and investment and will create even more and larger ones in the near future. To obtain the maximum benefit from these opportunities, MFC Bancorp considers it vital to understand not only present market conditions in China, but also the full context of her economic and trading history.

FINANCIAL HIGHLIGHTS

Year Ended December 31 *(In Thousands, Except Per Share Amounts)*	*U.S. Dollars*			
	2003	*2002*	*2001*	*2000*
Revenues	$ 316,863	$ 180,006	$ 134,526	$ 104,133
Net income	38,004	32,129	28,437	26,105
Earnings per share				
Basic	2.91	2.48	2.25	2.16
Diluted	2.78	2.35	2.10	2.02
Cash and cash equivalents	112,544	64,835	48,453	45,677
Securities	34,790	39,661	47,598	53,582
Total assets	313,043	282,712	247,796	221,346
Debt	25,764	43,554	61,535	23,611
Shareholders’ equity	169,024*	180,608	154,462	142,070

** after deduction of distribution payable.*

TO OUR SHAREHOLDERS

The year 2003 was a time of transition and growth for MFC Bancorp. Advancing in the strategic direction we took when we entered the trading business two years ago, our company has quickly grown its trading and investment activities in China, South East Asia and Eastern Europe.

In particular, we devoted substantial effort in 2003 to laying the groundwork for our planned expansion in China, opening offices in Hong Kong and Shanghai, and acquiring control of Med Net International Ltd. in 2004, which operates a number of high-tech eye-care centers in China. Med Net International is experienced in dealing with China's government and regulatory systems and has built a valuable pool of expertise in navigating the new, more business-friendly economic environment that has emerged there over the last decade.

In 2004, we also acquired KHD Humboldt Wedag AG, a leading German-based supplier of equipment and engineering services in the area of coal, cement and mineral processing technologies. We believe this company is well placed to increase our commodity trading and finance business in China, India and other emerging markets. With more than 140 years of experience in mechanical plan and process engineering, KHD Humboldt provides concept, design and detail engineering and equipment fabrication for complete plants as well as plant sections, including modernization and capacity enhancement, automation and process control equipment. KHD Humboldt's services also include feasibility studies, raw materials testing, financing, concepts, erection and commissioning, personnel training, and pre- and after-sales services.

KHD Humboldt employs 650 people around the world, including 400 in Koln, Germany who deal with corporate administration, design and detail engineering, research and development and manufacturing. Major subsidiaries include Humboldt Wedag India where 170 staff focus on coal beneficiation projects and cement technology services for domestic and international clients. In the USA, Humboldt Wedag Inc.'s Atlanta staff of over 45 design and commissioning specialists provide services to clients in the Americas and the Caribbean. The company also has full-service subsidiaries in South Africa and Australia, complemented by sales offices in Russia, China and the Middle East. The China office has been active for over 20 years, and is now being converted to a full operating company in response to the expanding cement, coal and minerals markets there. The company is also planning to capitalize on China's low-cost manufacturing environment to enhance its competitiveness on international projects.

In addition, KHD Humboldt's end products, whether in the cement, coal or minerals processing fields, normally represents a major capital expenditure for its clients, typically producers of a commodities like clinker, cement, cleaned coal, or minerals such as copper, gold, or diamonds. Consequently, KHD Humboldt's clients are potential clients for other members of the MFC Bancorp group of companies, which can provide them with equity, financing, off-take agreements, and other merchant banking services. These associated services available through the MFC Bancorp group will further differentiate KHD Humboldt from its competitors, enhancing its competitiveness and success rate. Finally, KHD Humboldt's knowledge base expands MFC Bancorp's field of potential equity investments, either for its own account or on behalf of clients, to include coal washeries, recovery of waste pile resources, and other investments associated with minerals processing.

While the major new developments of 2003 centered around our expanding trade business and the potentials inherent in our acquisition of KHD Humboldt, MFC Bancorp's established merchant banking business has continued profitably to provide specialized banking and corporate finance services and to advise clients on corporate strategy and structure, including mergers and acquisitions. Our merchant banking activities also include a growing amount of proprietary trading in commodities and natural resources, and proprietary investing of our own capital to realize long-term or trading gains.

We seek to invest in businesses or assets whose intrinsic value is not accurately reflected in their share prices or current value, often as a result of financial, legal or other distress. Our proprietary investing is generally not passive: we seek investments where our financial expertise and management can add or unlock value. Our cobalt refinery assets in Uganda and Canada will be distributed to MFC Bancorp shareholders. The price of cobalt rose substantially in late 2003, and we agreed to sell forward half of the Ugandan operation's 2004 production.

We believe that our strong liquidity position and under-leveraged balance sheet will help us make 2004 a year of increasing opportunities for our company, particularly in the growing markets of China and Asia.

