Dealnet Capital Corp.

Management Discussion and Analysis

December 31, 2016

As approved by the Board of Directors on April 26, 2017

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Dealnet Capital Corp. (the "Company" or "Dealnet") as at and for the year ended December 31, 2016 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2016 as approved by the Board of Directors on April 26, 2017. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.dealnetcapitalcorp.com.

CAUTIONARY STATEMENT

This MD&A has been prepared taking into consideration information available to April 26, 2017, and contains forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address Dealnet's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements.

You should not place undue reliance on these forward-looking statements. These statements reflect Management's current view of future events and are subject to certain risks and uncertainties as contained herein and in the Company's other filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that these expectations are based on reasonable assumptions, we can give no assurance that those expectations will materialize.

COMPANY OVERVIEW

Dealnet is listed on the TSX Venture Exchange under the symbol "DLS".

Engagement Powered Consumer Lending

Dealnet is a specialty finance company backed by its scalable engagement platform. The Company is successfully leveraging its expertise and technological capabilities within its engagement platform to become a dominant player in the specialty consumer lending market. Dealnet efficiently targets prime quality lending niches in this market by leveraging scale to efficiently originate and service long duration prime loans which drive material year-over-year growth in earning assets. The Company is focused on providing financing solutions to homeowners for the $20 billion they annually spend on home improvements. Dealnet leverages its large-scale customer service and engagement technology platforms to connect original equipment manufacturers ("OEMs"), the dealers who sell and install the products, and the end consumers who need access to financing. Dealnet's platform includes lead management for manufacturing and home improvement companies, credit approvals, funding, billing, collections, data analytics, and point of sale lending technology that together serve to dramatically reduce borrowing friction, which in turn improve the real-time borrowing experience for both the consumer and the dealer. Dealers use proprietary Dealnet technology to pre-approve and close financing arrangements in the home, with the customer. Once the product is installed in the home, Dealnet verifies and advances funds directly to the dealer. Dealnet believes that its engagement capabilities and scale are unmatched by other similar lenders.

Dealnet attracts dealers and consumers by operating two lending companies as distinct brands: EcoHome Financial and One Dealer Financial Services. The brands complement each other in their respective target markets while benefiting from a fully integrated technology and operational platform.

With the acquisition of EcoHome Financial Inc. ("EcoHome"), the Company now supports multiple loan products including 10-year leases for heating, ventilation and air-conditioning (HVAC) equipment and five-year loans for windows, doors, roofing, home improvement, water conditioning and other equipment thus expanding its ability to grow market share with consumers seeking finance alternatives. This also enhances the cross-selling opportunity with existing customers as compared to new customers. Dealnet expects to leverage data and analytics on existing customer payment and credit performance to enable cross selling and upselling of other loan and leasing products to existing customers.

The Consumer Finance offerings currently leverage a highly efficient vendor-finance program model. As a value-added service, the Company provides engagement solutions to home improvement dealers, enabling them to become lending partners to their customers with identified borrowing needs. Dealers offer the Company's finance products to consumers at the point of sale, on a white label or company branded basis. Dealnet employs full-time and contract sales people to attract home improvement dealers, as well as to secure strategic partnerships with manufacturers, distributors and other parties. These parties benefit from the higher sales conversion rates enabled by the finance options that the Company provides. EcoHome Financial and One Dealer Financial now offer approximately 30 different loan/lease types to consumers.

Dealnet also provides end-to-end servicing for its consumer loan portfolio, including billing, collections, adjudication, credit and risk management and treasury services. These are bundled alongside loan capital and ancillary engagement services, providing dealers with a larger market presence at a fraction of the cost of in-house delivery that yields stickiness and continued growth in origination volume.

Dealnet has quickly moved from launch to a top 2 position within its home improvement financial services market, based on origination volume and/or completeness of our offerings to the lending marketplace.

Investments in the Company's mobile technology platform are expected to continue to attract dealers to the network as well as consumers directly to our lending solutions. The technology platform enables Dealnet to open up new channels for originating high quality loans, diversify and create a network of organizations that are constantly in contact with homeowners, and address customer home improvement needs.

EcoHome

On February 18, 2016, Dealnet closed the acquisition of EcoHome from Chesswood Group Limited for total consideration of $34.45 million. This transaction elevated Dealnet's consumer lending business to a leading competitive position in this sector. As part of the acquisition, Dealnet acquired all customer contracts, vendor finance agreements, employees, operating platform, systems, agreements and other assets of EcoHome. Dealnet has successfully integrated the treasury, technology, risk and credit management functions and overall origination capabilities from this acquisition. The EcoHome integration took place during the second quarter of 2016 with physical migration and system migration completed. Subsequently, Dealnet has begun investment in the mobile technology advancement of the platform to drive an enhanced and more frictionless experience for dealers and consumers, while also providing unique portal enhancements for dealers and manufacturers to support self-service capabilities. This technology platform reduces Dealnet internal processing effort and will support scale on a progressively more cost efficient basis.

At the time of acquisition, EcoHome had a seasoned, profitable finance receivable portfolio with a book value of $71.7 million and a year-over-year annualized portfolio growth rate of approximately 65%. The EcoHome portfolio consists of long-term finance assets that have historically predictable revenue, loss experience and cash flows. EcoHome operated on the same loan management software as Dealnet's existing One Dealer Financial Services business unit, making integration a relatively straightforward process. Key EcoHome funders have transferred and/or increased their funding line capacity, in support of this transaction and the Company's continued growth.

EcoHome has developed a proprietary credit scorecard that combines the customer's credit bureau data, home ownership information and transaction details to produce accurate and predictable credit decisions. If a transaction decision cannot be automatically approved or declined, it is manually reviewed by credit analysts.

EcoHome uses a private securitization model to finance the majority of its loans and rentals. Pursuant to the securitization process, the company sells the future payment stream of a group of rentals and/or loans to a funder such as a life insurance company or bank. The future stream is discounted at the time of funding - the tranche - and a percentage is held back in a loss reserve pool. The loans are held on balance sheet earning margin and other fees over the life of the loan, contributing to progressively increasing gross margin dollars as the loan book grows. The Company has leveraged the EcoHome securitization treasury capability to extend the usage of same to One Dealer Financial Services and expand the number of securitization counterparties available to both EcoHome and One Dealer Financial Services. Due to the competitive cost of capital over the life of the loans, Dealnet continues to earn a strong net interest margin ("NIM") and earnings on each finance product.

One Dealer Financial Services

One Dealer Financial Services was Dealnet's original and primary financial services business unit at the beginning of 2016. The company provided lease contracts and had planned to introduce finance contracts early in 2016. As a result of the EcoHome acquisition, this capability was accelerated. Up to the closing of EcoHome, One Dealer Financial Services has focused on underwriting 10-year lease contracts of HVAC equipment, which provide dealers with alternative financing solutions to support them in closing incremental sales and installations of HVAC equipment. The Company also has the option to periodically securitize a portfolio of these lease agreements and lock in rates of future cash returns and cash flows at the contract inception, and recognizes earnings over the term of the contract in accordance with IFRS.

Engagement

Traditionally engagement services have been defined as call centres only. Dealnet's Engagement business specializes in helping dealers engage with their end customers using multiple communications channels, including live voice, chat (Live Engagement reporting segment), web and mobile text messaging (Mobile Engagement reporting segment). Dealnet's leading cloud-based communications solutions are underpinned by robust messaging and workflow technology that, when coupled with the Company's proximity solutions, enable customers to avoid live calls and move conversations to a more cost-effective secure mobile solutions (SMS) platform.

Through Dealnet's SMS platform, and with call centres in Ontario, Quebec and Nevada, the Company is able to cost-effectively service calls from across North America and can analyze calling trends and identify call types that can be moved to lower cost interactive messaging. The blended solution reduces costs for Dealnet's customers and drives higher margin messaging revenue for Dealnet. The combination of the Company's engagement platforms brings the frictionless lending experience that consumers want. As Dealnet starts to leverage engagement more and more towards supporting the lending experience, it expects to drive significant incremental origination volume at a lower servicing and acquisition cost than historically required by traditional banks.

Together, the Engagement services and platform house all the necessary communications methods and technologies required to service a large-scale consumer finance portfolio. The security systems, technology, governance, training and management skill sets are all well aligned with credit and banking services. Dealnet operates Payment Card Industry Certified ("PCI") facilities and data management strategies designed to protect consumer data. This important aspect of lending is often overlooked by financial technology ("FinTech") companies due to the expense and rigor associated with annual third party audits and with maintaining and demonstrating best practices for execution as a method of doing business.

Dealnet has grown its large-scale customer service and engagement technology platform to attract home improvement dealers by providing both front and back office services. This has resulted in dealer origination growth through the acquisitions and integration of Gemma Communications LP ("Gemma"), Impact Mobile Inc. ("Impact Mobile") and OC Communication Group Inc. ("One Contact").

OUTLOOK

Dealnet is a non-bank lending company underpinned by its innovative technology and engagement platform. The platform allows Dealnet to speak to its customers in any way the customer desires be it text, live call, chat and other OMNI channel methods. The Company is successfully leveraging its expertise and technological capabilities in its Engagement vertical to become a dominant player in the consumer lending market. Each of the Company's Engagement customers has outsourced their customer service to Dealnet because of its long history and deep experience in serving and growing a consumer customer base using 'bank like' security and data protection platforms.

By design, the Company initially acquired engagement companies prior to acquiring and scaling lending assets to ensure the scalability was already in place for anticipated significant growth. Dealnet has demonstrated it can leverage its Consumer Engagement business to offer consumer financing solutions to consumers, and achieve attractive returns. The Company originates regular monthly volumes and continues to increase its underwriting scale, and reduce its cost of capital, to improve net interest margin. Dealnet continues to be opportunistic in seeking acquisitions and looks specifically for transactions that significantly increase originations, have a unique technology, a large channel base, a profitable book of loans, proven lending products and quality leadership. Transactions can be structured as book buys where the Return on Equity is in line with Dealnet objectives post-close, thus generating incremental cash flow over time, or full platform acquisitions where they complement the leading platforms Dealnet operates today. In either case, Dealnet looks for a high quality consumer book of loans that is eligible for cross-selling and upselling, a capability being introduced in 2017.

Dealnet earns a profit on the spread between its cost of capital and its interest income on its loan book. As Dealnet grows in size, both organically and through acquisition, the Company's book of business will expand and its interest rate costs are expected to decrease or its margin may increase from higher yielding loans.

Dealnet focuses its investments towards the Engagement market as well as the Consumer Financing market by leveraging its Engagement division's scale, technology and proven expertise. The Company continues to look for acquisition opportunities in these key markets to continue to drive competitive advantages and growth.

