Dealnet Capital

Dealnet Capital Corp.

Management Discussion and Analysis

December 31, 2017

As approved by the Board of Directors on April 23, 2018

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, 2017 as approved by the Board of Directors on April 23, 2018. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.dealnetcapital.com.

CAUTIONARY STATEMENT

This MD&A has been prepared taking into consideration information available to April 23, 2018, 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.

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Company Overview

Dealnet is a specialty finance company serving the $20 billion Canadian home improvement finance market. The Company develops and supports consumer sales financing programs for approved dealers and distributors under agreements with original equipment manufacturers (OEMs) that supply a wide range of home improvement products to the retail market. Through this dealer network, the Company underwrites, originates, funds and services the prime quality loans and leases that homeowners need to finance the acquisition and installation of capital assets that improve the quality, comfort and safety of their homes. The Company is also in the pilot stage of testing complementary origination programs with non-dealer channel partners in the real estate and mortgage brokerage industries to supplement its core dealer-based origination channels.

In addition to this Consumer Finance business segment, the Company also operates in the business communications industry in Canada and the U.S., offering customer support services on a contract basis to third party institutions through its Engagement business segment. The Engagement segment's business communications services are also utilized on an arms-length basis by the Company's Consumer Finance segment to provide support to its dealer network for underwriting, documenting and servicing consumer loans and leases.

In the Consumer Finance segment, the Company earns fee income and net finance income on the loans and leases that it holds on its balance sheet. These finance assets have a term to maturity of up to ten years and are seasoned in the Company's warehouse funding facility before being permanently funded through the securitization conduits that the Company has established with its bank and life insurance funding partners. The net finance income that the Company earns on these loans and leases is primarily represented by the difference between the interest yield that these assets earn and the interest cost that the Company pays under its various funding arrangements. In addition to the net finance income that Dealnet earns on its portfolio of finance assets, the Company also earns fee income from the network support services that it provides to its dealers, the portfolio management services that it provides to its funding partners and the administration services that it provides to its customers. In the Engagement segment, the Company earns fee income for the various contracted communications services that it performs for its clients.

ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017

Period Highlights

Q4-2017 Performance Highlights (QOQ)						
Consumer Finance Segment						
	Q4 2017	**Q3 2017**				
Finance Gross Margin (mm)	**0.4****	$1.7	↓			
Net Interest Margin	**38%**	39%	↓			
Average Yield on Earning Assets	**8.3%**	8.4%	↓			
Weighted Average Interest Expense	**5.2%**	5.1%	↑			
Consumer Finance OPEX	**5.1%**	4.8%	↑			
Average in Quarter Earning Assets (mm)	**$171**	$170	↑			
Period Ending Earning Assets (mm)	**$171**	$171	-			
Consumer Finance Contracts	**32,509**	32,202	↑			
Engagement Segment						
	Q4 2017	**Q3 2017**				
Engagement Gross Margin (mm)	**$3.3**	$2.9	↑			
Engagement Gross Margin	**45%**	46%	↓			
Consolidated Operations						
Revenue mix						
Consumer Finance	**36%**	41%	↓			
Engagement	**64%**	59%	↑			
Gross Profit Contribution						
Gross Profit (mm)	**$3.7**	$4.6	↓			
Consumer Finance	**11%**	37%	↓			
Engagement	**89%**	63%	↑			
Corporate Tangible Leverage Ratio	**10.4**	8.4	↑			

2017 Performance Highlights (YOY)			
Consumer Finance Segment			
	2017	**2016**	
Finance Gross Margin (mm)*	**5.4****	$4.0	↑
Net Interest Margin *	**43%**	48%	↓
Average Yield on Earning Assets*	**8.5%**	8.3%	↑
Weighted Average Interest Expense	**4.8%**	4.3%	↑
Consumer Finance OPEX	**4.0%**	5.7%	↓
Average Earning Assets (mm)	**$167**	$68	↑
Period Ending Earning Assets (mm)	**$171**	$138	↑
Consumer Finance Contracts	**32,509**	27,289	↑
Engagement Segment			
	2017	**2016**	
Engagement Gross Margin (mm)	**$11.4**	$10.3	↑
Engagement Gross Margin	**44%**	39%	↑
Consolidated Operations			
Revenue mix			
Consumer Finance	**39%**	25%	↑
Engagement	**61%**	75%	↓
Gross Profit Contribution			
Gross Profit (mm)	**$16.8**	$14.3	↑
Consumer Finance	**32%**	28%	↑
Engagement	**68%**	72%	↓
Corporate Tangible Leverage Ratio	**10.4**	7.7	↑

* 2016 comparative figures have been calculated taking into effect the final purchase price allocation determined at year-end 2016.
** Q4 2017 amount impacted by collective allowance recorded of $1.2 million.

Significant Events and Recent Developments

Brent Houlden appointed as President and Chief Executive Officer

Since his appointment as the Interim Chief Executive of the Company in October of last year, Mr. Houlden has made significant progress in rationalizing Dealnet's call centre operations, improving the consumer finance operations and significantly reducing corporate overheads. His skill and experience steering the Company through these changes, together with his proven expertise in managing the transformation of a number of public and private companies, led the Board to conclude that Mr. Houlden was the ideal candidate to assume the President and CEO role at Dealnet going forward.

The Board also undertook a review of the Company's governance structure to bring this in line with the changes that have been made to streamline the Company's operations. As a result of this review, the Board determined that the role of Executive Chairman was no longer required to effectively oversee the business and that the appointment of an independent Chair of the Board would be more in line with best practices for corporate governance.

As a result of this review, Harold Bridge has been appointed as the Chairman of the Board. Mr. Bridge has served as the Lead Independent Director of Dealnet since June 16, 2015. He has had a distinguished business career, has served on a variety of public and private company boards, and is highly knowledgeable of the leasing industry, corporate financing, and mergers and acquisitions.

Near-term Priorities being Addressed

Since the third quarter of 2017, the Board and Management have focused on stabilizing the Company's financial position and improving the operations of its core businesses. Specifically:

1. On December 22, 2017, the Company issued a $12.0 million senior secured debenture to fund working capital and to partially fund maturing debt. Approximately 24% of the senior secured debenture was subscribed by Management, Directors and other insiders. The Company pledged the shares of its subsidiaries, Impact Mobile Inc. and Impact Mobile USA Inc. as valued collateral in support of the transaction.
2. On January 11, 2018, the Company repaid in full $16.0 million of maturing secured debentures.
3. On February 18, 2018 the Company repaid in full $2.5 million of unsecured convertible vendor take-back notes upon maturity. The Company has no other material debt maturities in 2018.
4. Live Engagement incurred a segment loss of $5.1 million in 2017. The operations of Gemma Communications were the primary cause of Live Engagement's segment loss. On March 9, 2018, Gemma Communications LP, Gemma GP Corp., and Akron Insurance Ltd [collectively, "Gemma"], were assigned into bankruptcy, thereby significantly reducing future operating losses. The Company's Live Engagement operations under One Contact Communication Group Inc. will continue to offer call centre services out of Toronto, Ontario and Reno, Nevada for both the Consumer Finance operations and external clients. The Gemma bankruptcy repudiated two office leases with annual rent of $1.2 million and terminated unprofitable customer contracts.
5. Mobile Engagement experienced another quarter of record revenue and profits. Mobile Engagement is also investing in new incremental messaging capacity in support of increasing client demand. The Company intends to continue to seek opportunities to monetize the value of the Mobile Engagement business in order to fund the profitable growth of its core Consumer Finance segment.
6. The operations of Consumer Finance, the core of the Company, continues to be the focus of Management's attention. Every aspect of Consumer Finance is being studied and improved:
    a. Expanded and re-organized the national sales force with a structured account management program;
    b. Improved the Dealer experience by implementing system enhancements to the Dealer Portal;
    c. Entered the Quebec market to provide nation-wide dealer support to large scale OEMs;
    d. Strengthened the credit adjudication and risk management processes by introducing stronger analytics with respect to delinquencies and defaults;
    e. Improved collection process to resolve aged outstanding receivables;
    f. Revised loan and lease product offerings to drive increased Corporate profitability and ensure full compliance with new consumer protection legislation enacted in Ontario;
    g. Focused on profitable growth of originations; and
    h. Obtained funder support for originations across an expanded range of products.