On Behalf of the Board,

Michael J. Smith,

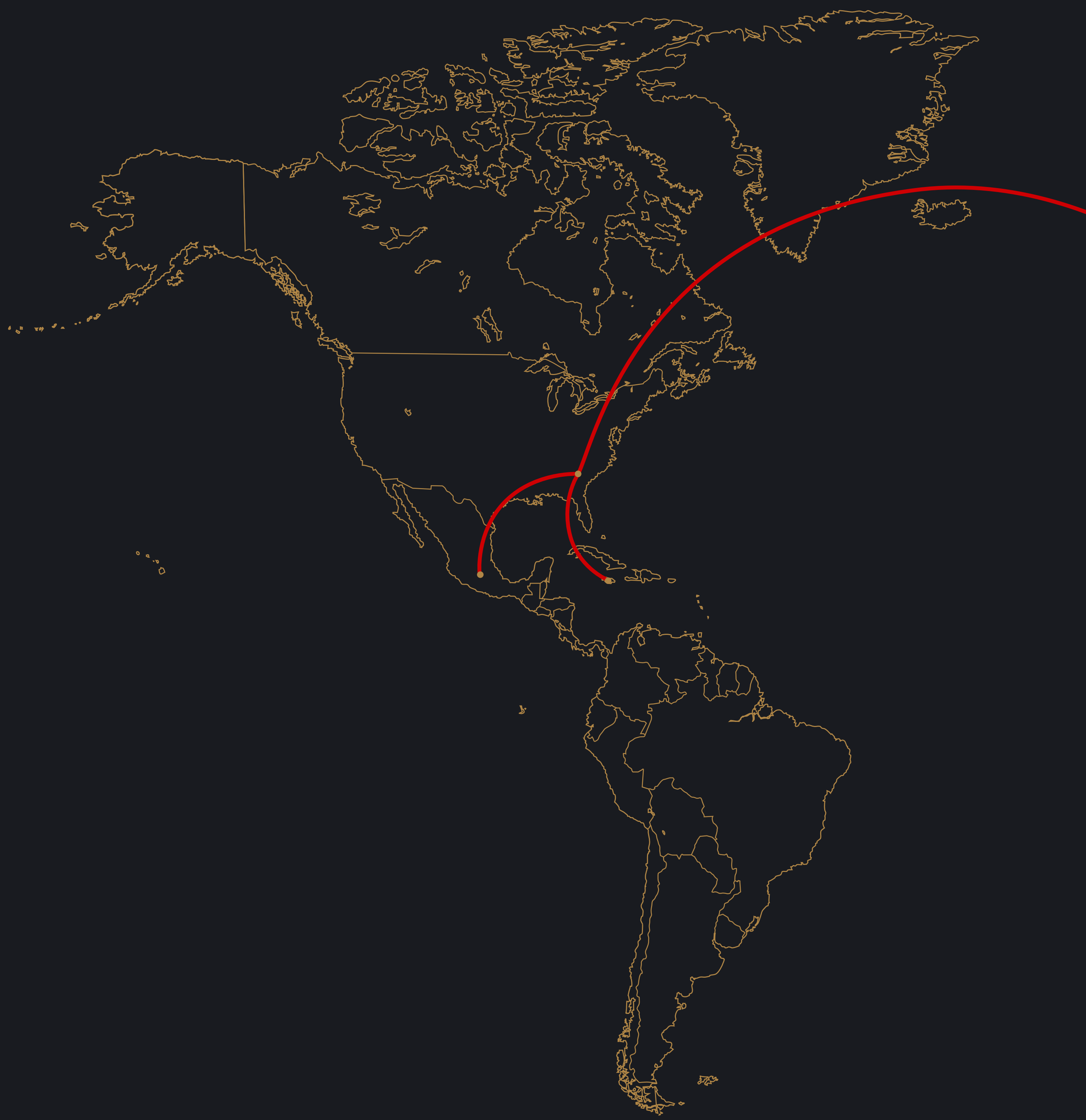
President

Silk was widely accepted as currency during the Han Dynasty (206 BCE-220 CE) through to the Tang Dynasty (618-907 CE).

From early times, merchant bankers have played a critical role in financing China's external trade. The first of these merchant bankers were like venture capitalists: wealthy individuals and families who lent their own funds or bought equity positions to finance ship-borne trade between China and ports in East and Southeast Asia, as well as overland trade with Europe and South Asia along the Silk Road. In many cases these merchant bankers were specialized moneychangers who also engaged in exchange and bullion banking, charging fees or commissions to trade bullion and exchange the various currencies that typically circulated in and around China, and capitalizing on currency arbitrage opportunities.

The primitive state of transportation meant that before modern times, China was geographically isolated from her trading partners by barriers of mountains, deserts and seas. The consequent risk, difficulty, and long duration of trading expeditions meant that only compact, high-value items were worth trading - typically luxury goods such as silks, gemstones, pearls, spices, artworks and porcelain.

But another important factor drove the Silk Road trade between China and Europe: bullion arbitrage. Because silver was relatively more abundant than gold in Europe, the silver:gold exchange rate always favored gold in Europe (10-12 weight of silver to 1 weight of gold), but silver in China (6-8 to 1). Whatever the profitability of their other goods, traders could always rely on a substantial profit from buying silver for gold in Europe and selling it for gold in China. Merchants and merchant bankers in both China and Europe were well aware of this permanent arbitrage opportunity, and invested substantial resources in trade infrastructure to exploit it.



REPORT ON OPERATIONS

MFC Bancorp Develops a Global Reach

In the past year, MFC Bancorp has developed a rapidly growing business facilitating, arranging and financing international trade, especially in commodities and commodity-related products and services. Since acquiring a trading company in 2001, MFC Bancorp has refocused its proprietary investing, rationalizing assets and expanding the trade side of its merchant banking business.

China, which by itself now accounts for half of world economic growth, is the strategic focus of the company's expanded commodity trading business: MFC Bancorp considers China and India to be the future of global growth in manufacturing for at least the next decade. These countries will therefore also be the engines of growth in the global trade in commodities, as they will need large quantities of commodities to support their expanding manufacturing sectors, as well as their large and growing investments in construction and infrastructure.

Synergies Between Companies Make MFC Work

To facilitate its planned expansion in Asia, in 2003, MFC Bancorp established its principal regional office in Hong Kong, and another office in Shanghai specifically to serve the Chinese market. The company is pursuing synergies through acquisition of existing companies with operational experience and business networks in China. In 2004, MFC Bancorp acquired Med Net International, which operates a number of technically-advanced eye-care centers in China. China still needs to import large amounts of technology and expertise, but experience and a proven track record in China are crucial to success there. Med Net International has built an extensive pool of management expertise and a respected presence in China, and plans to open three new technically-advanced eye-care centers there this year.

Applying Technologies for Maximum Effectiveness

Europe is known as a world research and technology leader, with a global reputation for quality in design and manufacturing. MFC Bancorp plans to take European technology and apply it in China, where production is more cost effective: manufacturing costs can be substantially lower in China than in Europe. MFC Bancorp's

A persistent opportunity for silver-gold bullion arbitrage between Europe and China made East-West trade less risky and more profitable throughout the Silk Road era (200 BCE-1400 CE).

From Bullion to Paper. Over time, Chinese merchant bankers' trade financing activities expanded to embrace more of the functions of a modern bank: they began to accept deposits from more distantly related family members, trusted friends, and government officials for reinvestment in both trade and industrial enterprises. Remittance banks arose, and soon after, Chinese bankers invented checking, checkable deposits, and their natural descendant, paper currency. Among the many wonders described by Marco Polo on his return from China, check-based banking transactions and paper currency had perhaps the greatest long-term impact on Europe.

However, the development of true banking in China was hampered for many centuries by the lack of a suitable unit of account. Different currencies circulated in different parts of the country, and official currency issues rarely held their value for long, as both the legitimate issuing authorities and counterfeiters were anxious to capture as much seigniorage (the difference between money's face value and its minting cost) as possible. Analysis of coin hoards has shown that despite draconian penalties for counterfeiting - of which capital punishment was not the most severe - for a significant part of China's history most of the money in general circulation was counterfeit. Inflation caused by both counterfeiting and excessive official issues was both chronic and rampant, and only worsened after paper money was introduced.

Even the use of gold and silver bullion for larger transactions did not protect China's banking system for long. When the USA tried to relieve its deflation of the 1930s by implementing silver price supports, an unintended consequence was to revalue China's silver-based currency upward, draining money from the economy. It was the reverse side of the old bullion arbitrage, but this time the effect was to deflate China's currency in circulation, provoking a banking and credit crisis, a deep economic contraction, and social disruptions that weakened the country still further.

broad strategy is to acquire or work with manufacters that are not competitive when manufacturing in other countries and bring them to China, where they can be competitive because of the country's lower cost structure.

In 2003, MFC Bancorp recognized and acted on a specific opportunity to implement this strategy, acquiring Mazak Ltd., a producer of zinc alloys and pigments in England. Mazak's products are not cost-competitive in China. Mazak is planning to manufacture selected zinc products there to reduce costs and become competitive. Mazak opened a new operating plant in Slovakia on a similar basis, for similar reasons. MFC Bancorp is currently investigating other opportunities to acquire other European technologies and apply them in China. Numerous European companies that have developed advanced manufacturing technologies are looking for ways to enter, and succeed in, the Chinese market, both by selling their Chinese-manufactured products in China and by exporting them to their home markets.

In Chinese culture, jade symbolizes nobility, perfection, constancy, and immortality. It is considered the most valuable of all precious stones.

Groundwork Laid for Rapid Growth. From the time of the Opium War and the Taiping Rebellion in the mid-19th century, China entered a long period of virtually constant political turmoil and wars, both civil and international, that disrupted trade relations, repeatedly destroyed banking institutions and the financial system, devastated the economy and, by the end of WW II, had reduced the country to a condition of poverty and weakness relative to the rest of the world such as it had never previously known.

China's progress since that time, and especially since 1980, has been remarkable. The groundwork for her current rapid economic development – first establishing peace, order and stability, then making public investments in infrastructure and education – is now paying enormous dividends in the form of double-digit growth. Though less dramatic than the collapse of the Soviet Union, the emergence of China as an industrial power and major trading nation in the 1980s and 90s may, in the longer term, be a more significant change in the global community.