Dealnet will continue to focus on five primary objectives:

1. **Build Originations and Loan Book:**

   Loan volume will grow through two key methods: (i) organic originations in current and new loan product lines through our growing dealer network; and, (ii) acquisitions of product lines and loan books that are complementary to our lending product suite. Today Dealnet is focused on 5 and 10-year lending terms because of the ability to efficiently scale originations. Shorter duration loan terms 'pay back' often quicker than loans can be written, thus negatively impacting the growth of the loan book which is expected to generate earnings for the life of the book over the break-even threshold. Longer term loan books intermixed with shorter term (five-year) loan products are expected to generate the most long-term predictability on cash earnings and material growth year over year.

   Dealnet's loan book has increased over 70 times to $137.5 million as at December 31, 2016 from $1.9 million as at December 31, 2015 and $117.6 million at the beginning of the fourth quarter, for a 17.0% growth in the most recent quarter. This is partially due to the EcoHome platform purchase, as well as attracting market share through new wins and significant growth beyond EcoHome planned growth, on a standalone basis.

2. Manage Risk:

The primary risk for the Company is for funding partners to prescribe a risk formula that requires certainty around loan performance. Each funder's tolerance for risk and product types differ. Dealnet designs products with certain funder's risk appetites in mind to ensure they are receiving asset classes that support its underwriting agreements and that perform within prescribed measurements. Credit risk management is a key tool that is used in managing risk entering the system, and Dealnet will continue to focus on risk and various methods of expeditious adjudication, leveraging technology to maximize origination volumes while minimizing risk.

The Company takes all reasonable measures to ensure compliance with governing statutes, regulations and regulatory policies including the use of external counsel. A failure to comply with such statutes, regulations or regulatory policies could result in sanctions, fines or other settlements that could adversely affect both its earnings and reputation. Changes to laws, statutes, regulations or regulatory policies could also change the economics of the Company's merchandise leasing and consumer lending businesses.

Numerous consumer protection laws and related regulations impose substantial requirements upon lenders involved in consumer finance, including leasing and lending. Also, federal and provincial laws impose restrictions on consumer transactions and require contract disclosures relating to the cost of borrowing and other matters. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions.

The credit performance of the Company's finance receivable portfolio continues to be within internally established standards and those of its funders. The average Beacon score of consumer receivables originated in 2016 was 745.

The Company is developing a diversified funding base in order to manage concentration risk. The Company relies on institutional funding partners, and does not access the retail deposit market for borrowings.

3. Manage Salaries, General & Administrative (SG&A) Expenses:

Dealnet has a significant platform focused on consumer lending. Moving to this size of platform required significant investment in people, technology and facilities, which represents the majority of the general & administrative expense base. The benefits of this platform are expected to contribute positive long-term cash flow. Management is focused on managing expenses in relation to loan book size, as well as investing judiciously in additional key hires as volume increases to support our expected earnings profile and return on equity objectives.

Consumer Finance SG&A expense, as a percentage of interest revenue for that segment was 42% in 2016. Adjusting for the impact of finalization of the EcoHome purchase price allocation (see below) and reflecting the growth in the book, the Consumer Finance SG&A expense for the fourth quarter continued to show significant improvement, declining from 49% for the three months ended June 30, 2016, to 35% in the third quarter and 27% in the current period.

4. Reduce Cost of Funds:

With increasing lending volume, the company has attracted interest from many fund providers including banks, life insurance companies, alternative lending funds and others. Funding costs have come down from the pilot facility's 12% to 5.99% in February 2016. With the closing of EcoHome in 2016, and subsequent migration of lines, the company currently benefits from an approximate 4% cost of funds.

During the year, the Company closed a securitization facility with a major Canadian life insurance company providing $75 million in available funding for the Company's lease and loan products. The Company also closed a $20 million funding facility with another financial institution and renewed an existing securitization facility with a Schedule 1 Bank. In addition, the Company issued an addition $10 million under an existing Debenture facility. This new underwriting capacity provides for a current blended funding cost below 4%. The company securitized $70.8 million of finance receivables with these funders during the year, releasing cash back to working capital to be used for warehousing loans before securitizations. The company uses a combination of cash and third party lending facilities to support origination of consumer finance receivables and regularly securitizes tranches of finance assets.

5. Manage Equity and Leverage:

Dealnet's loan types attract leverage covenants that provide higher latitude than many prime unsecured and prime secured lenders, which on continued book growth is expected to contribute to an attractive return on equity.

The Company's financing efforts during 2016 resulted in a net increase in equity of $48.4 million, primarily from the issuance of common shares, principally due to the EcoHome acquisition and warrant exercises. The Company did not undertake new equity financing in the fourth quarter but did increase equity by $5.5 million through the exercise of outstanding warrants and options, and conversion of convertible debentures and by $0.4 million on settlement of advisory service fee provided by an independent party. 99.7% of expiring warrants were exercised during the year. Total equity and tangible net worth at year-end were $52.8 million and $18.8 million respectively, up from $14.9 million and $11.3 million respectively in 2015.

On January 13, 2017, the Company acquired a portfolio of consumer finance lease contracts valued at approximately $29.2 million. The acquisition was effected through a cash payment of $22.5 million less certain adjustments and the issuance of 12,523,364 common shares valued at $6.7 million.

During the first quarter of 2017, all outstanding broker compensation options of 999,819 were exercised for cash proceeds of $400 thousand. In return, the Company issued 999,819 common shares and 499,909 warrants. In addition, 7,427,499 warrants and 58,375 options were exercised for total cash proceeds of $3.71 million and $17 thousand respectively.

Management believes it has sufficient liquidity and capital resources available to execute on its business plan.

ANALYSIS AND RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

The past year was transformational for Dealnet. The Company assembled an experienced and industry leading management team and Board of Directors, built a capital structure to support high velocity growth and secured infrastructure capable of executing on its growth plan and which will serve as the underpinnings for a unique mobile lending platform. During the year, the Company has grown organically and through acquisitions.

During the year ended December 31, 2016, Dealnet accomplished the following initiatives:

1. **All business lines delivered profit:**

   The Consumer Finance business recorded a segment profit of $291 thousand for the year ended December 31, 2016, compared to a $724 thousand segment loss in 2015.

   The Company's Engagement business recorded a segment profit of $1.49 million in 2016, compared to a $2.09 million loss in 2015.

2. **Significant improvement to operating cash:**

   The company ended 2016 with 17.08 million cash on hand.

   Cash used in operating activities was $480 thousand for the year ended December 31, 2016, compared to $4.89 million used in operating activities in the previous year. This positive development is attributable to increased securitization activity supported by the new and renewed securitization facilities noted below.

3. **Dramatic increase in finance receivables:**

   For the year ended December 31, 2016, the Company originated approximately $79 million of new finance receivable contracts. During the three months ended December 31, 2016, the Company originated $21.92 million of new finance receivable contracts ($23.05 million – three months ended September 30, 2016) and concluded the year with $137.54 million of consumer finance receivables ($117.58 million as at September 30, 2016), an increase of 17.0% quarter over quarter and 100% year over year.

4. **Acquisition of Finance Receivable Books**

   In addition to significant growth in finance receivables in 2016, on January 13, 2017, the Company closed on the purchase of a portfolio of consumer finance rental contracts valued at approximately $29.2 million from a prominent Ontario dealer who operates in one of the Company's key verticals. Total consideration for the portfolio was a cash payment on closing of $22.5 million less certain adjustments, along with the issuance of 12,523,364 common shares valued at $6.7 million. The Company simultaneously securitized certain contracts from the portfolio to fund the cash portion of the transaction. The book quality is in line with both the Dealnet Credit Criteria and cash flow expectations and customers are eligible for additional financing product cross-sell and upsell opportunities that will commence later in 2017.

5. Introduced FINTECH Platform to our Dealer Channels:

On February 2 2017, the Company launched a new financial technology platform and new vendor finance platform. The Company's financial technology platform automates credit adjudication and application processing and various back office functions for dealers, using mobile and web enabled devices. Tying into our existing platform via a closed secure network, the technology streamlines the funding process for our dealers. Administrative dealer staff are able to leverage the technology to manage throughput and volume to support their internal purchasing and scheduling decisions as well as administrative customer functions.

6. Increased equity through warrant and option exercises:

During the year ended December 31, 2016, the Company received cash proceeds of $12.52 million, the result of the exercise of 38.3 million common share purchase warrants. Included in this amount is 3.3 million warrants exercised by Management and Directors for proceeds of $1 million. The exercise of warrants increases equity and tangible net worth that will be leveraged to support the Company's portfolio growth plans.

7. Wins new business:

Subsequent to December 31, 2016, the Company announced that it has entered into three strategic relationships with OEMs that are expected to expand the Company's dealer base and further drive origination volumes. These relationships will result in the Company being the preferred financing solution for each OEM's dealer network. The new relationships are:

- An international distributor of HVAC and fireplace equipment. The Canadian subsidiary provides products from over 200 manufacturers to more than 100 dealers concentrated in major cities in Ontario and Quebec.
- A leading manufacturer of residential water treatment equipment. This manufacturer has relationships with over 125 home improvement dealers across Canada.
- A high-end window manufacturer with over 75 dealers located in Ontario.

On May 24, 2016, Dealnet announced that it has entered into a strategic alliance agreement with an HVAC manufacturer to provide a tailored vendor finance program to the manufacturer's dealer network across Canada. The manufacturer is a premier global leader in the HVAC market, selling multiple well known branded products to its dealer network. The company commenced deployment of the program initially to 80 Ontario dealers and expects it to reach 200 dealers nationally.

The Company also launched a new national distributor of plumbing products having approximately 4,000 dealer relationships across Canada. The Company anticipates on-boarding 800 active dealers over the next 18 months who are expected to use the Company's new technology platform regularly.

Additionally, Dealnet has launched another HVAC OEM relationship that has approximately 300 dealers across Canada.

The company began 2016 with approximately 60 dealers and finished the year with over 480 dealers.

8. Expands warehouse facility to support originations:

During April 2017, Dealnet closed a further $20 million available funding facility under its existing secured debenture facility structure to support anticipated origination growth and warehousing prior to securitization. Expanding the treasury puts the company in a position to be more aggressive with organic originations and book buys.

On November 28, 2016, Dealnet announced that through a wholly owned subsidiary, it issued a debenture for $10 million under its existing secured debenture facility structure. The debenture is in addition to an existing $13 million of debentures currently outstanding under the structure. The new debenture has a fixed interest rate of 6.0% and a term of five years with an option to extend for an additional five years at the holder's option.

On December 21, 2015, Dealnet announced that the Company's Consumer Finance segment had entered into an agreement with the investment management arm of one of Canada's leading insurance companies (the "Lender") to amend and increase the Lender's existing debenture facility (the "Debenture Facility") with the Company (the "Amendment"). On January 12, 2016, the Company closed the Amendment bringing the total amount outstanding under the Debenture Facility, including the Initial Debenture, to $10 million.