7. During and subsequent to the fourth quarter, the Company implemented targeted measures to right-size corporate overhead costs and re-align the management team. The Company now operates out of three locations and no longer has any excess office space. The entire Consumer Finance operation has been consolidated from three office locations down to one. The Company's workforce has been reduced by over 240 employees due to bankruptcy of Gemma. Any severance costs are fully accrued in the period that an employee left the Company. Other overheads have also been aggressively challenged and reduced.

Going Concern - Liquidity Risk

The Company's ability to continue as a going concern is dependent upon the Company's ability to raise additional capital through secure private debt placements, monetize non-core assets, or equity. While the Company has been successful in obtaining financing in the past, there is uncertainty that such financing will be available in the future. As the Company has insufficient liquidity as at December 31, 2017 to meet all of its operating needs for the foreseeable future, these conditions indicate a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern.

Management has taken steps to address the Company's need for funds including:

1. In December 2017, the Company secured a $12 million debenture against the shares and assets of Impact Mobile. The debenture issue included 48 million warrants at an exercise price of 12 cents, which if exercised would result in an equity infusion of $5.8 million.
2. On March 9, 2018, the Company placed its Gemma call centre operations into bankruptcy, which will significantly reduce the negative cash flow generated by Live Engagement
3. Obtaining alternative financing of existing assets
4. Continue to closely manage liquidity by:
    - Reducing corporate overheads and operating expenses;
    - Increasing revenue by driving securitization gains on originations, and fees;
    - Reducing the need to buyback delinquent accounts from the Company's funders; and
    - Maximizing the cash flow from Impact Mobile.

The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Long-Term Funding Capacity in Place

Dealnet has established multiple integrated funding facilities to provide the debt capital required to support its growing portfolio of finance assets. Initial funding for new originations is provided by the Company's cash reserves together with its warehouse facilities. As transactions are originated through the Company's dealer network, they are funded through the warehouse facilities until the pool of loans is sufficiently large, diversified and seasoned that it can be efficiently transferred to one of the Company's established securitization facilities for permanent funding.

When the assets are transferred to the securitization facility, Dealnet receives cash that it then uses to replenish its warehouse facility. As the Company's portfolio has grown, it has successfully expanded the capacity of both its warehouse facilities and its securitization facilities to ensure that it has sufficient liquidity to fund its expected growth. Both the securitized loans and the funding supplied by the Company's warehouses and securitization facilities remain as assets and liabilities, respectively, on the Company's balance sheet.

The Company has sufficient long-term funding capacity, at attractive rates of interest, to achieve its business plan objectives. Current funding facilities provide the Company with more than $300 million of capacity to support its growth objectives. These agreements include:

		Estimated Capacity
1.	In November 2017, the Company renewed an existing facility with a Schedule 1 bank. During the year the Company securitized $18.1 million, $44.8 million during the prior year.	$40 million
2.	In November 2017, the Company renewed an existing facility with a major Canadian life insurance company. The renewal allowed for improved economics on new securitizations. During 2017, the Company securitized $31.2 million under this facility, $26.0 million during 2016.	$50 million
3.	In November 2017, the Company entered into a new warehouse facility with the above noted Canadian life insurance company. Subsequent to year-end, the Company utilized $11.5 million of the $15.0 million warehouse facility	$15 million
4.	In November 2017, the Company entered into an agreement with a global private investment fund that will initially provide the Company with up to $200 million of additional funding capacity over the next two years to support growth in the origination of Canadian-based home improvement loans and leases. The new facility has provisions that allow for the expansion of this capacity to up to $1 billion over the full ten-year term of the agreement. The Company has up to 12 months to begin using this facility. As at December 31, 2017, the Company has not utilized this existing facility.	$200 million

The Company continues to work with its funders to broaden the range of consumer home improvement products eligible for financing. Recently, the Company was granted a licence to operate in Quebec and has opened its first office in Quebec and has obtained financing for Quebec-based originations.

The Company currently has $43.1 million of capacity in its warehouse facilities which bear interest at rates between 6% and 9%. The 9% warehouse facility was set up in April 2017 and was repaid-in-full in January 2018. This was replaced with a new lower cost $15 million warehouse facility from a major Canadian life insurance company. As a result, the Company has lowered its overall cost of warehouse funds to below 6%.

As at December 31, 2017, the Company held $170.7 million of finance receivables and $130.9 million of secured borrowings versus $137.5 million of finance receivables and $118.4 million of secured borrowings as at the end of the previous fiscal year. During the fourth quarter of 2017, the Company securitized approximately $10.6 million of finance assets at an average interest rate of 4.85% and $17.5 million in the first quarter of 2018 at an average interest rate of 5.13%.

Originations and Portfolio Growth

The revenue from Dealnet's Consumer Finance segment is mainly derived from the net finance income that it earns from the portfolio of secured loans and leases that the Company holds on its balance sheet. From time-to-time, the Company acquires seasoned portfolios from third party organizations. Aside from these acquisitions, the growth of this portfolio is mainly determined by the pace of new originations that are added every day through the Company's organic dealer-based sales activities. Offsetting this growth is the repayment of principal as part of the scheduled monthly payments that the Company receives from each borrower as well as unscheduled prepayments that borrowers are entitled to make under certain circumstances.

The Company's Home Improvement Dealer Platform (the "Dealer Platform") is a technology application that embeds itself in various functional roles within the home improvement dealer's organization. It provides dealers with a full range of digitally enabled and integrated tools to manage their overall business including cash management, installation planning, sales person management, lead generation and management, point-of-sale underwriting, funding, billing, collecting and transaction analysis. Dealers are trained on these applications when they join Dealnet's network.

The mobile component of the Dealer Platform is used by home improvement dealers to support their in-home sales efforts. This technology application provides the dealer's salesperson with the ability to underwrite, approve and document a sales financing transaction while they are in the customer's home. The easy-to-use application dramatically reduces friction in the home-improvement sales process enabling the dealer and the consumer to evaluate, estimate and close the transaction in one visit.