FINANCIAL RESULTS FOR 2003

Exchange rate fluctuations have been a major concern for all international companies in 2003 and 2004, and have affected MFC Bancorp's reported results in complex ways. The company's expenses are typically in Euros, Canadian dollars and Swiss francs, while the majority of its income is denominated in US dollars and Euros. The reporting currency is Canadian dollars. Based on the year average exchange rates in 2003, the Canadian dollar decreased by 2.9% in value against the Swiss franc and 6.2% against the Euro, but increased 12.1% against the US dollar, compared to the year average exchange rates in 2002. Comparing end-of-year exchange rates, the Canadian dollar had increased by approximately 9.4% in value against the Swiss franc, 1.7% against the Euro, and 22.2% against the US dollar to the end of 2003, compared to the end of 2002. As a result, Canadian dollar entries in the company's financial data that use the exchange rate as at the end of the year may seem low relative to entries that use the average exchange rate through the year. For the convenience of readers, the following financial results are stated in US dollars.

Primarily as a result of increased trading and acquisition activity, revenues for 2003 increased by 76%, to US$316.9 million, up $136.9 million from $180.0 million in the previous year. Net income for 2003 rose by $5.9 million or 18% to $38.0 million, equivalent to $2.78 per share on a diluted basis, compared to $32.1 million, or $2.35 per share on a diluted basis in 2002.

The company's total assets increased by $30.3 million, or 10.7%, to $313.0 million in 2003, up from $282.7 million in 2002. In the same period, the company reduced its debt from $43.6 million to $25.8 million, a decline of $17.8 million or 40.8%. During the first quarter of 2004, MFC Bancorp called for the redemption of $12.6 million of the company's 8% convertible bonds due 2008. The majority of these bonds were converted into shares.

Because of the distribution to shareholders of $55.5 million related to the company's cobalt refinery assets, shareholder equity declined over the period by $11.6 million, or 6.4%, from $180.6 million at year-end 2002 to $169.0 million at year-end 2003.

This bronze bull head dates from the Eastern Zhou Dynasty (4th-3rd century BCE). Then as now, China experienced a period of rapid economic growth and flourishing trade.

New Era in Chinese Merchant Banking. The program of modernization and economic and financial reforms initiated by Deng Xiao-Ping in the 1980s has been extraordinarily effective in liberating the pent-up productive energies of the Chinese people. Far from its former small trade in luxury items, China now imports large volumes of raw materials and exports them as high-value-added manufactured goods. Much of this trade requires sophisticated merchant banking services, and while China now has a substantial corps of professional bankers with training and experience in Hong Kong, the USA, Europe and elsewhere, her need for global banking expertise will far outstrip the supply for the foreseeable future.

The ongoing evolution of Chinese banking law and the country's rapid economic development have accordingly opened vast opportunities for foreign merchant banks. Chinese public banks are still exploring the possibilities for commercial relationships with foreign private banks, which have recently been allowed to acquire equity positions in Chinese banks, as Chinese banks have done with their foreign counterparts. The 21st century will no doubt see a continuing expansion of opportunities for skilled international merchant bankers in China.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations for the three years ended December 31, 2003 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 20 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.

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 European 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.

The international and integrated nature and focus of our business has resulted in no income tax expense in 2002 and 2001. In 2003, our effective consolidated tax rate was approximately 1.7%.

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, 2003 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Based upon the period 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 period 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			
(Canadian Dollars in thousands, other than per share amounts)	*December 31*	*September 30*	*June 30*	*March 31*
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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

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 increased 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.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO THE YEAR ENDED DECEMBER 31, 2001

The following table provides selected quarterly financial information for 2002 for MFC:

	2002			
(Canadian Dollars in thousands, other than per share amounts)	*December 31*	*September 30*	*June 30*	*March 31*
Revenues	$ 124,574	$ 52,169	$ 53,364	$ 54,232
Expenses	98,927	49,153	44,890	44,189
Net income	28,864	1,854	10,049	9,988
Diluted earnings per share	2.10	0.14	0.72	0.72
Total assets	446,574	494,179	434,487	396,225
Shareholders' equity	285,290	252,907	244,368	250,969

In 2002, our revenues increased by 32.7% to $284.3 million from $214.2 million in 2001, primarily as a result of the inclusion of the results of our trading operations for the full year in 2002, instead of only three months in 2001. In 2002, 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 European countries into the European Union will result in increased competition and put downward pressure on operating margins.

In 2002, expenses increased by approximately 39.3% to $237.2 million from $170.2 million in 2001, primarily as result of the expansion of our trading operations in 2002. In 2002, financial services expenses increased by approximately 22.9% to $175.8 million from $143.1 million in 2001. General and administrative expenses increased to $35.8 million in 2002 from $21.8 million in 2001 The increases in financial services and general and administrative expenses related primarily to the inclusion of the results of our trading operations for the full year in 2002 versus only three months in 2001.

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. There was no similar charge in 2001. In 2002, we recognized a $19.7 million gain on indebtedness of a subsidiary and a $49.1 million gain on debt extinguishment. In 2001, we recognized a $22.4 million gain on indebtedness of a subsidiary. In 2002, interest expense increased to approximately $9.5 million from approximately $5.4 million in 2001, primarily as a result of the inclusion of the consolidated indebtedness of Banff Resources Ltd., in which we acquired an approximately 85% interest in August 2002.

In 2002, we recorded a recovery of income tax of $3.5 million as result of the reversal of a tax accrual due to the sale of an indirect oil royalty interest during the year. In 2001, we had an income tax recovery of $0.8 million.

In 2002, our net earnings increased to $50.8 million, or $3.93 per share on a basic basis ($3.70 per share on a diluted basis), from $45.3 million, or $3.59 per share on a basic basis ($3.35 per share on a diluted basis), in 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

In Thousands	*U.S. Dollars (for information)*		*Canadian Dollars*	
December 31	*2003*	*2002*	*2003*	*2002*
Cash and cash equivalents	$ 112,544	$ 64,835	$ 145,452	$ 102,413
Securities	34,790	39,661	44,963	62,649
Total assets	313,043	282,712	404,577	446,574
Debt	25,764	43,554	33,297	68,798
Shareholders’ equity	169,024*	180,608	218,447*	285,290

** after deduction of distribution payable of $71.7 million (U.S. $55.5 million)*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

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, 2003, our cash and cash equivalents were $145.5 million, compared to $102.4 million at December 31, 2002. At December 31, 2003, we had securities of $45.0 million, compared to $62.6 million at December 31, 2002.

At December 31, 2003, our debt was $33.3 million, compared to $68.8 million at December 31, 2002.

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, 2003, we had approximately 14 separate credit lines and facilities used for commodities and natural resources trading aggregating approximately €74.6 million, none 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.

We have debt maturities of $5.9 million in 2004 and $4.4 million in 2005. We expect such maturing debt to be satisfied primarily through the settlement of underlying commodities and natural resource trading transactions, 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 Note 10 to our consolidated financial statements included in this annual report.

Subsequent to the year ended December 31, 2003, we exercised our right of redemption to redeem all of the 8% Convertible Subordinated Bonds issued in March, 1998. We paid a total of US$0.7 million to the bondholders for redemption. The balance of the bonds were converted into our common shares.