The principal amendments to the Debenture Facility include, among others, the following terms:

- An increase in the Debenture Facility of up to $100 million from the existing limit of up to $50 million, at the option of the Lender, with an initial draw on closing of the Amendment of $7 million;
- A decrease in the rate on the Initial Debenture to 5.99%;
- For all future advances, a rate fixed at the time of advancement equal to the 10-year Government of Canada Benchmark Bond Yield + a margin ranging from 4.5% to 3.8% (with the margin declining as the total advancements under the Debenture Facility increases);
- An increase in the term of the Debenture Facility to up to 10 years from the date of issuance of each debenture, from the existing term of three years; and
- Funds from the Debenture Facility may be used for a wider variety of consumer financing products, including leases and loans of HVAC equipment, home improvement and other unsecured consumer finance loan products, subject to meeting minimum credit quality, default rates and concentration requirements.

As part of the Debenture Facility, the Company issued on closing 2,000,000 common share purchase warrants to the Lender, with an exercise price of $0.67, and a term of three years, exercisable into 2,000,000 common shares of the Company. The warrants and the underlying common shares shall be subject to a four-month hold period from the date of issuance of the warrants.

During the second quarter of 2016, the Debenture Facility was extended over the EcoHome acquired assets and a further $3 million was drawn down on Debenture Facility, increasing the total to $13 million. This facility is used to support origination of consumer finance receivables prior to securitization, alongside cash and other finance facilities.

9. Expanded long term funding capacity through significant relationships:

In July 2016, the Company closed a securitization facility with a major Canadian life insurance company providing $75 million in available funding for the Company's lease and loan products.

During July 2016, the Company renewed an existing securitization facility with a Schedule 1 Bank. The Company typically securitizes $3-4 million per month under this facility.

During July 2016, Dealnet closed a $20 million available funding facility with a major Canadian financial institution.

The company continues to engage with additional potential lenders and is expecting to further increase underwriting capacity during 2017.

10. Raised Strategic Equity:

On February 5, 2016, the Company closed a bought deal private placement of 54,545,700 subscription receipts at a price of $0.55 per subscription receipt for gross proceeds of $30 million. Each subscription receipt entitled the holder to receive one common share of the Company in exchange for each subscription receipt upon satisfaction of certain escrow release conditions, including the satisfaction or waiver of all conditions precedent to the closing by the Company of the acquisition of EcoHome, provided that the conditions had been satisfied by March 31, 2016. In connection with the private placement, $105 thousand of direct costs were incurred and the underwriters received cash commissions of $1.77 million and 3,218,000 non-transferable broker warrants. Each broker warrant is exercisable by the holder for one common share of Dealnet for a period of 18 months following the closing of the Offering at a price of $0.55 per broker warrant.

11. Strategic acquisitions:

On February 18, 2016, Dealnet closed the acquisition of EcoHome from Chesswood Group Limited for total consideration of $34.45 million. Pursuant to the share purchase agreement dated February 17, 2016, the consideration paid for the acquisition consisted of: (i) $28.9 million in cash; (ii) 6,039,689 common shares of Dealnet having an aggregate value of $2.9 million; and, (iii) a two-year unsecured convertible vendor take-back note in the principal amount of $2.5 million that bears interest at a rate of 6.0% per annum and is convertible by the holder into common shares of Dealnet at a conversion price of $0.64 per share. In connection with the acquisition of EcoHome, the previously issued 54,545,700 subscription receipts were exchanged for common shares of Dealnet on a one-for-one basis.

On August 24, 2016, Dealnet purchased various mobile messaging contracts from an arms-length party for total consideration of approximately $894 thousand including 543,921 common shares valued at $294 thousand. These messaging contracts represented a strategic opportunity for the Mobile Messaging segment.

12. Strategic Settlements:

On June 2, 2016, the Company reached an agreement with the vendor of Gemma and received $875 thousand as full and final settlement of all amounts owing and any further contingent consideration, guaranteed revenue, any other amounts as described in the purchase agreement and any other matters. As a result, Dealnet recorded a gain of $19 thousand.

Overall Performance Highlights for the Year Ended December 31, 2016

As at December 31, 2016, the Company operated in two markets namely, Engagement and Consumer Finance. The Engagement business operates in Canada and the United States through two segments; Live Engagement and Mobile Engagement. The Consumer Finance business operates solely in Canada.

The following table sets forth a summary of the Company's results of operations for the ended year December 31, 2016 and 2015:

	For the year ended		
in $'000s except for per share amounts	December 31, 2016	December 31, 2015	Change
	$	$	%
Consumer finance			
Finance income	8,685	248	3,402.0
Finance and direct expenses	4,727	392	1,105.9
	3,958	(144)	2,848.6
Engagement			
Revenue	26,692	15,662	70.4
Cost of sales	16,336	9,236	76.9
	10,356	6,426	61.2
Gross profit	14,314	6,282	127.9
Operating expenses			
Salaries, wages and benefits	12,626	7,254	74.1
General and administrative	7,224	4,511	60.1
Depreciation and amortization	2,266	717	216.0
Share-based compensation	1,623	1,154	40.6
	23,739	13,636	74.1
Loss before undernoted items	(9,425)	(7,354)	28.2
Finance costs,net	(839)	(503)	66.8
Business acquisition transaction costs	(1,723)	(450)	282.9
Change in fair value of estimate	(65)	1,650	(103.9)
Loss before income taxes	(12,052)	(6,657)	81.0
Income tax expense	3	-	n/a
Deferred tax recovery	(1,565)	(160)	878.1
Net loss	(10,490)	(6,497)	61.5
Other comprehensive income (loss)			
Foreign currency translation	(13)	73	(117.8)
Total comprehensive loss	(10,503)	(6,424)	63.5
Loss per common share - basic and diluted	(0.05)	(0.06)	18.2

The Company has recorded a net loss of $10.49 million during the year ended December 31, 2016 compared to a net loss of $6.50 million for the year ended December 31, 2015.

Cash used in operating activities for the year ended December 31, 2016, was $480 thousand compared to $4.89 million in 2015. The uplift was primarily the result of securitizations and other funding received in the year. The Company began the year with $10.51 million in cash and ended the year with $17.08 million.

Gross profit for the year ended December 31, 2016 increased 127.9% to $14.31 million over 2015. This increase is attributed to the annualized impact of the Gemma acquisition (acquired in September 2015), the acquisition of EcoHome and the sustained acceleration of originations post-acquisition.

On February 18, 2016, EcoHome was acquired. The 2016 consolidated results and those for the Consumer Finance business reflect 10.5 months of EcoHome's operations subsequent to the acquisition.

During the year, the Company engaged an independent firm to complete an objective valuation of certain identifiable intangible assets and tangible assets in conformity with Standard No. 110 of the Canadian Business Valuators. The material adjustments arising from the valuation included an increase in the fair values of finance leases and loans assumed, and a reduction in intangible assets and goodwill. The resulting final purchase price allocation to the fair value of assets acquired and liabilities assumed, is compared to the preliminary purchase price allocation made at the time of acquisition, in the following table:

Purchase Price Allocation (in $'000s)	**Preliminary**	**Final**	**Increase/ (Decrease)**
Cash	422	422	—
Cash reserve	5,008	5,008	—
Accounts receivable	33	33	—
Lease receivable	47,846	53,360	5,514
Loan receivable	23,880	24,135	255
Prepaid expenses and other assets	1,074	1,074	—
Dealer relationships	20,161	12,666	(7,495)
Brand and trademarks		703	703
Goodwill	20,646	17,854	(2,792)
Assets acquired	**119,070**	**115,255**	**(3,815)**
Accounts payable and other liabilities	(2,020)	(2,020)	—
Deferred income tax liability	(5,235)	(1,565)	3,670
Secured borrowings	(69,174)	(69,220)	(46)
Secured promissory note	(8,000)	(8,000)	—
Liabilities assumed	**(84,429)**	**(80,805)**	**3,624**
Net assets acquired	**34,641**	**34,450**	**(191)**
Consideration			
Cash	29,000	28,873	(127)
Common shares	3,141	2,940	(201)
Unsecured convertible vendor take-back note	2,500	2,637	137
Total consideration	34,641	34,450	(191)

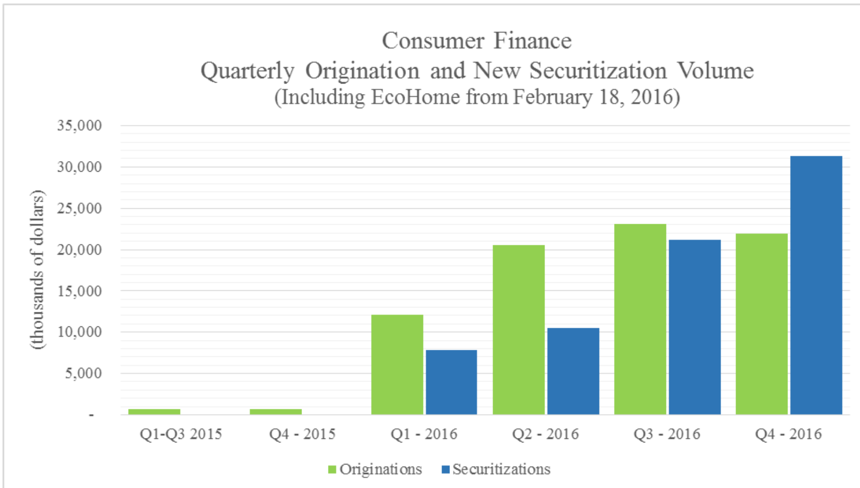
The increase in fair values of leases and loans receivable are deferred and recognized as yield adjustments using the effective interest rate method over the term of the related financial asset. Dealer relationships, and brand and trademarks, are intangible assets that have a finite life and are amortized on a straight-line basis over ten years.