Dealnet believes it is creating long-term allegiance with its dealers to support increased originations by improving the dealer/finance company experience. Specifically, the Company has implemented the following measures to improve the services it provides to its dealer network:

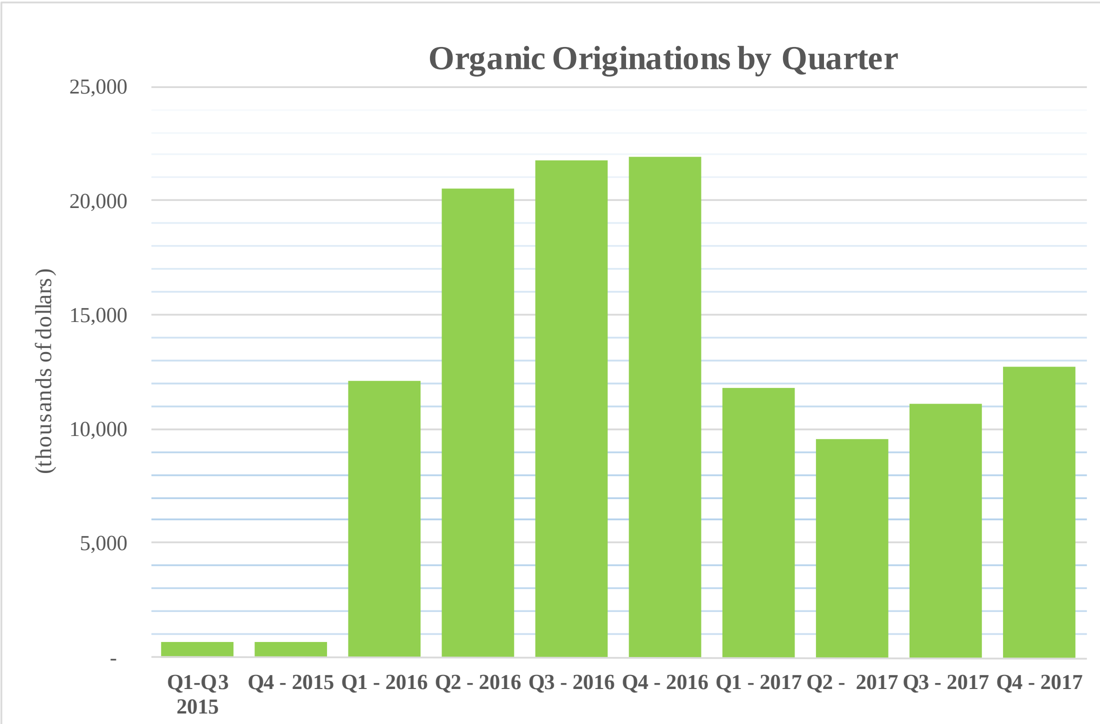
a. Enlarged sales force to 10 full-time professionals who provide direct assistance to dealers;
b. System enhancements to the Dealer Portal to make it easier for dealers to use;
c. Shortening and streamlining the processing time from an application of an origination to funding; and
d. Offering better and faster customer service to dealers.

Starting in mid-April 2018, the Company is introducing risk-based pricing which will improve the Company's competitive offering and better balance rates offered to consumers with their individual credit risk profile. Consumers with superior credit experience will receive the Company's best offers.

The Company has also updated its fee schedule to be more competitive in the marketplace. The lease program has been updated and enhanced with the objective of being 100% transparent to the consumer. The Company systems are flexible and can be easily modified to allow for the custom tailoring of consumer finance offerings. The ability to offer unique 'white labelled' loan and lease offerings is very attractive to large dealers and OEMs.

With the rightsizing of corporate overheads and having invested in resources and systems to improve the dealer experience, management is now focussed on profitable origination growth as its top priority. Management is implementing a number of initiatives to significantly improve 'profitable' origination volumes to levels required to reach overall profitability. The Company is also focused on further developing strategic relationships with OEMs and large dealer organizations, and recently introduced an OEM short-term incentive program to drive originations.

Organic originations for the most recent quarters are as follows:



Managing Credit Risk

The Credit and Risk Committee of the board of directors oversees Dealnet's credit practices and procedures and monitors the Company's funding portfolio. When establishing new dealers on the Company's platform, the Company's credit criteria are embedded in the system. This ensures that the quality of the loans and leases that the Company underwrites with each dealer meet the standards as determined by the Credit and Risk Committee. In addition to maintaining credit quality, the Company also adopts practices that help to ensure that delinquent accounts are either restored to performing status or recovered through the legal remedies available to the Company. The Company does not expect material losses from past due accounts as it maintains various forms of collateral as security. Due to recent loss experience and increased utilization of dealer reserve balances, a collective allowance of $1.2 million (0.7% of total portfolio) was recorded.

Each of the Company's funding partners prescribes a risk formula that establishes their risk tolerance for the aggregate of the loan portfolios they fund. The Company's funding group includes federally regulated financial institutions and each funder's tolerance for risk and product type differs. Dealnet designs products with certain funder's risk appetites in mind to ensure they are receiving assets that support their underwriting agreements and that perform within their prescribed risk criteria.

The percentage of past due balances decreased significantly from the previous fiscal year:

	% of Past Due at December 31, 2017	% of Past Due at December 31, 2016
Consumer Finance leases	**6.5%**	**11.7%**
Consumer Finance loans	**2.5%**	**3.2%**

Subsequent to December 31, 2017, the aging has shown further improvement as Management has:

1. Analysed past due balances, and studied patterns of delinquencies and defaults;
2. Updated collection procedures and adopted collection practices that focus on dealing with early stage delinquencies to avoid the need to buyback delinquent accounts from funders;
3. Made concerted efforts to resolve long-outstanding, disputed balances; and
4. Engaged outside collection expertise.

The average Beacon score of consumer receivables is 724 compared to 745 for the preceding year.

Record Revenue and Profit from Mobile Engagement

Impact Mobile Inc.'s ("Impact Mobile") revenue and profit for the fourth quarter of 2017 was a record $3.11 million and $1.41 million, respectively. Revenue for the twelve months ended December 31, 2017 was $10.58 million and segment profit was $4.40 million.

Revenue and segment profit has demonstrated a persistent and positive trend since the acquisition of Impact Mobile, particularly during the past two years:

in $'000s	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Quarterly								
Revenue	3,105	2,628	2,483	2,360	2,473	2,031	1,834	1,855
Segment Profit	1,408	1,112	941	935	1,046	859	456	692
Year-to-Date								
Revenue	10,576	7,470	4,843	2,360	8,193	5,720	3,689	1,855
Segment Profit	4,396	2,987	1,876	935	3,053	2,007	1,148	692

Impact Mobile is a North American-wide technology and customer engagement company with offices in Toronto and New York. Impact Mobile provides end-to-end cloud based, carrier-grade messaging and routing infrastructure, allowing clients to reach mobile subscribers directly, and to deliver mobile content and applications. Impact Mobile's flagship platform and suite of services provide comprehensive mobile engagement and marketing capabilities as an alternative to live call solutions at a lower cost to the customer, resulting in higher margins for the company.

Impact Mobile is investing in upgrading its technology platform with expanded capacity enabling it to send over 100 million text messages per month. Despite experiencing margin pressures due to increased competition, Impact Mobile is introducing new, enhanced product offerings to take advantage of its increased operational capacity and technology developments with SMS messages that allow more content and functionality to be included. Previously, Impact Mobile's ability to offer this service to its clients was somewhat restricted by lack of available capacity.

Managing Liquidity Risk

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 a going concern. It is management's judgement that liquidity risks are being appropriately addressed and mitigation processes are being put in place to avoid any material uncertainty related to the Company's ability to meet its obligations for the foreseeable future.

In order to continue to meet its day-to-day operating needs, realize its growth plans and to ensure it does not exceed its corporate tangible leverage ratio target of 10:1, the Company must be able to continue to access funding from its current securitization and warehouse partners and it must be able to continue to raise additional financing to meet future corporate cash needs.

In December 2017, the Company secured a $12 million debenture against the shares and assets of Impact Mobile. The Company intends to continue to seek opportunities to monetize the value of the Mobile Engagement business in order to fund the growth of its core Consumer Finance segment. The secured debenture was issued with warrants for 48 million shares at 12 cents which will raise an additional $5.76 million of cash and equity if exercised.