OPERATING ACTIVITIES

In 2003, changes in securities provided cash of $7.0 million compared to $12.2 million in 2002. A decrease in receivables provided cash of $9.5 million in 2003, compared to $1.6 million in 2002. Of which, a decrease in commodity receivables provided cash of $14.1 million in 2003, compared to an increase in the same using cash of $7.7 million in 2002. A decrease in commodity investments provided cash of $1.1 million in 2003, compared to $6.0 million used in 2002. A decrease in properties held for sale provided cash of $1.1 million in 2003, compared to $13.5 million in 2002. A decrease in accounts payable and accrued expenses used cash of $2.6 million in 2003, compared to an increase in same providing cash of $3.8 million in 2002. Operating activities provided cash of $37.4 million in 2003, compared to $20.8 million in 2002. We expect to generate sufficient cash flow from operations to meet our working capital and other requirements.

INVESTING ACTIVITIES

In 2003, a net decrease in loans provided cash of $52.4 million, compared to a net increase in loans used cash of $4.8 million in 2002. The net sale of long-term securities provided cash of $4.8 million in 2003, compared to net purchase of long-term securities using cash of $5.4 million in 2002. In 2003, purchases of subsidiaries, net of cash acquired, used cash of $0.8 million, compared to $35.0 million in 2002. Investing activities provided cash of $64.9 million in 2003, compared to cash of $19.1 million used in 2002.

FINANCING ACTIVITIES

Net debt repayments used cash of $25.1 million in 2003, compared to $13.3 million in 2002. In 2003, a net decrease in deposits used cash of $13.5 million, compared to a net increase in deposits providing cash of $33.9 million in 2002. The net repurchase of common shares in 2003 used cash of $9.7 million, compared to cash of $7.0 million in 2002. Net cash used in financing activities was $48.3 million in 2003, compared to net cash provided by financing activities of $13.5 million in 2002.

We had no material commitments to acquire assets or operating businesses at December 31, 2003. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

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 Euro, our financial position for any given period, when reported in Canadian dollars, can be significantly affected by the exchange rates for Swiss francs and Euro prevailing during that period. In the year ended December 31, 2003, we reported approximately a net $35.9 million foreign exchange translation loss and, as a result, our cumulative foreign exchange translation loss at December 31, 2003 was $17.1 million, compared to a $18.7 million gain at December 31, 2002.

Based upon the period 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 and by approximately 12.1% in value against the U.S. dollar, compared to the period average exchange rates in 2002. As at December 31, 2003, the Canadian dollar increased by approximately 9.1% in value against the Swiss franc, 1.7% against the Euro and by approximately 22.2% against the U.S. dollar since December 31, 2002.

We use derivative foreign exchange contracts to manage our exposure and our clients' exposure to foreign currency exchange rate risks. At December 31, 2003 and 2002, we did not hold any forward foreign exchange contracts for our own account.

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.

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.

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.

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.

CONTRACTUAL OBLIGATIONS

Contractual Obligations *Payments Due by Period (in thousands)*	*Less than* *1 Year*	*2 – 3* *Years*	*4 – 5* *Years*	*More than* *5 Years*
Long-Term Debt Obligations	$ 5,921	$ 11,036	$ 16,340(1)	$ —
Capital Lease Obligations	67	35	—	—
Operating Lease Obligations	1,570	2,609	2,207	3,865
Purchase Obligations	32,499(2)	—	—	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—
Total	$ 40,057	$ 13,680	$ 18,547	$ 3,865

(1) Subsequent to the year ended December 31, 2003, the convertible debentures of $16.3 million were called for redemption, the majority of which were converted into common shares of our company. Approximately $0.9 million was redeemed in cash.

(2) Consisting of $26.3 million for commodities trading and $6.2 million for alloys and pigments business.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
MFC Bancorp Ltd.

We have audited the accompanying consolidated balance sheets of MFC Bancorp Ltd. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 2003, 2002 and 2001. 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 auditing standards generally accepted in the United States and Canada. 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, 2003 and 2002, and the results of their operations and their cash flows for the years ended December 31, 2003, 2002 and 2001, in conformity with accounting principles generally accepted in Canada, which differ from accounting principles generally accepted in the United States as described in Note 20 to the consolidated financial statements.

PETERSON SULLIVAN P.L.L.C.

Seattle, Washington
April 2, 2004

(Canadian Dollars, In Thousands) *December 31,*	*2003*	*2002*
ASSETS		
Cash and cash equivalents	$ 145,452	$ 102,413
Securities	44,963	62,649
Loans	16,872	77,879
Receivables	50,367	53,955
Commodity investments	10,964	13,172
Properties	62,235	72,228
Resource property	36,044	36,747
Goodwill	16,127	16,412
Equity method investments	15,906	7,917
Prepaid and other	5,647	3,202
	$ 404,577	$ 446,574

(Canadian Dollars, In Thousands) December 31,	2003	2002
LIABILITIES		
Accounts payable and accrued expenses	$ 54,092	$ 47,537
Debt	33,297	68,798
Deposits	22,185	39,198
Distribution payable	71,730	—
Total liabilities	181,304	155,533
Minority interests	4,826	5,751
SHAREHOLDERS' EQUITY		
Common stock, without par value;		
authorized unlimited number	61,891	70,269
Cumulative translation adjustment	(17,118)	18,733
Retained earnings	173,674	196,288
Total shareholders' equity	218,447	285,290
	$ 404,577	$ 446,574

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

CONSOLIDATED STATEMENTS OF INCOME

(Canadian Dollars, In Thousands, Except Earnings Per Share) *For the Years Ended December 31,*	*2003*	*2002*	*2001*
FINANCIAL SERVICES REVENUE	$ 409,513	$ 284,339	$ 214,246
EXPENSES			
Financial services	329,549	175,792	143,071
General and administrative	25,187	35,758	21,793
Goodwill impairment	—	16,116	—
Interest	4,392	9,493	5,369
	359,128	237,159	170,233
Income from operations before income taxes and minority interests	50,385	47,180	44,013
Recovery of (provision for) income taxes	(837)	3,497	772
Income from operations before minority interests	49,548	50,677	44,785
Minority interests	(432)	78	503
Net income	$ 49,116	$ 50,755	$ 45,288
EARNINGS PER SHARE			
Basic	$ 3.76	$ 3.93	$ 3.59
Diluted	$ 3.59	$ 3.70	$ 3.35