The adjustments to yield, amortization of intangibles, consideration and deferred income taxes were recognized during the three-month period ended December 31, 2016. The impact of the finalization of the Purchase Price Allocation on the Results of Operations for the year ended December 31, 2016 are as follows:

in $'000s except for per share amounts	**Before final purchase price allocation**	**Impact of final purchase price allocation**	**December 31, 2016**
	$	$	$
Consumer Finance			
Finance income	10,051	(1,366)	8,685
Finance and direct expenses	4,735	(8)	4,727
	5,316	(1,358)	3,958
Engagement			
Revenue	26,692	-	26,692
Cost of sales	16,336	-	16,336
	10,356	-	10,356
Gross Profit	15,672	(1,358)	14,314
Operating Expenses			
Salaries, wages & benefits	12,626	-	12,626
General & administrative expenses	7,224	-	7,224
Depreciation and amortization	2,690	(424)	2,266
Share-based compensation	1,623	-	1,623
	24,163	(424)	23,739
Loss before undernoted items	(8,491)	(934)	(9,425)
Finance costs	(839)	-	(839)
Business acquisition transaction costs	(1,723)	-	(1,723)
Change in fair value of estimate	20	(85)	(65)
Loss before income taxes	(11,033)	(1,019)	(12,052)
Current tax expense	3	-	3
Deferred tax expense (recovery)	(4,163)	2,598	(1,565)
Net loss	(6,873)	(3,617)	(10,490)
Other comprehensive income (loss)			
Foreign currency translation	(13)	-	(13)
Total comprehensive loss	(6,886)	(3,617)	(10,503)
Loss per share - basic and diluted	**(0.03)**	**(0.02)**	**(0.05)**
Weighted average number of shares	222,247	222,247	222,247

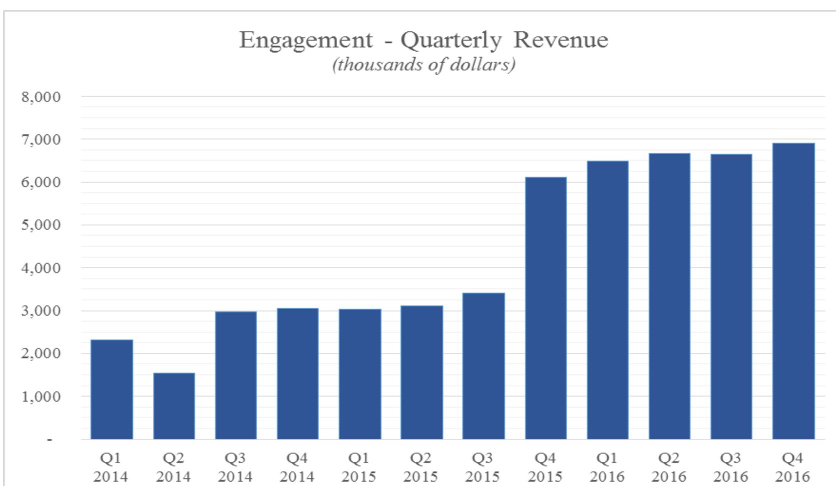
Consumer Finance interest income during the year ended December 31, 2016 was $8.69 million compared to the same period in 2015 of $248 thousand. This increase is attributed to the acquisition of EcoHome and the sustained acceleration of originations post-acquisition. EcoHome has contributed $7.83 million of interest and fee revenue since its acquisition on February 18, 2016.

During the year ended December 31, 2016, the Consumer Finance business line experienced portfolio growth of 7,124%. The finance receivable portfolio increased to $137.54 million as at December 31, 2016 from $1.90 million as at December 31, 2015. Please also see above for impact of formal valuation of EcoHome acquisition.



Consumer Finance interest and direct expenses for the year ended December 31, 2016 was $4.73 million compared to the $0.39 million in 2015. The increase in interest expense is the result of growth in secured borrowings from $nil million in 2015 to $118.39 million in 2016.

Engagement business revenues during the year ended December 31, 2016 were $26.69 million compared to the same period in 2015 of $15.66 million. The 70.4% increase in revenues from the previous year is result of organic growth and the annualized impact of the Gemma acquisition September 30, 2015.



Engagement cost of sales for the year ended December 31, 2016 was $16.34 million, compared to $9.24 million in 2015. The gross margin in the Engagement business increased by $3.93 million reflecting organic growth and the annualized impact of the Gemma acquisition.

Salaries, wages & benefits were $12.63 million for the year ended December 31, 2016 compared to $7.25 million during the year ended December 31, 2015. This increase is attributable, in part, to the annualized addition of Gemma Communications, the annualized addition of key executive management hired in 2015, the annualized cost of a new Board of Directors retained in 2015, the acquisition of EcoHome, and additional salaries associated with building out the Consumer Finance business line. In December 2016, the Board of Directors approved the implementation of a formal annual short-term incentive program. All salaried employees were eligible to participate with awards subject to achievement of individual and 2016 corporate performance objectives. Subsequent to year-end, the Board approved an award of $1.76 million. The full amount of the award was expensed during the fourth quarter of 2016. The Company did not make a similar award in 2015.

General & administrative expenses were $7.22 million for the year ended December 31, 2016 compared to $4.51 million during the year ended December 31, 2015. This increase is attributable, in part, to the annualized addition of Gemma Communications, the acquisition of EcoHome, and additional costs associated with building out the Consumer Finance business line.

Depreciation and amortization increased to $2.27 million in 2016 from $717 thousand in 2015. This is a result of the Gemma acquisition and the amortization of intangibles arising from the acquisition of EcoHome. Please also see above for impact of the final Purchase Price Allocation valuation of EcoHome acquisition.

Share-based compensation expense was $1.62 million in 2016 compared to $1.15 million the previous year. The increase in share-based compensation was the result of an increased number of stock options granted in 2016 compared to the 2015 period as a result of the increase in eligible employees arising from the acquisitions of EcoHome and Gemma, changes to key management, and the growth of the Consumer Finance business.

Finance costs were $839 thousand in 2016 compared to $503 thousand in 2015. The increase from prior period is primarily due to the issue of a vendor take-back note on the acquisition of EcoHome.

Business acquisition and transaction costs incurred in 2016 were $1.72 million, compared to $450 thousand in 2015. These are non-recurring costs resulting from acquisition activity. The year over year increase is related to the due diligence, audit, and transition costs related to the acquisition of EcoHome. Included in the 2016 amount was $380 relating to management compensation for the acquisition and successful integration of EcoHome.

On June 2, 2016, the Company reached an agreement with the vendor of Gemma and received $875 thousand as full and final settlement of all amounts owing to Dealnet and any further contingent consideration to the vendor and any other matters. A gain of $19 thousand was recognized as a change in fair value of estimate. $66 thousand of change to the fair value of holdbacks with respect to the EcoHome acquisition was also recognized through changes in the fair value of estimate.

Loss per share (basic and diluted) during the year ended December 31, 2016 was $0.05 as compared to a loss of $0.06 in 2015, an 18.2% improvement over 2015. As noted above, $0.02 of the 2016 loss per share is attributable to the finalization of the EcoHome purchase price allocation. Adjusting for this, the loss per share would be $0.03 for 2016 as compared to $0.06 in 2015.

Results of Operations – For the three months ended December 31, 2016, September 30, 2016 and December 31, 2015

The following table sets forth a summary of the Company's consolidated financial performance as of the dates presented:

	For the three months ended				
in $'000s except for per share amounts	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Consumer finance					
Finance income	2,393	2,759	172	(13.3)	1,291.3
Finance and direct expenses	2,164	993	(27)	117.9	(8,114.8)
	229	1,766	199	(87.0)	15.1
Engagement					
Revenue	6,906	6,645	6,115	3.9	12.9
Cost of sales	4,042	3,939	4,087	2.6	(1.1)
	2,864	2,706	2,028	5.8	41.2
Gross profit	3,093	4,472	2,227	(30.8)	38.9
Operating expenses					
Salaries, wages and benefits	4,478	2,890	2,910	54.9	53.9
General and administrative	2,359	1,582	1,922	49.1	22.7
Depreciation and amortization	161	768	285	(79.0)	(43.5)
Share-based compensation	273	415	71	(34.2)	284.5
	7,271	5,655	5,188	28.6	40.2
Loss before undernoted items	(4,178)	(1,183)	(2,961)	253.2	41.1
Finance costs,net	(214)	(176)	50	21.6	(528.0)
Business acquisition transaction costs	(267)	(265)	(232)	0.8	15.1
Change in fair value of estimate	(84)	-	1,650	n/a	(105.1)
Loss before income taxes	(4,743)	(1,624)	(1,493)	192.1	217.7
Income tax expense	(31)	(1)	-	2,986.8	n/a
Deferred tax expense (recovery)	2,598	(70)	(160)	(3,811.4)	(1,723.8)
Net loss	(7,310)	(1,553)	(1,333)	370.7	448.4
Other comprehensive income (loss)					
Foreign currency translation	4	4	11	-	(63.6)
Total comprehensive loss	(7,306)	(1,549)	(1,322)	371.7	452.7
Loss per common share - basic and diluted	(0.03)	(0.01)	(0.01)	347.6	174.8

The Company has recorded a net loss of $7.31 million during the three months ended December 31, 2016 compared to a loss of $1.55 million for the three months ended September 30, 2016 and a loss of $1.33 million during the same period in 2015. The increased loss over the prior quarter is primarily the result of:

1. $3.62 million from the recognition of amounts arising from the finalization of the formal valuation of the EcoHome acquisition recorded in the current quarter (please see comments included under Overall Performance Highlights for the Year Ended December 31, 2016). The adjustments to yield,

amortization of intangibles, consideration and deferred income taxes were recognized during the three-month period ended December 31, 2016.

2. In December 2016, the Board of Directors approved the implementation of a formal annual short-term incentive program. All salaried employees were eligible to participate with awards subject to achievement of individual and 2016 corporate performance objectives. Subsequent to year-end, the Board approved an award of $1.76 million. The full amount of the expense was recognized during the fourth quarter of 2016.
3. Certain other one-time expenses recognized through general and administrative expense and business acquisition transaction costs aggregating $733 thousand.

The impact of the above noted items on the Results of Operations for the three months ended December 31, 2016 are as follows:

in $'000s except for per share amounts	**Before impact of the above items**	**Impact of the above items**	**December 31, 2016**
	$	$	$
Consumer Finance			
Finance income (1)	3,759	(1,366)	2,393
Finance and direct expenses (1)	2,172	(8)	2,164
	1,587	(1,358)	229
Engagement			
Revenue	6,906	-	6,906
Cost of sales	4,042	-	4,042
	2,864	-	2,864
Gross Profit	4,451	(1,358)	3,093
Operating Expenses			
Salaries, wages & benefits (2)	2,712	1,766	4,478
General & administrative expenses (3)	1,893	466	2,359
Depreciation and amortization (1)	585	(424)	161
Share-based compensation	273	-	273
	5,463	1,808	7,271
Loss before undernoted items	(1,012)	(3,166)	(4,178)
Finance costs	(214)	-	(214)
Business acquisition transaction costs (3)	-	(267)	(267)
Change in fair value of estimate (1)	1	(85)	(84)
Loss before income taxes	(1,225)	(3,518)	(4,743)
Current tax expense	(31)	-	(31)
Deferred tax expense (recovery) (1)	-	2,598	2,598
Net loss	(1,194)	(6,116)	(7,310)
Other comprehensive income (loss)			
Foreign currency translation	4	-	4
Total comprehensive loss	(1,190)	(6,116)	(7,306)
Loss per share - basic and diluted	**(0.00)**	**(0.03)**	**(0.03)**
Weighted average number of shares	250,199	250,199	250,199

Cash provided from operating activities for the three months ended December 31, 2016, was $10.80 million compared to $1.34 million for the third quarter and cash used by operating activities of $2.30 million for the same period in 2015. The improvements are attributable to increased securitization activities during the third and fourth quarters of 2016. The Company began the year with $10.51 million in cash, stood at $5.16 million as at September 30, 2016 and ended the year with $17.08 million of cash.