The Company has now significantly reduced the negative cash flow associated with the Live Engagement business and will continue to closely manage its cash resources by:

1. Reducing corporate overheads and operating expenses;
2. Increasing revenue by driving securitization gains on originations, and fees;
3. Reducing the need to buyback delinquent accounts from the Company's funders; and
4. Maximizing the cash flow from Impact Mobile.

The estimates made by management in reaching this conclusion are based on information available as of the date these financial statements were authorized for issuance. Accordingly, actual circumstances may differ from those estimates and the variation may be material.

Controlling Operating Costs

The Company's business model is based on the scalability of its technology platform which is being deployed across an increasing number of dealers as new OEM agreements are signed and dealers are onboarded. The Company's transaction processing and underwriting capabilities were overbuilt to accommodate this growth. As the portfolio expands, this allows a greater proportion of the incremental revenue to cover fixed operating costs and ultimately flow into earnings.

Commencing in the third quarter, the Company initiated a review of operating expenses to identify opportunities for immediate cost savings. Additional cost reduction initiatives have been undertaken in the fourth quarter of 2017 and in the first quarter of 2018. The focus on expense efficiency is an important part of the Company's initiative to achieve profitability and include, but are not limited to:

1. Reducing the cost of servicing to industry benchmarks;
2. Delayering management and eliminating the internal project management office;
3. Reducing the use and cost of outside contractors and professional advisors;
4. Reducing workforce by over 240 employees due to bankruptcy of Gemma;
5. Cancellation of the short-term incentive plan until profitability is achieved;
6. Deferral of salary increases and restricting discretionary bonuses to top performers;
7. Reducing the cost of the Board by reducing the number of Board members;
8. Uniting the Consumer Finance team in one location and consolidating Live Engagement in Scarborough and Reno;
9. Elimination of two office locations for annual savings of $1.2 million; and
10. Tendering major contracts and challenging the cost of services provided.

Technology Deployment

Dealnet's sales efforts are focused on identifying original equipment manufacturers (OEMs) that are prepared to enter into service agreements to support the deployment of the Company's Dealer Platform across the OEM's dealer network. Once the service agreement is negotiated, Dealnet then commences the process of evaluating and approving selected dealers for onboarding and training. The scalability of the Dealer Platform allows it to be deployed across multiple OEMs and multiple dealer installations without having to add commensurate costs to the Company's operating expense base.

In addition to its core focus on penetrating home improvement OEMs, Dealnet has also commenced pilot testing of its mobile application with complementary non-dealer channel partners in the real estate and mortgage brokerage industries. These professionals provide services to homeowners that frequently involve decisions about capital expenditures on home improvements that can be efficiently underwritten and financed using the Company's mobile application. The Company is also developing a direct-to-consumer version of its mobile underwriting/approval application called "myhome wallet" which will enable homeowners to directly apply for a home improvement credit limit and then self-determine what projects they wish to finance using this credit facility.

Using these complementary origination channels, the Company believes it will be able to add incremental financing transactions to its portfolio at very low origination costs together with incremental fee revenue for referring pre-approved actionable leads to qualified local dealers.

The Company has advanced the timetable for the introduction of "myhome wallet", its consumer marketplace platform, putting in place one of the key components that will enable the referral of qualified consumer home improvement leads to the Company's growing network of onboarded home improvement dealers. Together with the introduction of the complementary origination channels that the Company is now piloting through real estate and mortgage broker professionals, "myhome wallet" has the potential to accelerate portfolio growth and drive additional fee revenue.

Competitive Environment

Dealnet faces competition in the market from other specialty finance companies that offer sales financing programs for equipment dealers and from traditional consumer-focused sources of credit such as personal lines of credit and credit cards offered by banks and other lending institutions.

Competitors in the home-improvement finance market seek to attract OEMs and dealers by offering a combination of services. While the interest rates charged through to the end consumer are an important factor, other considerations are also taken into account including the range and depth of the support services offered to the dealer. Dealnet believes its integrated feature-rich platform together with its easy-to-use mobile application provides its dealer network with a value-added financing solution that creates long-term loyalty that effectively offsets the efforts of competitors that seek to gain market share with short-term low interest rate offerings.

Tangible Net Worth

The tangible net worth of the Company, which excludes goodwill and intangible assets, is reported at $17.8 million as at December 31, 2017, down $3.0 million or 14% from $20.8 million as at September 30, 2017. As a condition of funding, the Secured lenders require a minimum tangible net worth of $15 million. Tangible net worth would increase with the exercise of outstanding warrants, an equity raise or the sale of non-core assets. Certain secured lenders also require the Company to maintain an adjusted tangible leverage ratio of 10:1. The Company was in compliance with this covenant with a ratio of 9.8:1.

Results of Operations – For the three months ended December 31, 2017, September 30, 2017 and December 31, 2016

(In thousands of dollars, unless otherwise noted)

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, 2017**	**September 30, 2017**	**December 31, 2016**	**Change over September 30, 2017**	**Change over December 31, 2016**
	$	$	$	%	%
Consumer finance					
Interest income	**3,587**	3,606	1,625	(0.5)	120.7
Interest expense	**2,219**	2,192	1,337	1.2	66.0
	1,368	1,414	288	(3.3)	375.0
Fee and ancillary revenue	**547**	686	345	(20.3)	58.6
Direct expense	**(344)**	(231)	(289)	48.9	19.0
Provision for credit losses	**(1,156)**	(167)	(138)	592.2	737.7
Other direct revenue (expense)	**(953)**	288	(82)	430.9	1,062.2
Finance income	**415**	1,702	206	(75.6)	101.5
Engagement					
Revenue	**7,315**	6,217	6,906	17.7	5.9
Cost of sales	**4,047**	3,359	4,042	20.5	0.1
	3,268	2,858	2,864	14.3	14.1
Gross profit	**3,683**	4,560	3,070	(19.2)	20.0
Operating expenses					
Salaries, wages and benefits	**3,955**	4,277	4,478	(7.5)	(11.7)
General and administrative	**3,490**	2,312	2,634	51.0	32.5
Business acquisition costs	**-**	-	267	n/a	(100.0)
Depreciation and amortization	**301**	661	161	(54.5)	87.0
Share-based compensation	**147**	236	273	(37.7)	(46.2)
Impairment loss	**17,854**	13,691	-	30.4	n/a
	25,747	21,177	7,813	21.6	229.5
Loss before income taxes	**(22,064)**	(16,617)	(4,743)	32.8	365.2
Income tax expense (recovery)	**50**	-	(31)	n/a	(261.3)
Deferred tax expense (recovery)	**-**	-	2,598	n/a	(100.0)
Net loss	**(22,114)**	(16,617)	(7,310)	33.1	202.5
Other comprehensive loss					
Foreign currency translation	**(52)**	(20)	4	160.0	(1,400.0)
Total comprehensive loss	**(22,166)**	(16,637)	(7,306)	33.2	203.4
Loss per common share - basic and diluted	**(0.08)**	(0.06)	(0.03)	n/a	n/a

The Company recorded a loss before income taxes of $22,064 for the three months ended December 31, 2017 compared to a loss before income taxes of $16,617 for the three months ended September 30, 2017 and a loss before income taxes of $4,743 for the corresponding quarter in 2016.

During the third quarter of the year, the market capitalization of the Company fell below the book value of its equity. The Company considered that a potential impairment indicator existed and performed impairment tests of goodwill and intangible assets as at September 30, 2017 and again as at December 31, 2017.