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian Dollars, in Thousands) For the Years Ended December 31, 2003, 2002 and 2001	Common Stock Number of Shares	Common Stock Amount	Retained Earnings	Cumulative Translation Adjustment	Total
BALANCE AT DECEMBER 31, 2000	12,088,156	$ 65,138	$148,767	$ (771)	$213,134
Net income	—	—	45,288	—	45,288
Shares issued for exercise of stock options	1,089,000	11,535	—	—	11,535
Translation adjustment	—	—	—	5,223	5,223
Dividend in equity securities, at carrying value	—	—	(29,183)	—	(29,183)
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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian Dollars, In Thousands) *For the Years Ended December 31*	*2003*	*2002*	*2001*
Cash flows from operating activities			
Net income	$ 49,116	$ 50,755	$ 45,288
Adjustments for:			
Goodwill impairment	—	16,116	—
Gain on debt reduction	—	(19,746)	(22,409)
Amortization and depreciation	1,487	1,528	2,049
Minority interests	432	(78)	(503)
Dividend from equity method investee	—	—	1,021
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			
Securities	7,021	12,179	1,836
Receivables	9,459	1,621	48,315
Commodity investments	1,080	(6,026)	—
Properties held for sale	1,064	13,487	(406)
Accounts payable and accrued expenses	(2,617)	3,767	(8,466)
Future income tax liability	—	(4,604)	(1,417)
Other	(6,016)	970	(777)
Cash flows from operating activities	37,363	20,847	64,531
Cash flows from investing activities			
Net decrease (increase) in loans	52,438	(4,778)	25,099
Sales (purchases) of long-term securities, net	4,788	(5,441)	(4,816)
Sale of equity method investment	—	25,915	—
Purchases of subsidiaries, net of cash acquired	(755)	(34,978)	(1,018)
Proceeds from sale of assets	10,634	—	—
Other	(2,175)	204	(425)
Cash flows from investing activities	64,930	(19,078)	18,840
Cash flows from financing activities			
Net increase (decrease) in deposits	(13,516)	33,894	(62,385)
Borrowings	6,649	38,660	12,310
Debt repayments	(31,722)	(52,005)	(37,562)
Issuance (repurchase) of common stock, net	(9,672)	(7,025)	11,535
Other	(31)	—	—
Cash flows from financing activities	(48,292)	13,524	(76,102)
Exchange rate effect on cash and cash equivalents	(10,962)	9,954	1,373
Increase in cash and cash equivalents	43,039	25,247	8,642
Cash and cash equivalents, beginning of year	102,413	77,166	68,524
Cash and cash equivalents, end of year	$ 145,452	$ 102,413	$ 77,166

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. Revenues from these activities 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. The Company is managed as a unit and is treated as a single and integrated business segment.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Investments in entities where the Company owns at least a 20% voting interest, but does not have control, are accounted for under the equity method. The amount of earnings from equity investees was not material. All significant intercompany accounts and transactions have been eliminated.

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. The Company expects to distribute the shares in 2004 when certain regulatory requirements are met. Both entities are involved in natural resources production.

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 other financial institutions in excess of insured limits. Interest paid on a cash basis was $4,001, $7,188, and $4,667 for the years ended December 31, 2003, 2002 and 2001, respectively. Income tax amounts paid were not material.

Nonmonetary transactions in 2003 include receipt of debentures for financial advisory services in the amount of $6,089, valued based on the fair value of the debentures received, and the reduction of a mining tax liability on resource property of $1,943.

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 held by the other subsidiaries are carried at the lower of aggregate cost or quoted market value.

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 unrealized loss is included in the results of operations.

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

LOANS AND RECEIVABLES

Loans are stated 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.

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, 2003 and 2002, 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. 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 and to take trading positions. These derivatives are marked to market with any unrealized gains or losses recognized immediately in income.

The Company held one interest rate swap derivative financial instrument with a notional amount of $13,309 at December 31, 2003, with the purpose of managing the interest rate fluctuation of its debt. The Company recognized a fair value loss on this derivative of $79 in 2003.

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.

At December 31, 2001, the Company held foreign currency exchange contracts amounting to $24,655 in notional amount which were settled in 2002 for a realized gain of $129. During 2001, the Company recorded a loss from a change in the fair value of these contracts amounting to $1,070.

COMMODITY INVESTMENTS

Commodity investments consist of basic materials held for sale. These investments are stated at the lower of cost (specific identification) or market.

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.

PROPERTIES AND DEPRECIATION

Properties are carried at cost, net of applicable accumulated depreciation, 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 property in the same geographic region. No such losses have been recorded in these consolidated financial statements.

Properties, other than those used in the production of owned natural resources, are depreciated using the straight-line method over the estimated useful lives of the assets. Properties used in owned natural resources production are depreciated using the units-of-production method. Units-of-production rates are based on estimated production from existing facilities using current operating methods.

Depreciation expense of properties amounting to $1,487 in 2003, $1,528 in 2002, and $1,099 in 2001 is included in general and administrative expenses. Repairs and maintenance are charged to expense as incurred.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted the new Canadian accounting standard for goodwill and other intangible assets for periods beginning January 1, 2002. 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 assets with indefinite and finite lives. Under this standard, goodwill and other intangible assets with indefinite useful lives are not amortized but are subject to fair value impairment tests, on at least an annual basis (as required in prior periods these assets were amortized over their estimated useful lives). 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.

Intangibles with a finite life are amortized over their estimated useful life and also are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Other intangible assets are considered impaired and written down to their net recoverable amount when their net carrying value exceeds their estimated future net cash flows. Any impairment of goodwill or other intangible assets is charged to income in the period in which the impairment is determined.

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 sheet. The translation adjustments did 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 amounting to $8,348, $453, and $2,342 in 2003, 2002 and 2001, 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

The Company follows the intrinsic value based method of accounting for compensation resulting from the granting of stock options to employees. No compensation expense has been recognized in these consolidated financial statements for the granting of options to employees because the exercise price of the options approximated the market price for the common shares at the grant date. Shares of stock issued to employees are expensed as compensation in the year the shares are issued based on fair value at the date of issuance. 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.

The following table illustrates the effect on net income and earnings per share if compensation expense had been recognized on the basis of fair value of employee stock options granted.

	2003	2002	2001
NET INCOME			
As reported	$ 49,116	$ 50,755	$ 45,288
Deduct: Total stock option compensation expense determined under fair value based methods, net of any related tax effects	—	—	217
Proforma net income – basic	49,116	50,755	45,071
Dilution adjustment from Note 12	1,599	1,735	1,634
Proforma net income – diluted	$ 50,715	$ 52,490	$ 46,705
BASIC EARNINGS PER SHARE			
As reported	$ 3.76	$ 3.93	$ 3.59
Proforma	$ 3.76	$ 3.93	$ 3.57
DILUTED EARNINGS PER SHARE			
As reported	$ 3.59	$ 3.70	$ 3.35
Proforma	$ 3.59	$ 3.70	$ 3.34

There were no stock options granted during 2003, 2002 or 2001. Proforma stock option compensation expense in 2001 related to the amortization of compensation expense on options granted in 2000.

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 period. 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 period.

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, other than temporary impairments of investment securities, and valuation of commodity investments, properties, intangible assets and provision for income taxes among other items. Therefore, actual results could differ from those estimates.

NEW CANADIAN ACCOUNTING STANDARDS

A standard which will require the Company to document hedging relationships and explicitly demonstrate that they are sufficiently effective in order to use accrual accounting for positions hedged with derivatives. Otherwise, the derivative instrument will be marked-to-market through the current year's statement of income. This standard is applicable for years beginning on or after July 1, 2003. The effect on the Company's consolidated financial statements is not yet determinable.

Related standards will apply with respect to impairment or disposal of long-lived assets (effective for years beginning on or after April 1, 2003) and disposal of long-lived assets and discontinued operations (effective for years beginning on or after May 1, 2003), and impaired loans (effective for years beginning on or after May 1, 2003). Generally, these standards give guidance on write-downs and disposals of long-lived assets. Also, the definition of discontinued operations is broadened. The effect on the Company's consolidated financial statements is not yet determinable.

A standard which will require consolidation of investments that are subject to control on a basis other than ownership of voting interests, such as financial support or participation in profits or losses, or net asset changes. Such investments are called variable interest entities. This guideline is applicable for years beginning on or after January 1, 2004. The effect on the Company's consolidated financial statements is not yet determinable.

A standard which will apply to the recognition, measurement, and disclosure of asset retirement obligation and costs. This standard is effective for years beginning on or after January 1, 2004. The effect on the Company's consolidated financial statements is not yet determinable.