Consumer Finance business income during the three months ended December 31, 2016 was $2.39 million compared to the same period of 2015 of $172 thousand and $2.76 million in the prior quarter. The business line was launched late 2015 and the year over year increase represents graduation from launch to growth cycles. The addition of EcoHome in 2016 aided in this transformation. Please also see comments above for impact of the final Purchase Price Allocation valuation of EcoHome acquisition.

Consumer Finance cost of sales for the three months ended December 31, 2016 was $2.16 million compared to the same period of 2015 of (-$27) thousand and $993 thousand in the prior quarter. The growth in the expense is consistent with the growth of secured borrowings and debentures used to fund consumer finance receivables.

Engagement business revenues during the three months ended December 31, 2016 were $6.91 million compared to the same period of 2015 of $6.12 million and $6.65 million in the prior quarter. The increase in revenue over prior periods is the result of organic growth and the acquisition of mobile contracts in the third quarter.

Engagement cost of sales for the three months ended December 31, 2016 was $4.04 million compared to the same period of 2015 of $4.09 million and $3.94 million in the prior quarter, in line with revenue growth. Engagement gross margin increased to 41.5% during the fourth quarter compared to 40.7% in the third quarter of 2016 and 33.2% during the fourth quarter of 2015.

Salaries, wages & benefits were $4.48 million for the three months ended December 31, 2016 compared to $2.91 million during the three months ended December 31, 2015 and $2.89 million for the three months ended September 30, 2016. In December 2016, the Board of Directors approved the implementation of a formal annual short-term incentive program. All salaried employees were eligible to participate with awards subject to achievement of individual and 2016 corporate performance objectives. Subsequent to year-end, the Board approved an award of $1.76 million. The full amount of the expense was recognized during the fourth quarter of 2016. The Company did not make a similar award in 2015.

General & administrative expenses were $2.36 million for the three months ended December 31, 2016 compared to $1.92 million during the three months ended December 31, 2015 and $1.58 million for the three months ended September 30, 2016. The increase over 2015 is mainly attributable to the acquisition of EcoHome. The increase over the three months ended September 30, 2016 is the result of one-time write-off of certain systems related intangible assets which were no longer determined to be eligible for capitalization, and other one-time charges.

Depreciation and amortization expenses were $161 thousand for the three months ended December 31, 2016 compared to $285 thousand during the three months ended December 31, 2015 and $768 thousand for the three months ended September 30, 2015. Please see above for impact of the final Purchase Price Allocation valuation of the EcoHome acquisition.

Share-based compensation expenses were $273 thousand for the three months ended December 31, 2016 compared to $71 thousand during the three months ended December 31, 2015 and $415 thousand for the three months ended September 30, 2015. The increase in share-based compensation was the result of an increased number of stock options outstanding in 2016 itself the result of the increase in eligible employees arising from the acquisitions of EcoHome and Gemma, changes to key management, and the growth of the Consumer Finance business.

Finance costs were $214 thousand for the three months ended December 31, 2016 compared to a gain of $50 thousand during the three months ended December 31, 2015 and a $176 thousand expense for the three months ended September 30, 2015. Interest on the convertible debenture and the secured promissory note accounts for this expense. The gain realized in 2015 was the result of restructuring and extinguishing certain debt.

Business acquisition and transaction costs incurred in the three months ended December 31, 2016 were $267 thousand compared to $232 thousand during the three months ended December 31, 2015 and $265 thousand for the three months ended September 30, 2015. These costs were related to audit, legal, transition, and due diligence arising from the acquisition of EcoHome (2016) and Gemma (2015). Included in the expense for the fourth quarter of 2016 were costs associated with the successful integration of EcoHome and the finalization of the EcoHome purchase price allocation.

$84 thousand of change to the fair value of holdbacks with respect to the EcoHome acquisition were recognized through changes in the fair value of estimate during the fourth quarter.

Loss per share (basic and diluted) during the three months ended December 31, 2016 was $0.03 compared to a loss of $0.01 during the three months ended December 31, 2015 and a loss of $0.01 for the three months ended September 30, 2015. Please also see the above comments with respect to the impact of the finalization of the EcoHome Purchase Price Allocation, and other significant expenses incurred during the three months ended December 31, 2016, that increased loss per share from $0.00 per share to $0.03 per share for the period.

Consolidated Financial Position

The following table sets forth a summary of the Company's consolidated financial position as of the dates presented:

in $'000s	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Cash and cash equivalents	17,075	5,161	10,512	230.8	62.4
Cash reserves	10,225	7,688	300	33.0	3,308.3
Trade receivables, net of allowance	5,594	4,673	3,866	19.7	44.7
Finance receivables	137,543	117,581	1,904	17.0	7,123.9
Other assets	1,725	1,208	3,452	42.8	(50.0)
Deferred income tax asset	2,591	-	-	n/a	n/a
Property and equipment, net	1,106	1,209	979	(8.5)	13.0
Intangible assets	14,039	21,128	1,530	(33.6)	817.6
Goodwill	19,914	22,706	2,060	(12.3)	866.7
Assets	209,812	181,354	24,603	15.7	752.8
Accounts payable and accrued liabilities	8,780	9,913	5,486	(11.4)	60.0
Debentures and notes payable	27,055	21,625	3,804	25.1	611.2
Secured borrowings	118,387	94,404	-	25.4	n/a
Deferred income tax liability	2,591	-	-	n/a	n/a
Deferred revenue	225	363	425	(38.0)	(47.1)
	-	-	-		
Total liabilities	157,038	126,305	9,715	24.3	1,516.4
Commitments and contingencies					
Share capital	59,320	53,564	12,682	10.7	367.7
Contributed surplus	7,049	7,774	5,298	(9.3)	33.1
Other comprehensive income	45	41	58	9.8	(22.4)
Deficit	(13,640)	(6,330)	(3,150)	115.5	333.0
Shareholders' equity	52,774	55,049	14,888	(4.1)	254.5
	-	-	-		
Total shareholders' equity	209,812	181,354	24,603	15.7	752.8

Total Assets

Total assets were $209.81 million as at December 31, 2016, an increase of $185.21 million, or 753% compared to $24.60 million as at December 31, 2015, and an increase of $28.46 million, or 16% compared to $181.35 million as at September 30, 2016.

The increase over December 31, 2015 is primarily the result of cash received from $41.1 million of net new capital raised through private placements and the exercise of warrants and options during the 12 months ended December 31, 2016, assets acquired of $115.26 million on the acquisition of EcoHome on February 18, 2016 less $28.9 million of cash consideration. The increase over September 30, 2016 is primarily the result of cash received of $12.26 million from the exercise of warrants and the issuance of notes payable and $23.98 million of net new secured borrowings used to fund finance receivable originations.

Trade receivables

The following table sets forth a breakdown of the Company's trade receivables as of December 31, 2016, September 30, 2016 and December 31, 2015:

in $'000s	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Trade receivables	5,751	4,828	4,088	19.1	40.7
Allowance for doubtful accounts	(157)	(155)	(222)	1.3	(29.3)
	5,594	4,673	3,866	19.7	44.7

Trade receivables are non-interest bearing and are generally 30 to 90 day terms. Management regularly measures the credit quality of trade receivables based on individual customer and market factors. At December 31, 2016, approximately 96% [2015 – 98%] of the Company's trade receivables are considered current and the Company had recorded an allowance for doubtful accounts of $157 [2015 – $222].

Trade receivables increased to $5.75 million at December 31, 2016, an increase of $1.66 million or 41% from $4.09 million as at December 31, 2015, and an increase of $923 thousand, or 19% compared to $4.83 million as at September 30, 2016.

Management maintains an allowance for credit losses, which it establishes to provide for impairment of individual or groups of assets. Individual impairment is assessed by examining contractual delinquency and the individual borrower's financial condition. The allowance for doubtful accounts is in line with Management's expectation of the level of losses considering the existing mix of receivables.

Finance receivables

The following table sets forth a breakdown of the Company's finance receivables as of December 31, 2016, September 30, 2016 and December 31, 2015:

in $'000s	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Consumer finance leases	104,034	89,028	921	16.9	11,195.8
Consumer finance loans	33,692	28,736	-	17.2	n/a
Loan receivable	-	-	316	n/a	(100.0)
Secured note receivable	-	-	667	n/a	(100.0)
Reserve for losses	(183)	(183)	-	-	n/a
	137,543	117,581	1,904	17.0	7,123.9

Consumer finance leases and loans increased $19.96 million from September 30, 2016 to $137.54 million, a 17% net increase. The Company had commenced its Consumer Finance business during the second quarter of 2015. The net growth in the three months ended December 31, 2016 was due to organic originations from One Dealer and EcoHome. Included in the 2016 results is the February 18, 2016 acquisition of EcoHome, which had $71.73 million of finance receivables on the acquisition date.

Of the aggregate 27,289 finance contracts as at December 31, 2016, (24,723 – September 30, 2016) 20,759 were lease contracts (18,866 – September 30, 2016), representing 76% of the net investment in financial contracts (76% - September 30, 2016), and 6,530 were loan contracts (5,857 – September 30, 2016), representing 24% of the net investment in financial contracts (24% - September 30, 2016). The Consumer Finance business derives substantially all of its revenues from the leases and loans it finances, holds and services, which consist primarily of scheduled payments. The portfolio is with customers who are homeowners. The portfolio risk is diversified across a large number of small transactions (average outstanding balance of loans is $5,107 ($4,981 – September 30, 2016), and of rentals is $4,710 ($4,625 – September 30, 2016).

Other

The following table sets forth a summary of other assets by category for the periods presented:

in $'000s	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Cash reserves	10,225	7,688	300	33.0	3,308.3
Property and equipment	1,106	1,209	979	(8.5)	13.0
Other assets	1,725	1,208	3,452	42.8	(50.0)
Deferred tax asset	2,591	-	-	n/a	n/a
Intangible assets	14,039	21,128	1,530	(33.6)	817.6
Goodwill	19,914	22,706	2,060	(12.3)	866.7
	49,600	53,939	8,321	(8.0)	496.1

Cash reserves

Cash reserves represents amounts held by, or on behalf of, senior secured debentures of $2.3 million ($1.3 million – September 30, 2016) and secured borrowing arrangements of $7.93 million to provide credit risk enhancement to those facilities ($6.39 million – September 30, 2016).