The results of the impairment tests are as follows:

in $'000s	Live	Consumer Finance	Total
Intangible asset	724	11,196	
Goodwill	1,771	-	
Impairment loss - Q3	2,495	11,196	13,691
Goodwill - Q4	-	17,854	17,854
Total impairment loss for 2017	**2,495**	**29,050**	**31,545**

The Bankruptcy of Gemma resulted in the loss of control and deconsolidation of Gemma as at March 9, 2018. The following table highlights the financial contribution of Gemma excluding the impairment of goodwill and intangible assets associated with the acquisition of Gemma for the three months ended:

in $'000s	December 31, 2017	September 30, 2017	December 31, 2016
	$	$	$
Engagement			
Revenue	2,029	1,595	2,245
Cost of sales	1,547	1,280	1,862
Gross profit	482	315	383
Operating expenses			
Salaries, wages and benefits	419	454	402
General and administrative	512	526	495
Depreciation and amortization	53	105	93
Impairment loss	-	477	-
	984	1,562	990
Loss before income taxes	**(502)**	(1,247)	(607)

During the third quarter of 2017, in conjunction with the impairment testing of intangible assets, the Company recognised a loss of $477 relating to the write-off of computer software intangible asset of Gemma.

Gross profit of $3,683 for the three months ended December 31, 2017 is lower by 19.2% when compared to gross profit of $4,560 realised in the third quarter of 2017. Gross profit increased 20.0% when compared to the $3,070 reported for the three months ended December 31, 2016.

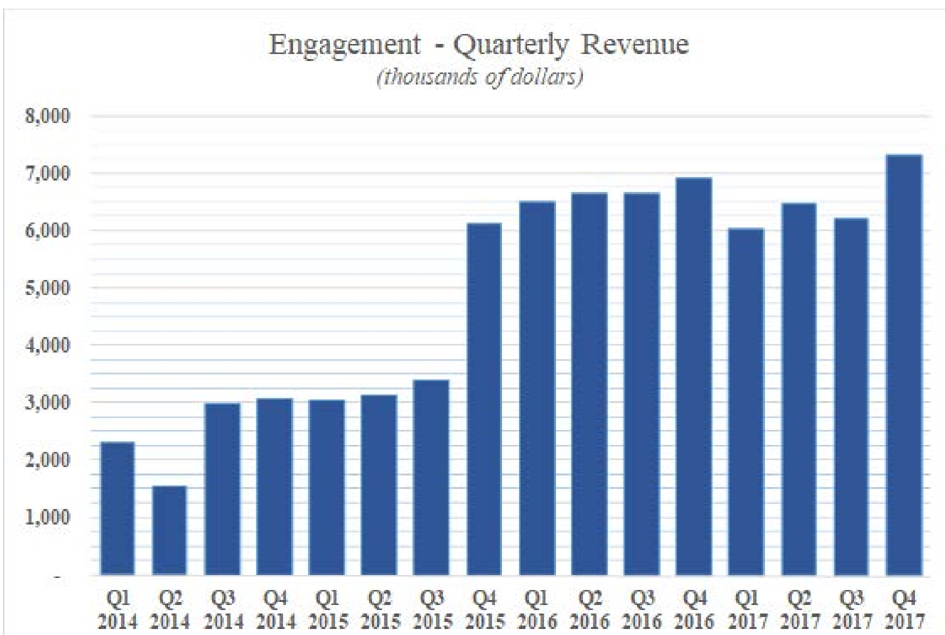
Operating expenses for the three months ended December 31, 2017 were $25,747, 21.6% higher than the operating expenses of immediately preceding quarter and 229.5% over the corresponding quarter in 2016. Adjusting for the impairment loss of $17,854 and $13,691 for Q4 and Q3 2017 respectively, the operation expenses would have been $7,893 and $7,486 for Q4 and Q3 2017 respectively. Included in salaries, wages and benefits are non-recurring severance costs recognised in this current and immediately preceding quarters of $910 and $1,108 respectively. In December 2016, the implementation of a formal annual short-term incentive program led to the recognition of $1,766 awards to employees in the last quarter of 2016.

Consumer Finance interest income during the three months ended December 31, 2017 was $3,587, comparable to the $3,606 in the prior quarter and 120.7% increase over the $1,625 recognized in the same period in 2016. 2016 interest income in Q4 was adversely affected by $1,366 due to the accretion of the final purchase price allocation of the EcoHome acquisition from Chesswood.

Consumer Finance interest expense for the three months ended December 31, 2017 was $2,219, marginally higher (1.2%) than the interest expense of $2,192 for the immediately preceding quarter. When compared to the three months ended December 31, 2016, interest expense of 2017 was 66% higher as an additional financing of $20 million was raised from a short-term warehouse facility at 9% in April 2017. Additionally, there was a rate increase from 5.8% to 9% upon extension of the maturity date from June 30, 2017 to January 11, 2018 on the $3 million short-term warehouse debt. Expressed as a percentage of finance assets, Q4 and Q3 2017 leveled at 5.2% and 5.1% respectively, while Q4 2016 was reported at 4.2%.

Secured borrowings rose to $130,898 at the end of 2017, an increase of 10.6% from $118,387 as at end of 2016. Securitization activity is a function of many factors including, but not limited to: timing of originations; seasoning of pools of eligible contracts; sizing of pools of contracts for efficiency; funder investment demand; and interest rate volatility and seasoning pools for new funders by warehousing longer.

Engagement business revenues for the three months ended December 31, 2017 were $$7,315, 17.7% increase over the $6,217 revenue reported in the prior quarter and 5.9 % higher than the $6,906 reported for the same quarter in 2016. The increase in revenue over the past periods reflects the increased investments in engagement business activities.



Engagement cost of sales for the three months ended December 31, 2017 was $4,047, 20.5% increase over the $3,359 for the prior quarter, and marginally higher than the $4,042 for the same quarter in 2016.

Salaries, wages & benefits were $3,955 for the three months ended December 31, 2017 compared to $4,277 during the three months ended September 30, 2017 and $4,478 for the corresponding period in 2016. Adjusting for the non-recurring severance costs of $910 and $1,066 charged to Q4 and Q3 2017 respectively, salaries and wages of the current quarter would have been reduced by 8% over the prior quarter and 12% over the corresponding period in 2016. The overall reduction in 2017 reflects the benefits of realigning resources to meet business obligations.

General & administrative expenses were $3,490 for the three months ended December 31, 2017, 51% higher than the $2,312 incurred for the three months ended September 30, 2017 and 32.5% higher than the $2,634 reported for the same quarter in 2016. The increase over the preceding quarters relate to higher professional fees and other expenses.

Share-based compensation expense was $147 for the three months ended December 31, 2017 compared to $236 for the prior quarter and $273 for the same quarter in 2016. Shared-based compensation expense in the current quarter is lower than the preceding quarter and the corresponding quarter in 2016, reflective of the lower level of unvested stock options and the forfeiture and expiration of a total of 2.3 million of stock options and related income recognition of $66.

No business acquisition costs were incurred in the current and preceding quarters of 2017. For the three months ended December 31, 2016 the expense of $267 represented audit and due diligence costs incurred on the acquisition of EcoHome.

Loss per share during the three months ended December 31, 2017 was $0.08, compared to a loss of $0.06 per share for the three months ended September 30, 2017 and a loss of $0.03 for the same period in 2016. Adjusting for the impairment losses recognised in the last two quarters of 2017, the loss per share would have been $0.02 for Q4 2017 and $0.01 for Q3 2017.