A new standard will require the use of a fair-value-based method for certain stock-based compensation arrangements with employees and others. This standard is effective for years beginning on or after January 1, 2004, however, earlier application is encouraged. Since the Company did not grant options in either 2003 or 2002, the adoption of this standard in 2004 will have no effect on these consolidated financial statements.

NOTE 2. ACQUISITION

In July 2003, the Company acquired an 80% interest in the outstanding common shares of Alson Enterprises Corporation ("Alson"), a British Virgin Island corporation. The results of Alson's operations have been included in these consolidated financial statements since the acquisition date. Alson is involved in the manufacture of zinc alloys and pigments primarily in the United Kingdom and Slovakia. The acquisition is consistent with the Company's business of proprietary investing. The aggregate purchase price was $785 and paid in cash. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition:

Current assets	$ 14,846
Property and equipment	2,131
Total assets acquired	16,977
Current liabilities	16,079
Minority interest	113
Total liabilities assumed	16,192
Net assets acquired	$ 785

Unaudited proforma information was not available regarding this acquisition because the assets and liabilities were acquired from a venture capital division of a United Kingdom bank and full and complete financial information was not provided by the bank.

NOTE 3. GOODWILL

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

	2003	2002
Balance at beginning of year	$ 16,412	$ 28,066
Acquisitions	—	3,708
Reductions due to purchase price adjustments	—	(695)
Exchange rate effect	(285)	1,449
	16,127	32,528
Impairment	—	(16,116)
Balance at end of year	$ 16,127	$ 16,412

Goodwill amortization expense amounted to $950 during the year ended December 31, 2001. Had goodwill not been amortized in 2001, net income would have been $46,238; basic earnings per share would have increased by $.08; and diluted earnings per share would have increased by $.07.

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, 2003, and an impairment of $16,116 was necessary at December 31, 2002. The Company has no other intangible assets.

NOTE 4. SECURITIES

At December 31, 2003, the Company had no bank trading account securities. At December 31, 2002, bank trading account securities consisted of debt securities of $26,544 and common shares of $5,585. The change in market value of bank trading account securities amounted to $1,245 and $12,567 for the years ended December 31, 2002 and 2001, respectively, and has been included in results of operations.

Short-term securities consisted of debt securities of $580 and $1,906, preferred shares of $1,096 and $1,878 and common shares of $6,736 and $10,328 at December 31, 2003 and 2002, respectively. Holding gains (losses) of $12, $415, and $(3,868) were included in the results of operations for years ended December 31, 2003, 2002 and 2001, respectively.

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

	Unrealized Gains and Losses							
	2003				2002			
	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	$ 789	$ 98	$ —	$ 887
Preferred shares	299	—	—	299	299	—	—	299
Common shares	17,023	—	3,342	13,681	15,320	197	—	15,517
	$36,551	$ —	$ 3,342	$33,209	$16,408	$ 295	$ —	$ 16,703

At December 31, 2002, bank trading account and short-term securities included common shares in an affiliate with a carrying value of $7,048. Also, at December 31, 2003 and 2002, the Company had long-term investments in the common shares of six and two affiliates with a carrying value of $13,460 and $11,565, respectively.

The maturity of securities is as follows at December 31, 2003:

	Remaining Terms						
	Within 1 year	*1 to 3 years*	*3 to 5 years*	*5 to 10 years*	*No Specific Maturity*	*2003 Total*	*2002 Total*
BANK TRADING ACCOUNT SECURITIES:							
Debt:							
Governments	$ —	$ —	$ —	$ —	$ —	$ —	$ 6,324
Other issuers	—	—	—	—	—	—	20,220
	—	—	—	—	—	—	26,544
Common shares	—	—	—	—	—	—	5,585
Total	—	—	—	—	—	—	32,129
SHORT-TERM SECURITIES:							
Debt (other issuers)	580	—	—	—	—	580	1,906
Equities:							
Preferred shares	—	—	—	—	1,096	1,096	1,878
Common shares	—	—	—	—	6,736	6,736	10,328
	—	—	—	—	7,832	7,832	12,206
Total	580	—	—	—	7,832	8,412	14,112
LONG-TERM SECURITIES:							
Debt:							
Governments	5,246	5,617	1,426	—	—	12,289	—
Other issuers	—	4,112	2,828	—	—	6,940	789
	5,246	9,729	4,254	—	—	19,229	789
Equities:							
Preferred shares	—	—	—	—	299	299	299
Common shares	—	—	—	—	17,023	17,023	15,320
	—	—	—	—	17,322	17,322	15,619
Total	5,246	9,729	4,254	—	17,322	36,551	16,408
Total securities	$ 5,826	$ 9,729	$ 4,254	$ —	$25,154	$44,963	$ 62,649

NOTE 5. LOANS

	2003	2002
Bank loans, collateralized by traded securities and other assets, amounts due from one company of $5,091 and $3,303 at December 31, 2003 and 2002, respectively, are collateralized by patents	$ 6,899	$ 9,845
Other loans, collateralized by traded securities, receivables, inventories and other tangible assets, duefrom two companies $6,319 at December 31, 2003, and due from one company $63,907 at December 31, 2002	9,973	68,034
	$ 16,872	$ 77,879

Loan maturities:

	Within 1 Year	1 – 5 Years	2003 Total
Bank loans	$ 6,844	$ 55	$ 6,899
Other loans	7,531	2,442	9,973
	$ 14,375	$ 2,497	$ 16,872

Bank loans generally earn interest ranging from 3.1% to 14.0% and other loans generally earn interest ranging from 4.0% to 8.0% as of December 31, 2003.

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

	2003	2002
Commodity transactions	$ 32,369	$ 38,210
Sale of a subsidiary	4,884	—
Sale of investment	6,556	—
Short-term advances	1,277	5,548
Investment income	400	3,496
Pension plan recovery	1,587	1,587
Government taxes	646	3,294
Other	2,648	1,820
	$ 50,367	$ 53,955

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PROPERTIES

	2003	2002
Natural resources processing facility	$ 58,165	$ 71,082
Manufacturing plant equipment	3,579	—
Office equipment	1,477	2,615
	63,221	73,697
Less accumulated depreciation	(986)	(1,469)
	$ 62,235	$ 72,228

NOTE 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2003	2002
Accounts payable	$ 40,444	$ 38,657
Bank overdrafts	3,137	—
Property and other taxes	1,487	2,605
Affiliates	1,138	1,485
Commissions and severance	803	752
Interest	392	708
Other	6,691	3,330
	$ 54,092	$ 47,537

NOTE 9. DEPOSITS

	2003	2002
Clients	$ 22,185	$ 39,190
Banks	—	8
	$ 22,185	$ 39,198

All deposits at December 31, 2003 and 2002, were payable on demand and bear interest at not more than .25%. At December 31, 2003, deposits from three affiliates in which the Company has a less than 20% equity interest amounted to $12,694. At December 31, 2002, deposits from affiliates where the Company's president was also the affiliate's president and the Company had minority voting rights amounted to $36,370.