Property and equipment

Property and equipment represent primarily leasehold improvements, and computer and office equipment. These assets have increased from the balances reported at December 31, 2015 due to $334 thousand of additions net of $207 thousand of depreciation and amortization.

Other Assets

Other assets consist of the following:

In $'000s	**2016** $	**2015** $
Amounts due from vendor of Gemma	—	2,670
HST receivable	875	77
Prepaid expenses and other receivables	618	433
Security deposits	178	172
Fair value of cash holdback	42	—
Tenant allowance	12	100
	1,725	3,452

The purchase arrangement for Gemma included certain terms whereby the vendor guaranteed certain minimum revenue levels from the date of acquisition as disclosed in note 11 of the consolidated financial statements. On June 2, 2016, the deferred and contingent consideration of $2.67 million was settled. Changes in the fair value of the outstanding balance has been recognized in the consolidated statements of loss and comprehensive loss.

Deferred Tax Asset

Deferred income tax assets consist primarily of unused tax loss carry forwards, and unused tax credits, recognized to the extent that it is probable that taxable profits will be available against which the unused tax losses and credits can be utilized.

Intangibles

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. The Company's intangible assets include computer software, customer and dealer relationships, and brand and trademarks and are measured at amortized cost.

The increase in intangibles from 2015 is attributed to the acquisition of EcoHome. Please commentary included above with respect to the impact of the finalization of the EcoHome Purchase Price Allocation on intangible assets.

Goodwill

Goodwill consists of the following:

	2016 $	**2015** $
Consumer Finance	**17,854**	—
Mobile Engagement	**289**	289
Live Engagement	**1,771**	1,771
As at December 31	**19,914**	2,060

The Company performs its annual test for the potential impairment of goodwill and intangible assets in the fourth quarter. The Company has three CGUs, or groups of CGUs, to which goodwill has been allocated for testing purposes: Consumer Finance, Mobile Engagement, and Live Engagement. As at December 31, 2016, the carrying values of goodwill for Consumer Finance, Mobile Engagement, and Live Engagement CGUs are $17,854, $289, and $1,771, respectively. For the purpose of impairment testing, the recoverable amounts for these CGUs were determined based on the higher of the value in use method and the fair value less costs to sell method.

The value-in-use method is based on estimated future cash flows over a five-year period referenced to the most recent financial forecasts approved by management and recent historical results, discounted to a present value. Beyond the initial five-year period, cash flows were estimated to grow at perpetual annual rates of up to 3%. The discount rate the Company applied in determining value in use for the Consumer Finance and Mobile Engagement CGUs was approximately 17%, which comprised a risk-free rate, equity risk premium, size premium and company-specific risk premium. The risk-free rate, equity risk premium and size premium were based on data from external sources, whereas the company-specific risk premium was based on factors considered by management to be specific to the business.

With respect to the Live Engagement CGU, the Company calculated the fair value less costs to sell, which exceeded the carrying value of the CGU, and hence, no impairment was recorded. The fair value was based on revenue multiples and included data from external sources which would be considered Level 2 measurements within the fair value hierarchy. Management performed a sensitivity analysis to assess the key assumptions and noted that a reasonable possible change in the assumptions used could result in an impairment. However, management concluded that the assumptions used in the analysis were the best estimate of the recoverable amount as at December 31, 2016.

With respect to the Consumer Finance and Mobile Engagement CGU's, in considering the sensitivity of the key assumptions discussed above, management determined that there is no reasonable possible change in any of the above that would result in the carrying value of the CGU to exceed its recoverable value.

Debentures, Notes Payable and Secured Borrowings

The following table below represents the carrying value of the Company's borrowings:

in $'000s	December 31, 2016	September 30, 2016	December 31, 2015	Change over September 30, 2016	Change over December 31, 2015
	$	$	$	%	%
Secured debentures	21,635	11,819	-	83.1	100.0
Senior secured debenture	-	-	2,824	100.0	(100.0)
Secured promissory note	3,000	6,532	-	(54.1)	100.0
Unsecured convertible VTB note	2,420	2,404	-	0.7	100.0
2017 convertible debenture	-	870	980	(100.0)	(100.0)
Secured borrowings	118,387	94,404	-	25.4	100.0
	145,442	116,029	3,804	25.3	3,723.4

Secured debentures

On January 12, 2016, the Company issued a $10 million secured debenture, with capacity to issue up to $100 million, a term of 10 years, and a fixed interest rate of 5.99%. The funds received may only be used for the purpose of funding eligible HVAC, home improvement and other unsecured finance contracts. As part of this transaction, the Company issued 2,000,000 common share purchase warrants, each able to purchase one common share of the Company at an exercise price of $0.67 per share, expiring on January 12, 2019. The Company used the residual method to allocate the liability and equity portions of the secured debenture. The Company estimated the fair value of the equity component to be $722 [including $33 of transaction costs]. The fair value of the liability was measured using a discounted cash flow method. In determining the value of the liability, the Company applied an interest rate of 7%, which assumes no equity component. The fair value of the equity component was netted against the liability and is being accreted over the term of the loan. During the year, the Company incurred transaction costs of $520.

On May 5, 2016, the Company issued a $3 million secured debenture under this existing facility, maturing on June 30, 2016 at a fixed interest rate of 5.85%. The debenture was extended to mature on June 30, 2017.

On November 28, 2016, the Company issued a $10 million secured debenture at a fixed interest rate of 6%. The debenture has a term of five years with an option to extend for an additional five years at the holder's option. The Company incurred transaction costs of $211.

The Company holds total cash reserves of $2.3 million to support the credit risk associated with the three secured debentures. In addition, as at December 31, 2016, the debentures are secured against consumer finance contracts with book value of $18.5 million. The Company has a total of $4.7 million of funds borrowed but not utilized.

Senior secured debenture

On January 12, 2016, in connection with the issuance of the secured debenture discussed above, the Company repaid principal of $3 million plus interest. Unamortized accretion of $176 was recognized in the consolidated statements of loss and comprehensive loss.

Secured promissory note

The Company issued an $8 million promissory note to Chesswood Group Limited bearing interest at 4.0% per annum, which represented the intercompany warehouse funding to EcoHome for leases and loans that had not yet been securitized with EcoHome funders prior to the acquisition of EcoHome. Upon maturity of the note on April 28, 2016, the Company extended the note to mature on September 30, 2017, with interest at 5.5% per annum for the first 12 months. The note is repayable in two instalments of $1 million each, due April 3, 2017 and July 3, 2017 respectively. The remaining outstanding balance is repayable in full on maturity and is secured against a pool of consumer finance contracts. The promissory note is secured against a pool of consumer finance contracts with a net book value of $2.9 million.

Unsecured convertible vendor take-back note

As part of the February 18, 2016 acquisition of EcoHome, the Company issued Chesswood Group Limited a $2.5 million convertible note, which matures on February 18, 2018 and is convertible into common shares of Dealnet at a conversion price of $0.64 per share. The note bears interest at the rate of 6% per annum. In determining the value of the liability, the Company applied an interest rate of 9%, which assumes no conversion feature.

2017 convertible debentures

On June 18, 2015, the Company closed a private placement for $1,500 of new convertible debentures. The 2017 convertible debentures mature on June 18, 2017, bear interest at 12% per annum and are convertible, at the option of the holder, into common shares at a conversion price of $0.19 per share. The Company allocated a value of $1,443 to the liability component and $57 to the equity component. In determining the value of the liability, the Company applied an interest rate of 15%, which assumes no conversion feature. The Company incurred issuance costs of $186. The issuance costs have been netted against the liability and equity amounts in the same proportion .as noted above. The Company recorded accretion expense of $75 in 2016 (2015 - $52).

During 2016, the holder of the convertible debentures elected to convert the remaining outstanding face value of $1,120 (book value of $1,055) into 5,894,736 common shares.

Secured borrowings

Dealnet finances its consumer finance lease and loan receivables by pledging such receivables as security for amounts borrowed from funders under bulk facilities. The Company retains servicing responsibilities of the pledged finance lease and loan receivables; the lenders have the right to enforce their security interest in the pledged receivables and the cash reserves that provide additional credit enhancement (see "*Other assets*" above), if the Company defaults under these facilities.

The following tables provide a summary of financial receivables transferred that do not qualify for derecognition, together with the associated liabilities:

	2016	2015
	$	$
Carrying value of finance receivables transferred	**105,963**	-
Carrying value of associated liabilities	**118,664**	-

The weighted average stated interest rate of the outstanding liabilities is 3.58% as at December 31, 2016 and excludes deferred financing costs and premiums or discounts. Cash reserves held with counterparties for these facilities are $7,925 as at December 31, 2016.

During the year, the Company securitized a total of approximately $44.8 million [2015 – nil] under an existing facility with a Schedule 1 bank. The facility was renewed in the second quarter of 2016.

In July 2016, the Company has also entered into a $20 million securitization facility with another major Canadian financial institution. During the year, the Company securitized nil [2015 – nil] under this facility.

In August 2016, the Company closed a $75 million securitization facility with a major Canadian life insurance company. During the year, the Company securitized $26 million [2015 – nil] through this facility.

The Company retains significant portion of the risk and reward associated with the transferred assets. The transferee has recourse only to the transferred assets and cash reserves.

Equity

Dealnet's capital base was transformed over the past 12 months. The Company has built a capital structure and secured an infrastructure capable of executing on its growth plan.

On February 5, 2016, Dealnet closed a private placement bought deal based financing of 54,545,700 subscription receipts at a price of $0.55 per subscription receipt for gross proceeds of $30 million. Each subscription receipt entitled the holder to receive one common share of the Company in exchange for each subscription receipt upon satisfaction of certain escrow release conditions, including the satisfaction or waiver of all conditions precedent to the closing by the Company of the acquisition of EcoHome, provided that the conditions had been satisfied by March 31, 2016. In connection with the private placement, $284 thousand of direct costs were incurred and the underwriters received cash commissions of $1.77 million and 3,218,200 non-transferable broker warrants. Each broker warrant is exercisable by the holder for one common share of the Company for a period of 18 months following the closing of the offering at a price of $0.55 per broker warrant.

On August 24, 2016, as part of the consideration for the purchase of mobile messaging contracts, the Company issued 543,921 common shares valued at $294 thousand ($0.54 per share).

On December 22, 2016, upon the exercise of 1,070,181 broker compensation options, the Company issued an equal amount of common shares and 535,090 warrants. These broker compensations options were originally issued as part of the brokered private placement on August 15, 2015 as disclosed below under.

During the year, the Company issued 5,894,736 common shares valued at $1.04 million upon conversion of the 2017 convertible debentures.

The Company issued 757,167 common shares from the exercise of employee stock options at a weighted average price of $0.26 each for cash proceeds of $198 thousand.

During the year, 38,314,245 warrants were exercised with a weighted average exercise price of $0.33 each for total cash proceeds of $12.52 million.