Overall Performance Highlights for the year ended December 31, 2017

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

	For the year ended		
in $'000s except for per share amounts	**December 31, 2017**	**December 31, 2016**	**Change over December 31, 2016**
	$	$	%
Consumer finance			
Interest income	**14,315**	7,604	88.3
Interest expense	**8,157**	3,988	104.5
	6,158	3,616	70.3
Fee and ancillary revenue	**1,986**	1,106	79.6
Direct expense	**(1,239)**	(648)	91.2
Provision for credit losses	**(1,508)**	(116)	1,200.0
Other direct revenue (expense)	**(761)**	342	(322.5)
Finance income	**5,397**	3,958	36.4
Engagement			
Revenue	**26,023**	26,692	(2.5)
Cost of sales	**14,651**	16,336	(10.3)
	11,372	10,356	9.8
Gross profit	**16,769**	14,314	17.2
Operating expenses			
Salaries, wages and benefits	**15,727**	12,626	24.6
General and administrative	**10,737**	8,128	32.1
Business acquisition costs	**-**	1,723	(100.0)
Depreciation and amortization	**2,119**	2,266	(6.5)
Share-based compensation	**1,289**	1,623	(20.6)
Impairment loss	**31,545**	-	n/a
	61,417	26,366	132.9
Loss before income taxes	**(44,648)**	(12,052)	270.5
Income tax expense (recovery)	**50**	3	1,566.7
Deferred tax expense (recovery)	**-**	(1,565)	(100.0)
Net loss	**(44,698)**	(10,490)	326.1
Other comprehensive loss			
Foreign currency translation	**(104)**	(13)	700.0
Total comprehensive loss	**(44,802)**	(10,503)	326.6
Loss per common share - basic and diluted	**(0.16)**	(0.05)	n/a

The Company recorded a net loss of $44,698 for the year ended December 31, 2017 compared to a net loss of $10,490 for the year ended December 31, 2016.

The Company normally performs its annual test for the potential impairment of goodwill and intangible assets in the fourth quarter of the year or when circumstances indicate the carrying value may be impaired. The

Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. During the third quarter of the year, the market capitalization of the Company fell below the book value of its equity, indicating a potential impairment of goodwill and its intangible assets, leading management to perform impairment tests as at September 30, 2017 and again as at December 31, 2017.

The results of the impairment tests on goodwill and intangible assets for the year 2017 are as follows:

in $'000s	Live	Consumer Finance	Total
Intangible assets	724	11,196	11,920
Goodwill	1,771	17,854	19,625
Total impairment loss	**2,495**	**29,050**	**31,545**

The intangible assets impaired under Live engagement represent Computer software of $484 and Customer relationships of $240. For Consumer Finance, intangible assets impaired represent dealer relationships and brand and trademarks purchased as part of the EcoHome acquisition from Chesswood. By the end of Q3 2017, the Company determined that an indicator of impairment existed for its Dealer relationships of $10,607 and Brand and trademarks of $589. As a result, the Company recognised a total impairment loss of $11,920 as the future cash flows are not expected to recover the economic benefits of these intangible assets.

The Bankruptcy of Gemma resulted in the loss of control and deconsolidation of Gemma as at March 9, 2018. The following table highlights the financial results of Gemma for the year 2017:

in $'000s	Gemma	One Contact	Live Segment	Gemma Contribution
	$		$	%
Engagement				
Revenue	6,894	8,553	15,447	45%
Cost of sales	5,598	6,101	11,699	48%
Gross profit	1,296	2,452	3,748	35%
Operating expenses				
Salaries, wages and benefits	1,682	1,202	2,884	58%
General and administrative	2,303	1,158	3,461	67%
Depreciation and amortization	390	103	493	79%
Impairment loss	477	7	484	99%
	4,852	2,470	7,322	66%
Loss before income taxes	**(3,556)**	(18)	(3,574)	99%

Gemma contributed $3,556 loss or 99% to the operating results of the Live Segment in 2017, before impairment of goodwill and intangible assets of $669 and amortization of fair value estimates of acquired asset of $23.

Gross profit of $16,769 for the year ended December 31, 2017 increased 17.2% over prior year, as finance income of $5,397 increased 36.4% over prior year and engagement margin of $11,372 increased 9.8% over prior year.

Operating expenses for the year ended December 31, 2017 were $61,417, $35,051 or 132.9% higher than prior year, on account of the impairment loss of $31,545 as explained above and a non-recurring severance cost of $1,977.

Adjusting for the impairment loss of $31,545 million and a non-recurring severance cost of $1,977 included in salaries, wages and benefits, net loss for year ended December 31, 2017 would have been $11,176, $686 higher than prior year.

Consumer Finance interest income for the year ended December 31, 2017 was $14,315 compared to prior year of $7,604. The increase in revenue of 88.3% reflects the significant increase in average earning assets from $67.9 million for 2016 to $167.5 million for 2017 due to $45.2 million of organic originations and $27 million of an acquired portfolio. In addition, the average yield on the earning assets improved from 8.3% to 8.5%.

Consumer Finance interest expense for year ended December 31, 2017 was $8.16 million, representing 4.84% of average finance assets, compared to $3.99 million for prior year, representing 4.33% of average finance assets. The unfavourable increase in interest expense as a percent of finance assets over the prior year results from the additional financing of $20 million from a short-term warehouse facility at 9.0% and a rate increase from 5.8% to 9.0% on extension of $3 million short-term warehouse facility from June 30, 2017 to January 11, 2018.

Securitization volume increased by $12.5 million from $118.4 million as at end of 2016 to $130.9 million as at end of 2017. Securitization activity is a function of many factors including, but not limited to: timing of originations; seasoning of pools of eligible contracts; sizing of pools of contracts for efficiency; funder investment demand; and interest rate volatility and seasoning pools for new funders by warehousing longer.

Engagement business revenues during year ended December 31, 2017 were $26,023 compared to $26,692 of 2016. The decrease in revenue over 2016 is the result of reduced business volume experienced and the selective elimination of legacy low margin contracts from the Company's client base.

Engagement cost of sales for year ended December 31, 2017 was $14,651 million compared to $16,336 for the prior year. The decrease in costs is mainly related to the reduction of call centre personnel consistent with the elimination of legacy low margin contracts noted above.

Salaries, wages & benefits were $15,727 for the year ended December 31, 2017 compared to $12,626 during 2016. The increase is mainly attributable to a non-recurring severance costs of $1,977 incurred from organizational restructuring, without which, salaries, wages & benefits would be 9% or $1,122 higher than the previous year.

General & administrative expenses were $10,737 for the year ended December 31, 2017 compared to $8,128 for 2016. The increase stems from higher professional and legal fees, and system-related and occupancy costs reflective of the investment by the Company to support consumer driven activity in both the Engagement and Consumer Finance businesses in 2017

Share-based compensation expense was $1,289 for the year ended December 31, 2017 compared to $1,623 for 2016. During 2017, a total of 1.6 million stock options were issued as compared to 14.42 million during 2016. The lower shared-based compensation expense in the current year reflects the lower level of unvested stock option and the forfeiture and expiration of a total of 6.33 million of stock options and related income recognition of $281.

No business acquisition costs were incurred in the year ended December 31, 2017. For 2016, business acquisition costs of $1,723 represent largely the due diligence costs incurred on the acquisition of EcoHome.

Loss per share (basic and diluted) during the year ended December 31, 2017 was $0.16, compared to loss per share of $0.05 for the year 2016. Adjusting for the impairment loss, the non-recurring severance costs and one-off items, the loss per share would have been $0.04 per share for 2017 and $0.03 for 2016.