NOTE 10. DEBT

	2003	2002
Bonds payable, US$12,647 and US$13,617 at December 31, 2003 and 2002, respectively, interest at 8% due semi-annually in October April, principal due April 2008, unsecured, non-recourse. Convertible into common stock of the Company at US$13.22 per share (956,688 common shares reserved at December 31, 2003)	$ 16,340	$ 21,509
Bonds payable, US$1,674 and US$2,088 at December 31, 2003 and 2002, respectively, interest at 5%, principal and interest due December 2006, unsecured	2,163	3,298
Notes payable under lines of credit due to banks, up to a maximum of approximately €75 million and €40 million at December 31, 2003 and 2002, respectively, interest from 3.7% to 4.4%, secured by commodity transaction receivables	—	24,953
Note payable to a bank, interest at six month Euribor plus 1.5% (resulting in a rate of 3.6% at December 31, 2003), interest and principal payments of $2,218 due semi-annually beginning June 2003, due in full December 2006, secured by commodity transactions receivables	13,309	18,055
Note payable, interest at 3.5%, payable on demand, unsecured, non-recourse	—	983
Other	1,485	—
	$ 33,297	$ 68,798

As of December 31, 2003, the principal maturities of debt are as follows:

Maturity	*Amount*
2004	$ 5,921
2005	4,436
2006	6,600
2007	—
2008	16,340
	$ 33,297

Note payable of $983 at December 31, 2002, was to an affiliate where the Company had an equity interest and the Company's president was also the president and director of the creditor. In 2003, this affiliate became a consolidated subsidiary of the Company.

NOTE 11. INCOME TAXES

Income before income taxes and minority interests consists of:

	2003	2002	2001
Canadian	$ 4,587	$ 36,427	$ 28,623
Foreign	45,798	10,753	15,390
	$ 50,385	$ 47,180	$ 44,013

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

	2003	2002	2001
CURRENT			
Canadian	$ (202)	$ (1,004)	$ (220)
Foreign	(529)	(589)	(427)
FUTURE			
Canadian	221	301	525
Foreign	(327)	4,789	894
	$ (837)	$ 3,497	$ 772

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:

	2003	2002	2001
Income before income taxes and minority interests	$ 50,385	$ 47,180	$ 44,013
Computed provision for income taxes at statutory rates	$ (17,191)	$ (17,041)	$ (15,897)
(Increase) decrease in taxes resulting from:			
Nontaxable dividend income	1,695	1,795	1,795
Foreign statutory tax rate differences	3,740	2,286	3,086
Permanent differences	4,731	7,807	6,048
Valuation allowance	12,480	2,526	(6,935)
Non-capital tax loss carryforwards lost from change in subsidiary's jurisdiction	(5,323)	—	—
Non-capital tax loss carryforwards acquired from purchase of subsidiary	—	6,124	12,469
Other, net	(969)	—	206
Recovery of (provision for) income taxes	$ (837)	$ 3,497	$ 772

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

	2003	2002
Future income tax liability, difference in tax basis of assets acquired in the United States	$ (387)	$ (258)
Future income tax asset, non-capital tax loss carryforwards:		
Canada	227	1,066
United States	—	7,433
Switzerland	1,682	5,254
Austria	3,103	3,739
	5,012	17,492
Valuation allowance	(5,012)	(17,492)
Net future income tax asset	—	—
Net future income tax liability	$ (387)	$ (258)

Management believes that, due to the nature of its operations, the Company's available tax loss carryforwards may not be utilized prior to their expiration dates. Therefore, the resulting tax benefit has been fully reserved at December 31, 2003 and 2002.

At December 31, 2003, the Company had estimated accumulated non-capital losses which expire in the following countries as follows:

Year	Canada	Switzerland	Austria
2004	$ —	$ —	$ —
2005	—	—	—
2006	4	—	—
2007	395	—	—
2008	—	—	—
2010-2020	266	4,931	—
Indefinite	—	—	9,094
	$ 665	$ 4,931	$ 9,094

NOTE 12. EARNINGS PER SHARE

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

	2003	2002	2001
Basic earnings from operations available to common shareholders	$ 49,116	$ 50,755	$ 45,288
Effect of dilutive securities; interest on convertible bonds	1,599	1,735	1,634
Diluted earnings from operations	$ 50,715	$ 52,490	$ 46,922

	Shares		
	2003	*2002*	*2001*
Basic earnings per share, weighted average number of common shares outstanding	13,054,727	12,931,117	12,621,633
Effect of dilutive securities:			
Convertible bonds	1,020,951	1,030,038	1,030,038
Options	52,943	209,006	350,764
Weighted average number of common shares outstanding — diluted	14,128,621	14,170,161	14,002,435

NOTE 13. 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.

During 2000, options to acquire 30,000 shares at $13.31 and 100,000 shares at $10.50 were granted to officers and employees of the Company. At December 31, 2003, none of these options were outstanding.

During 1998, options to acquire 750,000 shares at $9.26 were granted to officers and employees of the Company. At December 31, 2003, none of these options were outstanding.

Following is a summary of the status of the plan:

	Number of Shares	*Weighted Average Exercise Price*
Outstanding at December 31, 2000	1,214,000	$ 10.12
Exercised	(189,000)	(11.17)
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	—	$ —

NOTE 14. COMMITMENTS AND CONTINGENCIES

LEASES

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

Year	*Amount*
2004	$ 1,570
2005	1,371
2006	1,238
2007	1,155
2008	1,052
	$ 6,386

Rent expense was $1,919, $1,166, and $439 for the years ended December 31, 2003, 2002 and 2001, 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, 2003.

GUARANTEES

The Company has guaranteed to one of its client's account the value of an investment in common shares to a maximum amount of $1,012. The Company has provided a five-year guarantee expiring August 2007 to an affiliate with respect to a $1,656 asset sale transaction. This affiliate has agreed to deposit the same amount against this guarantee. The Company has provided a guarantee to an affiliate with respect to a €2,500 ($4,070 at December 31, 2003) line of credit arrangement with a bank which is effective until the line of credit is terminated. The Company has provided a guarantee to an affiliate with respect to a credit facility agreement with a bank for a maximum of €3,000 ($4,884 at December 31, 2003) expiring January 2005. The Company has provided a guarantee expiring December 2004 to a former subsidiary with respect to their contractual payment obligations to a vendor for up to a maximum of €3,500 ($5,698 at December 31, 2003).

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 $10,441 to be maintained as of December 31, 2003. The subsidiary is in compliance with this regulation as of December 31, 2003.

NOTE 15. INTEREST RATE SENSITIVITY POSITION

Management has analyzed the bank subsidiary's interest rate sensitivity position at December 31, 2003. 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, 2003, assuming no interest rate hedging is undertaken over the next twelve months.

NOTE 16. SEGMENTED INFORMATION

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

	2003	2002	2001
Canada	$ 7,872	$ 26,006	$ 17,183
Europe	391,282	254,564	192,714
United States	9,563	3,559	4,349
Other	796	210	—
	$ 409,513	$ 284,339	$ 214,246

The following table presents total assets by geographic area based upon the location of the assets.

	2003	2002
Canada	$ 58,884	$ 119,763
Europe	271,778	200,206
United States	15,047	52,308
Africa	58,868	74,297
	$ 404,577	$ 446,574

During 2001, one client represented approximately 13% of financial services revenues. There was no client concentration in 2003 or 2002. 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.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments at December 31 is summarized as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 145,452	$ 145,452	$ 102,413	$ 102,413
Loans	16,872	16,872	77,879	77,879
Deposits	22,185	22,185	39,198	39,198
Debt	33,297	35,958	68,798	63,421
Interest rate swap derivative contract, liability	81	81	—	—

The fair value of cash and cash equivalents is based on reported market value. The fair value of loans is based on the value of similar loans. 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 18. TRANSACTIONS WITH AFFILIATES

During 2003, 2002, and 2001, the Company earned fees in the normal course from affiliated entities amounting to $4,579, $9,164 (of which $4,115 was a merchant bank client where the Company's president is also the president of the affiliate), and $323, 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 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. The Company received dividends of $4,900 on preferred shares of stock in an affiliate in 2003 and 2002. Generally, the Company has representation on the board of an affiliate and/or an equity interest.