The Company issued 764,072 common shares valued at $435 thousand to two independent parties as payment for advisory services.

On January 13, 2017, the Company acquired a portfolio of consumer finance lease contracts valued at approximately $29.2 million. The acquisition was effected through a cash payment of $22.5 million less certain adjustments and the issuance of 12,523,364 common shares valued at $6.7 million. The Company has simultaneously securitized certain contracts from the portfolio to fund the cash portion of the transaction.The common shares issued are subject to a hold period of four months expiring on May 14, 2017. Additionally, the common shares are subject to a three-year timed release escrow commencing on closing.

During the first quarter of 2017, all outstanding broker compensation options of 999,819 were exercised for cash proceeds of $400. In return, the Company issued 999,819 common shares and 499,909 warrants. In addition, 7,427,499 warrants and 58,375 options were exercised for total cash proceeds of $3,714 and $17 respectively.

Share-based compensation

The Company awards stock options to employees, officers, directors and others at the recommendation of the Board of Directors under an incentive stock plan [the “Plan”]. Options are granted at the fair value of the shares on the day granted [as decided by the Board of Directors], and vest over various terms with a varying terms of exercise. Compensation expense is recognized over the vesting terms. The changes in the number of stock options during years ended December 31, were as follows:

	2016		**2015**	
Common share stock options	**[# 000s]**	**Weighted average exercise price $**	**[# 000s]**	**Weighted average exercise price $**
As at January 1	**8,986**	**0.35**	4,385	0.28
Issued	**14,420**	**0.59**	8,291	0.36
Exercised	**(757)**	**0.26**	(2,221)	0.28
Expired	**(318)**	**0.55**	(1,469)	0.27
As at December 31	**22,331**	**0.50**	8,986	0.35

During 2016, the Company granted 14,420,000 (2015 – 8,291,400) stock options to directors, employees and consultants. The stock options vest over a period of 18 months (2015 – 3 years), exercisable for a period of 5 years, (2015 – 5 years) at a weighted average exercise price of $0.59 (2015 - $0.36) per stock option. The fair value of these options was estimated to be $2,685 (2015 - $1,852) on the date of grant using the Black Scholes option-pricing model.

The weighted average remaining contractual life and weighted average exercise price of options outstanding as at December 31, 2016 are as follows:

	Options outstanding [# 000s]	**Weighted average exercise price** $	**Remaining contractual life** [# 000s]	**Options vested** [# 000s]	**Options unvested** [# 000s]
Expiry date					
2017	444	0.28	0.57	444	—
2018	1,450	0.23	1.13	1,087	363
2019	—	—	—	—	—
2020	6,267	0.40	3.55	4,976	1,291
2021	14,170	0.59	4.55	2,467	11,703
As at December 31, 2016	**22,331**	**0.50**	**3.97**	**8,974**	**13,357**

Reduction in stated capital account of the common shares

On October 23, 2015, the shareholders approved a special resolution authorizing a reduction in the Company's stated capital of its common shares by $54 million and the Company's contributed surplus by up to $6.2 million (the "Reduction of Capital"). The Reduction of Capital allows the Company's balance sheet to more accurately reflect the assets, operations and prospects of the current operation of Dealnet. In addition, the Reduction of Capital gives the Board the necessary flexibility in managing the Company's capital structure going forward.

Preferred shares

On October 23, 2015, the shareholders of Dealnet approved a special resolution authorizing the Company to file articles of amendment of the Company to create a new class of shares to be classified as "Preferred Shares". The main purpose of the creation of the Preferred Shares is to provide Dealnet with greater flexibility in its capital structure and in raising future capital for use in the Company's business and operations or in connection with acquisitions of other businesses or properties. An unlimited number of Preferred Shares were authorized and the Preferred Shares can be issuable in one or more series. No preferred shares have been issued to date.

Selected Financial Information – For the Years Ended December 21, 2016, 2015, 2014, 2013 and 2012

The following table summarizes key financial data to be read in conjunction with the audited consolidated financial statements of the Company as at and for the year ended December 31, 2016. Such financial statements are prepared in accordance with IFRS and are reported in Canadian dollars.

in $'000s except for per share amounts	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue					
Consumer Finance	8,685	248	13	-	-
Live Engagement	18,499	9,997	7,449	4,649	2,176
Mobile Engagement	8,193	5,665	2,428	-	-
Total Revenue	35,377	15,910	9,890	4,649	2,176
Gross Profit	14,314	6,282	4,510	1,708	1,102
Net loss for the year	(10,490)	(6,497)	(4,575)	(2,455)	(1,518)
Total assets	209,812	24,603	6,271	3,970	3,492
Debentures and notes payable	27,055	3,804	3,153	3,440	1,206
Secured borrowings	118,387	-	-	-	-
Loss per common share - basic and diluted	(0.05)	(0.06)	(0.07)	(0.03)	(0.05)
Dividends	Nil	Nil	Nil	Nil	Nil

Summary of Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended December 31, 2016. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

in $'000s except for per share amounts	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Revenue								
Consumer Finance	2,393	2,759	2,455	1,078	174	44	19	11
Live Engagement	4,433	4,614	4,824	4,628	4,689	1,860	1,700	1,749
Mobile Engagement	2,473	2,031	1,834	1,855	1,424	1,541	1,418	1,281
	9,299	9,404	9,113	7,561	6,287	3,445	3,137	3,041
Gross Profit	3,093	4,472	3,901	2,848	2,227	1,560	1,169	1,326
Net income (loss)	(7,310)	(1,553)	(2,117)	490	(1,333)	(1,630)	(1,944)	(1,590)
Total assets	209,812	181,354	161,884	152,141	24,603	24,259	8,301	7,941
Debentures and notes payable	27,055	21,625	22,905	20,256	3,804	4,213	4,387	4,521
Secured Borrowings	118,387	94,404	78,483	72,586	-	-	-	-
Income (loss) per share - basic and diluted	(0.03)	(0.01)	(0.01)	0.00	(0.01)	(0.01)	(0.02)	(0.02)
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Key factors that account for the fluctuation in the Company's quarterly revenues and net loss include the timing of major business acquisitions, including Gemma on September 30, 2015 and EcoHome on February 18, 2016.

The Company has recorded a net loss of $7.31 million during the three months ended December 31, 2016 compared to a loss of $1.55 million for the three months ended September 30, 2016 and a loss of $1.33 million during the same period in 2015. The increased loss over the prior quarter is primarily the result of:

1. $3.62 million from the recognition of amounts arising from the finalization of the formal valuation of the EcoHome acquisition recorded in the current quarter (please see comments included under Overall Performance Highlights for the Year Ended December 31, 2016). The adjustments to yield, amortization of intangibles, consideration and deferred income taxes were recognized during the three-month period ended December 31, 2016.
2. In December 2016, the Board of Directors approved the implementation of a formal annual short-term incentive program. All salaried employees were eligible to participate with awards subject to achievement of individual and 2016 corporate performance objectives. Subsequent to year-end, the Board approved an award of $1.76 million. The full amount of the expense was recognized during the fourth quarter of 2016.
3. Certain other one-time expenses recognized through general and administrative expense and business acquisition transaction costs aggregating $733 thousand.

During the fourth quarter of 2015, the Company reassessed the fair value of the contingent consideration of the Gemma acquisition and recognized through the consolidated statement of loss a $1.63 million positive change in fair value of contingent consideration.

Liquidity & Capital Resources

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The reported financial position of a company presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. As of December 31, 2016, the Company had working capital of $16.97 million compared to $1.85 million as of September 30, 2016, and compared to $10.21 million at December 31, 2015. Total shareholder's equity increased from $14.89 million as of December 31, 2015 to an equity balance of $52.77 million as of December 31, 2016. The positive change in working capital is primarily from financing activities, offset by net losses during the year. Financing activities included the issuance of new shares, the exercise of common share purchase warrants and the conversion of debt.

The Company's financing efforts during 2016 resulted in the following:

- $27.94 million of net proceeds from the issuance of common shares
- $12.52 million of proceeds from the exercise of warrants
- $0.63 million of proceeds from the exercise of stock options

In order to provide liquidity support for the Consumer Finance business, the Company closed multiple financing facilities in 2016. The financing allows for the warehousing before securitization as well as term funding of consumer finance contracts with terms of up to 10 years.

- The Company closed a securitization facility with a major Canadian life insurance company providing $75 million in funding for the Company's lease and loan products;
- The Company closed a $20 million funding facility with major Canadian financial institution;
- The Company renewed an existing securitization facility with a Schedule 1 Bank through which the Company typically securitizes $3-4 million per month.
- The Company closed a $10 million debenture with the investment management arm of one of Canada's leading insurance companies

In April 2017, the Company, through its wholly-owned subsidiary, issued $20 million of debentures under an existing facility.

Cash flows from operating activities primarily consist of the Company's loss before income tax adjusted for certain non-cash items such as depreciation and amortization, share-based compensation, accretion of interest and transaction costs, changes in fair value of contingent consideration and revenue guarantee, gains on settlement of debt, impairment of goodwill and intangible assets and changes in working capital.

Cash used in operating activities for the year ended December 31, 2016, was $480 thousand compared to $4.89 million in 2015. The uplift was primarily the result of securitizations and other funding received in the year. The Company began the year with $10.51 million in cash and ended the year with $17.08 million.

As at December 31, 2016, Management believes it has sufficient liquidity and capital resources available to execute on its business plan.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at December 31, 2016.

Financial Instruments

All financial instruments measured at fair value and for which fair value is disclosed are categorized into one of three hierarchy levels for disclosure purposes. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity.

Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities. The Company holds various forms of financial instruments as follows:

	2016				
In'000s	**Category**	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
Assets					
Cash and cash equivalents [i]	FVTPL	**17,075**	**—**	**—**	**17,075**
Cash reserves [i]	FVTPL	**10,225**	**—**	**—**	**10,225**
Trade receivables [i]	Loans and receivables	**—**	**5,594**	**—**	**5,594**
Finance receivables[ii]	Loans and receivables	**—**	**138,092**	**—**	**138,092**
Liabilities					
Accounts payable and accrued liabilities [i]	Other financial liabilities	**—**	**(8,780)**	**—**	**(8,780))**
Secured borrowings[iii]	Other financial liabilities	**—**	**(116,795)**		**(116,795)**
Debentures and notes payable[iv]	Other financial liabilities	**—**	**—**	**(28,300)**	**(28,300)**

In'000s	2015 Category	Level 1 $	Level 2 $	Level 3 $	Total $
Assets					
Cash and cash equivalents[i]	FVTPL	10,512	—	—	10,512
Cash reserves [i]	FVTPL	300	—	—	300
Trade receivables[i]	Loans and receivables	—	3,866	—	3,866
Finance receivable[ii]	Loans and receivables	—	1,904	—	1,904
Liabilities					
Accounts payable and other liabilities[i]	Other financial liabilities	—	(5,486)	—	(5,486)
Debentures and notes payable [iv]	Other financial liabilities	—	—	(3,804)	(3,804)

There were no transfers between any levels between 2015 and 2016.