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, 2017**	**September 30, 2017**	**December 31, 2016**	**Change over September 30, 2017**	**Change over December 31, 2016**
	$	$	$	%	%
Cash and cash equivalents	**12,799**	4,697	12,404	172.5	3.2
Restricted cash	**18,402**	19,518	14,896	(5.7)	23.5
Trade receivables, net of allowance	**4,866**	3,863	5,594	26.0	(13.0)
Finance receivables, net	**170,681**	171,096	137,543	(0.2)	24.1
Other assets	**3,514**	2,936	1,725	19.7	103.7
Deferred income tax asset	**-**	-	2,591	n/a	(100.0)
Property and equipment, net	**2,517**	1,484	1,106	69.6	127.6
Intangible assets, net	**1,754**	1,921	14,039	(8.7)	(87.5)
Goodwill	**289**	18,143	19,914	(98.4)	(98.5)
Assets	**214,822**	223,658	209,812	(4.0)	2.4
Accounts payable and accrued liabilities	**10,058**	7,653	8,780	31.4	14.6
Debentures and notes payable	**53,760**	46,206	27,055	16.3	98.7
Secured borrowings	**130,898**	128,760	118,387	1.7	10.6
Deferred income tax liability	**-**	-	2,591	n/a	(100.0)
Deferred revenue	**256**	189	225	35.4	13.8
Total liabilities	**194,972**	182,808	157,038	6.7	24.2
Share capital	**71,473**	71,473	59,320	-	20.5
Shares to be issued	**300**	-	-	n/a	n/a
Contributed surplus	**6,474**	5,608	7,049	15.4	(8.2)
Accumulated other comprehensive income (loss)	**(59)**	(7)	45	742.9	(231.1)
Deficit	**(58,338)**	(36,224)	(13,640)	61.0	327.7
Shareholders' equity	**19,850**	40,850	52,774	(51.4)	(62.4)
Total liabilities and shareholders' equity	**214,822**	223,658	209,812	(4.0)	2.4

Total Assets

Total assets were $214,822 as at December 31, 2017, a decrease of $8,836 or 4.0%, compared to $223,658 as at September 30, 2017, and an increase of $5,010 or 2.4% compared to $209,812 as at December 31, 2016. The changes of total assets from year to year are a direct result of the impairment of intangible assets ($11,920) and goodwill ($19,625), offset by increases in finance receivables and restricted cash.

The Company normally performs its annual test for the potential impairment of goodwill and intangible assets in the fourth quarter of the year or when circumstances indicate the carrying value may be impaired. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. During the third quarter of the year, the market capitalization of the Company fell below the book value of its equity, indicating a potential impairment of goodwill and its intangible assets, leading management to perform impairment tests as at September 30, 2017 and again as at December 31, 2017.

As at December 31, 2017, the financial assets and liabilities related to Gemma are as follows:

in $'000s	**December 31, 2017**	**December 31, 2016**
	$	$
Total Assets	**2,392**	3,392
Total Liabilities	**9,935**	5,457

Total liabilities of Gemma include amounts due to Dealnet and its subsidiaries of $9,159 and $4,768 for 2017 and 2016, respectively, and have been eliminated on consolidation.

Trade receivables

The following table sets forth a breakdown of the Company's trade receivables as of December 31, 2017, September 30, 2017 and December 31, 2016:

in $'000s	**December 31, 2017**	**September 30, 2017**	**December 31, 2016**	**Change over September 30, 2017**	**Change over December 31, 2016**
	$	$	$	%	%
Trade receivables	**4,906**	4,001	5,751	22.6	(14.7)
Allowance for doubtful accounts	**(40)**	(138)	(157)	(71.0)	(74.5)
	4,866	3,863	5,594	26.0	(13.0)

Trade receivables are non-interest bearing and are generally 30 to 90day terms. Management regularly measures the credit quality of trade receivables based on individual customer and market factors. At December 31, 2017, over 99% [2016 – 96%] of the Company's trade receivables are considered current and the Company has recorded an allowance for doubtful accounts of $40 [2016 – $157].

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, net

The following table sets forth a breakdown of the Company's finance receivables as of December 31, 2017, September 30, 2017 and December 31, 2016:

in $'000s	**December 31, 2017**	**September 30, 2017**	**December 31, 2016**	**Change over September 30, 2017**	**Change over December 31, 2016**
	$	$	$	%	%
Consumer finance leases	**119,945**	126,139	104,034	(4.9)	15.3
Consumer finance loans	**51,903**	45,140	33,692	15.0	54.1
Allowance for credit losses	**(1,167)**	(183)	(183)	537.7	537.7
	170,681	171,096	137,543	(0.2)	24.1

Consumer finance leases and loans increased $33,138 from $137,543 as at December 31, 2016 to $170,681 as at December 31, 2017. The net growth in the current year is a result of the acquisition of a finance receivable portfolio of $27,032 as well as net originations. Organic originations in 2017 were $45,175.

Of the aggregate 32,509 finance contracts as at December 31, 2017, (27,289 – December 31, 2016), 23,195 were lease contracts (20,759 – December 31, 2016), representing 70% of the net investment in financial contracts (76% - December 31, 2016), and 9,314 were loan contracts (6,530 – December 31, 2016), representing 30% of the net investment in finance contracts (24% - December 31, 2016). The portfolio is with customers who are homeowners. The portfolio risk is diversified across a large number of small transactions with an average outstanding balance of loans of $5.6 ($5.1 – December 31, 2016), and of rentals of $5.2 ($4.7 - December 31, 2016).

During the year, the Company focused on resolving its previously reported 2016 increase in delinquencies, caused primarily by customer complaints and consumer contract issues with dealers, primarily inherited through the EcoHome business acquired from Chesswood. As a result, the Company suspended, or ceased accepting, new originations with some dealers while the majority of customer complaints were being addressed, and operational changes were implemented with the affected dealers. The cessation of business with these dealers, principally acquired through the EcoHome business acquired from Chesswood, led to the assessment and ultimate impairment of its Dealer relationships and Brand and trademarks within the Consumer Finance segment.

The Company also: (i) increased the length of time it holds new contracts in its warehouse facilities to provide greater assurance of predictable performance; (ii) revised its process for approvals of transactions prior to dealer funding; and; (iii) commenced the development of additional funding sources for more advanced loan types.

The following tables present the aging of the Company’s consumer finance leases and loans:

	December 31, 2017		**September 30, 2017**		**December 31, 2016**	
LEASES in $'000s	$	%	$	%	$	%
1-30 days past due	**2,023**	**1.8**	1,865	1.5	4,356	4.4
31-60 days past due	**799**	**0.7**	1,077	0.9	2,718	2.8
61-90 days past due	**631**	**0.5**	740	0.6	1,309	1.3
Greater than 90 days past due	**4,047**	**3.5**	4,188	3.5	3,103	3.2
Total past due	**7,500**	**6.5**	7,870	6.5	11,486	11.7
Current	**108,394**	**93.5**	113,753	93.5	87,065	88.3
Total consumer finance leases	**115,894**	**100.0**	121,623	100.0	98,551	100.0

Total past due finance lease receivables improved from $11,486 (11.7% of total leases) as at December 31, 2016 to $7,500 (6.5% of total leases) as at December 31, 2017. Greater than 90 days past due lease receivables, however, have deteriorated from $3,103 a year ago to $4,047 as at December 31, 2017. The current year’s 90-day past due receivables represent 3.5% of total lease receivables, compared to 3.2% in 2016. As at December 31, 2017, the Company has established a collective allowance of $814 (September 30, 2017 and December 31, 2016 - $nil).