The Company had a receivable from an officer of a subsidiary amounting to $761 at December 31, 2002, which was paid in 2003.

NOTE 19. SUBSEQUENT EVENTS

In January 2004, the Company declared redemption of its 8% convertible bonds. The majority of the bonds were converted into the Company's common shares at the pre-determined conversion rate of US$13.22 per share. Approximately $861 cash was paid out for the bond redemption.

On January 7, 2004, the Company issued to third parties an aggregate of €3,214 face amount of unsecured convertible debentures. The debentures bear interest at the rate of 4.4% and mature on December 31, 2009. The debentures are convertible into common stock of the Company at various contractually fixed prices depending on the time of conversion. At any time after December 31, 2005, the Company may redeem the debentures at their principal amount plus accrued interest.

In March, 2004, the Company, through various purchases, acquired 1,494,408 common shares (resulting in an approximate 62% ownership interest) of Med Net International Ltd. ("Med Net") for a cash consideration of $2,294. Med Net will be consolidated since its acquisition date. Med Net, through its unincorporated joint ventures, operates technologically advanced eye care centers in China. It also markets medical supplies. The financial statements of Med Net on the acquisition date are not available at this time. The acquisition is consistent with the Company's business of proprietary investing.

In March, 2004, the Company acquired 7,015,985 common shares (resulting in an effective ownership of approximately 68%) in Fahr Beteiligungen AG ("Fahr") for a cash consideration of approximately $24,951.

Fahr will be consolidated since its acquisition date. Fahr is engaged in the business of real estate development, equipment and engineering services in the fields of cement, coal and minerals processing technologies. The financial statements of Fahr on the acquisition date are not available at this time. The acquisition is consistent with the Company's business of proprietary investing.

NOTE 20. 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		
Reconciliation of Net Income	*2003*	*2002*	*2001*
Net income in accordance with Canadian GAAP	$ 49,116	$ 50,755	$ 45,288
Adjustment of gain on sale of shares in investee	—	—	169
Change in unrealized gain (loss) on trading securities, net	—	—	(2,246)
Net income in accordance with U.S. GAAP	$ 49,116	$ 50,755	$ 43,211
Basic earnings per common share U.S. GAAP	$ 3.76	$ 3.93	$ 3.42
Diluted earnings per common share U.S. GAAP	$ 3.59	$ 3.70	$ 3.20
Retained earnings in accordance with U.S. GAAP	$ 172,144	$ 194,758	$ 163,342

Comprehensive Income	*2003*	*2002*	*2001*
Net income in accordance with U.S. GAAP	$ 49,116	$ 50,755	$ 43,211
Other comprehensive income, net of tax			
Foreign currency translation adjustment	(35,851)	14,281	5,223
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(3,524)	2,151	(594)
Reclassification adjustment for gains realized in net income	(182)	(233)	(775)
Reclassification adjustment for other than temporary decline in value	66	—	—
Net unrealized gains (losses)	(3,640)	1,918	(1,369)
Other comprehensive income	(39,491)	16,199	3,854
Comprehensive income	$ 9,625	$ 66,954	$ 47,065

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, 2003, investment in one trading security represented approximately 58% of total investment in trading securities. At December 31, 2002, approximately 15% of trading securities represents an investment in the common shares of an affiliate and approximately 27% represents debt securities from two entities.

The fair value of trading securities held by non-bank subsidiaries is summarized as follows:

	December 31	
	2003	2002
Debt securities	$ 580	$ 1,906
Preferred shares	1,096	1,878
Common shares	6,736	10,328
	$ 8,412	$ 14,112

Available-for-sale securities consist of common shares, preferred shares and debt securities at December 31, 2003, 2002 and 2001. At December 31, 2003 and 2002, securities in three and two companies represented 54% and 80%, respectively, of the total available-for-sale securities of $33,209 and $16,703. The proceeds from the sale of these securities amounted to $2,519, $1,330, and $5,703, which resulted in realized gains of $182, $233, and $775 during 2003, 2002 and 2001, respectively. The cost of these securities was $2,337, $11,588, and $6,908, which resulted in unrealized losses in accumulated other comprehensive income of $(3,342), $298, and $(1,620) at December 31, 2003, 2002 and 2001, respectively.

NEW UNITED STATES ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 149 amends existing standards on derivatives (effective for derivatives entered into or modified after June 30, 2003). SFAS No. 150 gives guidance on the accounting for certain financial instruments with characteristics of both liabilities and equity (effective for financials instruments entered into after May 31, 2003). Financial Accounting Standards Board interpretation No. 46 requires consolidation of certain variable interest entities (effective for fiscal years ending after December 15, 2003). Certain of these new standards will not have an effect on the Company's consolidated financial statements. For others, the effect on the Company's financial statements has not yet been determined.

CORPORATE INFORMATION

BOARD OF DIRECTORS AND OFFICERS

Michael J. Smith
President and Secretary
Director since 1986

Dr. Stefan Feuerstein
Director since 2000

Shumin Zhao*
Director since 2004

Silke Brossmann*
Director since 2003

Dr. Kelvin K. Yao*
Director since 2004

* Members of the Audit Committee

ADDRESSES

Hong Kong
Suite 803
8th Floor, Dina House
Ruttonjee Centre
11 Duddell Street
Central Hong Kong
Telephone:
852.2537.3613
Facsimile:
852.2537.3689
E-mail:
mfc.hk@mfc-china.com

China
36th Floor, Tower 1
Kerry City
218 Tianmu Road West
200070 Shanghai
P.R. China
Telephone:
86.21.6353.3277
Facsimile:
86.21.6317.3763
E-mail:
mfcbancorp@mfc-china.com

Europe
Millennium Tower
21st Floor
Handelskai 94-96
1200 Vienna
Austria
Telephone:
43.1.240.25.300
Facsimile:
43.1.240.25.310
E-mail:
mfcbancorp@bmgmt.com

MAJOR SUBSIDIARIES

MFC Merchant Bank S.A.
Kasernenstrasse 1
9100 Herisau AR
Switzerland
Telephone:
41.71.353.08.80
Facsimile:
41.71.353.08.88
E-mail:
mfc@mfcbank.ch

MFC Capital Partners AG
Charlottenstrasse 59
10117 Berlin, Germany
Telephone:
49.30.2094.5800
Facsimile:
49.30.2094.5811
E-mail:
webmaster@mfc-ag.de

MFC Commodities GmbH
Millennium Tower
21st Floor
Handelskai 94-96
1200 Vienna
Austria
Telephone:
43.1.240.250
Facsimile:
43.1.240.25.260
E-mail:
office@mfc commodities.com

AUDITOR FOR THE BANK

KPMG Fides Peat
Badenerstrasse 172
8004 Zürich
Switzerland

STOCK LISTING

NASDAQ
National Market
3rd Floor
1735 K. Street N.W.
Washington, D.C.
20006 USA

Trading Symbol: MXBIF

Frankfurt Stock Exchange
Börsen Platz 7-11
60313 Frankfurt
Germany

Trading Symbol: MFC GR

TRANSFER AGENT

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
USA

AUDITORS

Peterson Sullivan P.L.L.C.
Certified Public Accountants
2300 Two Union Square
Seattle, Washington
98101 USA

INCORPORATION

Yukon Territory, Canada

MFC BANCORP LTD. WEBSITE

www.mfcbancorp.com