Inputs and valuation techniques used for the financial instruments are:

[i] Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including trade receivables and accounts payable.

[ii] There is no organized market for finance receivables. The carrying value reflects amortized cost using effective interest rate method. The contractual interest rates approximate current market rates.

[iii] Fair value of secured borrowings consider only changes in components of the valuation model that are observable in active markets, namely, a change in the Government of Canada bond yields between the issuer date and current date.

[iv] Fair value of notes and debentures are calculated using a valuation model that considers the future stream of cash flow discounted at the market swap yield adjusted for risk premium.

Critical Accounting Policies and Estimates

The Company's audited consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the two-year period ended December 31, 2016,, were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). Please refer to Notes 3 and 4 of the Company's consolidated financial statements for a detailed discussion regarding the significant accounting policies relied upon in the preparation of the financial statements, the application of critical estimates and judgements in the preparation of the financial statements and recent accounting pronouncements.

Related Party Transactions

Compensation of key management personnel for the year ended December 31 is as follows:

In'000s	**2016** $	**2015** $
Salaries, bonuses and benefits	**3,345**	752
Termination benefits	**—**	190
Share-based compensation	**921**	916
	4,266	1,858

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period relating to those considered key management personnel. Key management personnel are those having authority and responsibility at any time during the year for planning, directing and controlling the activities of the Company, including senior management and members of the Board. The total number of key management personnel was 11 during 2016 [2015 – 11] of which only 2 served throughout 2015 and 2016 as the Company undertook a key management change during 2015.

The Company undertook a transformation of key management personnel during 2015, replacing all but one during that year. As a result, the 2016 compensation represents a full year's compensation for key management personnel whereas the 2015 compensation represents only a partial year's compensation for the management team in place during all of 2016. The Company did not pay any key management personnel a cash bonus for the performance results of the 2015 year.

Included in the 2016 amounts was $380 relating to management compensation for the acquisition of EcoHome [2015 – nil].

During the year, an officer and director of the Company exercised 3 million of warrants and stock options for total cash proceeds of $885 thousand. Directors, officer and key management personnel exercised a total of 3.3 million warrants for cash proceeds of $1 million.

Other related party transactions

During 2016, the Company received subscriptions of $1.405 million [2015 – $313 thousand] from related parties for 2,554,667 common shares in cash.

Risk Management

The Company, through its financial assets and liabilities, is exposed to various risks. The Company has established policies and procedures to manage these risks, with the objective of minimizing any adverse effect that changes in these variables could have on the consolidated financial statements. The following analysis provides a measurement of major financial reporting and other risks as at December 31, 2016. This is not a comprehensive list.

Liquidity Risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Dealnet's Management oversees the Company's liquidity to ensure that it has access to enough readily available funds to cover its financial obligations as they come due and to sustain and grow its assets and operations under both normal and stressed conditions.

The most significant exposure to liquidity risk relates to the repayment of debentures, notes payable and loans [note 14] This exposure is managed. The cash flows generated by the Company's net investment in leases and loans and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements, i.e. all investments are matched funded with the obligations incurred to finance the investment.

Credit Risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to fluctuations in the realizable values of its cash, trade receivables and finance receivables. Cash accounts are maintained with major international financial institutions of reputable credit and therefore bear minimal credit risk.

In the normal course of business, the Company is exposed to credit risk from its Engagement business customers and the related trade receivables are subject to normal commercial credit risks in Canada and the United States. A substantial portion of the Company's trade receivables are concentrated with a limited number of large customers, all of which Dealnet believes are subject to normal industry credit risks. As with trade receivables, the Company's overall exposure to credit risk arising from consumer finance receivables is governed by credit specific risk appetite tolerance limits and related credit risk policies as approved by the Company's Board of Directors.

In order to manage credit risk, the Company operates using a clearly identified set of policies, procedures and credit scoring models throughout its business processes. This includes an analysis of the value of collateral, the applicant's financial condition and the ability to service the debt or lease obligations at inception and throughout the term of the lease or loan. Dealnet also manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans.

The Board, through its Credit and Risk Committee, has established and monitors credit risk related policies and guidelines enterprise-wide, taking into account business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures and include geographic, product, size, and security type limits. The Board oversees the credit portfolio through ongoing reviews of credit risk management policies, lending practices, portfolio composition and risk profile, and the adequacy of loan loss reserves and write-offs.

The Company cannot guarantee that delinquency and loss levels will correspond with the historical levels experienced and there is a risk that delinquency and loss rates could increase significantly. To the extent that Dealnet's models used to assess the creditworthiness of potential customers, do not adequately identify potential risks, the credit scores that the Company produces would not adequately represent the risk profile of such customers and could result in higher risk than anticipated.

Financial Reporting
The accounting policies and estimates used by the Company determine how it reports its financial condition and results of operations; this may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Company's results of operations and financial condition. The Company assesses the carrying value of assets at least annually. From an accounting perspective, the carrying value of Intangible Assets and Goodwill could be diminished in the future.

The effective design of internal controls over financial reporting is essential for the Company to prevent and detect fraud or material errors that may have occurred. The Company and its management have taken reasonable steps to ensure that adequate internal controls over financial reporting are in place. However, there is a risk that a fraud or material error may go undetected and that such material fraud or error could adversely affect the Company.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. However, a change in interest rates would not currently significantly affect results or the equity of the Company, as all interest bearing financial instruments are fixed-rate instruments. However, as the Company increases in size and complexity, there is a greater risk that an unmanaged or unassessed interest rate risk exposure could adversely affect the interest margin, profitability and capital.

In order to manage interest rate risk, the Company operates using a clearly identified set of policies, procedures and interest rate risk management models. Dealnet also manages and controls interest rate risk by setting limits on the amount of risk it is willing to accept for counterparties on securitizations and other funding sources. The Board has established and monitors interest rate risk related policies and guidelines taking into account business objectives, risk appetite, planned financial performance and risk profile.

Currency Risk
The Company operates in Canada and United States. The functional currency of the Company is Canadian dollars. Currency risk arises because the amount of the local currency revenue, expenses, cash flows, receivables and payables for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian-denominated financial statements of the Company’s subsidiaries may vary on consolidation into Canadian dollars. The most significant currency exposure arises from changes in the Canadian dollar to US dollar exchange rate.

Consolidated Statements of Financial Position

	As at				
in $'000s	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
					$
Cash and cash equivalents	17,075	5,161	1,899	7,654	10,512
Cash reserves	10,225	7,688	6,571	6,402	300
Trade receivables, net of allowance	5,594	4,673	5,805	5,100	3,866
Finance receivables	137,543	117,581	100,571	83,018	1,904
Other assets	1,725	1,208	2,474	4,977	3,452
Deferred income tax asset	2,591	-	-	-	-
Property and equipment, net	1,106	1,209	1,168	1,147	979
Intangible assets	14,039	21,128	20,690	21,137	1,530
Goodwill	19,914	22,706	22,706	22,706	2,060
Assets	209,812	181,354	161,884	152,141	24,603
Accounts payable and accrued liabilities	8,780	9,913	8,150	9,210	5,486
Debentures and notes payable	27,055	21,625	22,905	20,256	3,804
Secured borrowings	118,387	94,404	78,483	72,586	-
Deferred income tax liability	2,591	-	-	-	-
Deferred revenue	225	363	380	465	425
Total Liabilities	157,038	126,305	109,918	102,517	9,715
Commitments and contingencies					
Share capital	59,320	53,564	49,318	45,357	12,682
Contributed surplus	7,049	7,774	7,388	6,888	5,298
Other comprehensive income	45	41	37	39	58
Deficit	(13,640)	(6,330)	(4,777)	(2,660)	(3,150)
Shareholders' equity	52,774	55,049	51,966	49,624	14,888
Total shareholders' equity	209,812	181,354	161,884	152,141	24,603

Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss)

	For the three months ended				
in $'000s except for per share amounts	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	$	$	$	$	$
Consumer finance					
Finance income	2,393	2,759	2,455	1,078	172
Finance and direct expenses	2,164	993	926	644	(27)
	229	1,766	1,529	434	199
Engagement					
Revenue	6,906	6,645	6,658	6,483	6,115
Cost of sales	4,042	3,939	4,286	4,069	4,087
	2,864	2,706	2,372	2,414	2,028
Gross profit	3,093	4,472	3,901	2,848	2,227
Operating expenses					
Salaries, wages and benefits	4,478	2,890	3,115	2,143	2,910
General and administrative	2,359	1,582	1,602	1,681	1,922
Depreciation and amortization	161	768	799	538	285
Share-based compensation	273	415	525	410	71
	7,271	5,655	6,041	4,772	5,188
Loss before undernoted items	(4,178)	(1,183)	(2,140)	(1,924)	(2,961)
Finance costs,net	(214)	(176)	(149)	(300)	50
Business acquisition transaction costs	(267)	(265)	(26)	(1,165)	(232)
Change in fair value of estimate	(84)	-	57	(38)	1,650
Loss before income taxes	(4,743)	(1,624)	(2,258)	(3,427)	(1,493)
Income tax expense	(31)	(1)	-	35	-
Deferred tax recovery (expense)	2,598	(70)	(141)	(3,952)	(160)
Net income (loss)	(7,310)	(1,553)	(2,117)	490	(1,333)
Other comprehensive income (loss)					
Foreign currency translation	4	4	(2)	(19)	11
Total comprehensive income (loss)	(7,306)	(1,549)	(2,119)	471	(1,322)
Loss per common share - basic and diluted	(0.03)	(0.01)	(0.01)	0.00	(0.01)
Weighted average number of shares outstanding	250,199	237,891	218,161	182,258	125,385

Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

Updated Share Information

The Company is currently authorized to issue: (i) an unlimited number of common shares without nominal or par value; and, (ii) an unlimited number of preferred shares, issuable in series. There are no outstanding preferred shares.

	Outstanding Share Data as at			
	April 26, 2017	December 31, 2016	September 30, 2016	December 31, 2015
Common Shares - Basic	281,175,313	260,166,256	242,747,670	152,236,545
Common share purchase warrants	5,218,200	16,970,490	26,935,179	49,621,445
Stock options	21,105,608	22,330,650	16,193,650	8,985,825
Broker compensation options	-	1,499,729	3,105,000	3,105,000
Convertible vendor take-back	3,906,250	3,906,250	3,906,250	-
Convertible debentures	-		4,894,737	5,894,737
Common shares - fully diluted	311,405,371	304,873,375	297,782,486	219,843,552