LOANS in $'000s	December 31, 2017 $	%	September 30, 2017 $	%	December 31, 2016 $	%
1-30 days past due	**738**	**1.4**	540	1.2	416	1.2
31-60 days past due	**110**	**0.2**	174	0.4	353	1.0
61-90 days past due	**113**	**0.2**	129	0.3	160	0.5
Greater than 90 days past due	**353**	**0.7**	303	0.6	166	0.5
Total past due	**1,314**	**2.5**	1,146	2.5	1,095	3.2
Current	**50,849**	**97.5**	44,292	97.5	32,666	96.8
Total consumer finance loans	**52,163**	**100.0**	45,438	100.0	33,761	100.0

Total past due loan finance receivables also improved from 3.2% of total loans as at December 31, 2016 to 2.5% of total loans as at December 31, 2017. However, greater than 90-days past day loans increased 30 basis points of the total loan portfolio from $166 a year ago to $353 as at December 31, 2017. The Company increased the allowance for loan loss from $183 at the end of the third quarter to $353 at year-end.

Many of the Company's reported delinquencies to date are not the result of a deterioration in the borrower's credit quality, but rather the result of disputes at the conclusion of a home improvement project when the homeowner may be unsatisfied, for whatever reason, with the dealer. The Company has worked closely with both customers and dealers to achieve a satisfactory resolution and bring accounts current. If unresolved, the account continues to age as do accounts in arrears due to credit problems. In either case, the Company intends to enforce its collateral rights. Enforcement against assets affixed to the home can take months, or years, to fully realize, typically dependent on the future timing of a sale, or mortgage refinancing, of the home.

As part of the credit risk management practices, the Company maintains various forms of collateral. Credit risk within the Company's lease receivables portfolio is mitigated by dealer reserves provided by the home improvement dealers from which the Company acquires the leases. The Company monitors the balance and is entitled to seek additional cash reserves from the dealers. As at December 31, 2017, the Company held $942 [December 31, 2016 – $2,197] in dealer reserves within accounts payable and accrued liabilities. As at December 31, 2017, the Company has $1,478 [December 31, 2016 – $98] due from dealers reported under other assets. The receivables arose from delinquent finance lease contracts upon termination by the Company. The Company intends to recover the outstanding balances through garnishment of future escalation payments otherwise due to the originating dealers.

As further credit support, the Company maintains other forms of collateral on its leases and loans. The Company is entitled to provincially register a Notice of Security Interest ("NOSI") at any time during the life of the contract. The Company's practice is the register a NOSI at the inception of the term for larger contracts or those from certain dealers, or immediately upon delinquency in the case of all others.

Based on these safeguards, practices and experience, management has determined that the finance receivable portfolio has not suffered significant impairment.

Other

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

in $'000s	December 31, 2017	September 30 2017	December 31, 2016	Change over Setpember 30, 2017	Change over December 31, 2016
	$	$	$	%	%
Restricted cash	**18,402**	19,518	14,896	(5.7)	23.5
Other assets	**3,514**	2,936	1,725	19.7	103.7
Deferred income tax asset	**-**	-	2,591	n/a	(100.0)
Property and equipment, net	**2,517**	1,484	1,106	69.6	127.6
Intangible assets, net	**1,754**	1,921	14,039	(8.7)	(87.5)
Goodwill	**289**	18,143	19,914	(98.4)	(98.5)
	26,476	44,002	54,271	(39.8)	(51.2)

Restricted cash
Restricted cash represents funds raised from third parties which may only be used for the purpose of funding eligible HVAC and home improvement contracts. These funds are secured against consumer finance contracts.

in $'000s	December 31, 2017	September 30 2017	December 31, 2016
	$	$	$
Cash designated for originations	**4,384**	5,124	4,671
Cash reserves - fixed facilities	**3,600**	4,300	2,300
Cash reserves - secured borrowing	**10,418**	10,094	7,925
	18,402	**19,518**	**14,896**

Other Assets
Other assets consist of the following:

in $'000s	December 31, 2017	September 30 2017	December 31, 2016
	$	$	$
Due from dealers	**1,478**	1,251	98
Due from vendor	**663**	743	-
Amounts due from sale of contracts	**441**	-	-
Prepaid expenses and other receivables	**460**	594	574
Security deposits	**270**	177	178
HST receivable	**202**	171	875
	3,514	2,936	1,725

Lease and loan delinquencies are generally recoverable from dealers through subsequent funding or through claw-back of their reserves. In some cases, lease delinquencies exceed the available dealer reserves on hands and are recoverable through garnishment of future escalation payments otherwise due to the originating dealer. As at December 31, 2017, the Company had $1,478 of receivables from dealers.

On January 13, 2017, the Company acquired a consumer finance lease portfolio of $27,032. As at end of 2017, net finance receivables of $663 remain outstanding from the vendor.

During the fourth quarter of the year, the Company sold a total of 632 lease contracts at net book value for cash consideration of $3,784 plus applicable taxes. As at December 31, 2017, $441 of the purchase price remains outstanding.

Property and equipment

Property and equipment consists of the following:

in $'000s	December 31, 2017	September 30, 2017	December 31, 2016	Change over Setpember 30, 2017	Change over December 31, 2016
	$	$	$	%	%
Computer hardware	**585**	**587**	467	(0.3)	25.3
Leased assets	**1,129**	**32**	42	3,428.1	2,588.1
Office equipment	**162**	**179**	172	(9.5)	(5.8)
Leasehold improvements	**641**	**686**	425	(6.6)	50.8
	2,517	**1,484**	1,106	69.6	127.6

These assets have increased from $1,106 at the end of 2016 to $2,517 at the end of 2017. The increase represents additions of $2,000 net of depreciation and amortization of $577.

During the fourth quarter of the year, through its wholly owned subsidiary, the Company entered into two lease agreements to purchase computer hardware with a total value of $1,160, with an estimated useful life of four to five years. Both leases met the criteria for classification as leased assets under International Accounting Standard 17.

Intangibles

Intangibles consist of the following:

in $'000s	December 31, 2017	September 30, 2017	December 31, 2016	Change over Setpember 30, 2017	Change over December 31, 2016
	$	$	$	%	%
Customer relationships	**889**	916	1,259	(2.9)	(29.4)
Dealer relationships	**-**	-	11,557	n/a	(100.0)
Brand and trademarks	**-**	-	642	n/a	(100.0)
Computer software and other	**865**	1,005	581	(13.9)	48.9
	1,754	1,921	14,039	(8.7)	(87.5)

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.

During the third quarter of 2017, the Company determined that an indicator of impairment existed for its Dealer relationships, Brand and trademarks and Customer relationships within its Consumer Finance segment. The impairment indicator is due to significantly lower than expected cash flows from these assets which were purchased as part of the EcoHome acquisition. Substantially all dealer relationships acquired by the Company are no longer being used, and as such, the future cash flows are not expected to recover the economic benefits of these assets. As a result, the Company recognized an impairment loss of $10,607 for its Dealer relationships and $589 for Brand and trademarks. All related deferred tax assets and liabilities were reduced to nil.

In addition, as part of its annual impairment testing of goodwill as at September 30, 2017, the Company determined that the carrying value of its Live segment exceeded its fair value. As a result, the Company recognized an impairment loss of $484 for its Computer software intangible asset and $240 for its Customer relationships.

Goodwill

in $'000s	**December 31, 2017**	**September 30, 2017**	**December 31, 2016**	**Change over Setpember 30, 2017**	**Change over December 31, 2016**
	$	$	$	%	%
Consumer Finance	**-**	17,854	17,854	(100.0)	(100.0)
Mobile Engagement	**289**	289	289	-	-
Live Engagememt	**-**		1,771	n/a	(100.0)
	289	18,143	19,914	(98.4)	(98.5)

The Company performs its annual test for the potential impairment of goodwill and intangible assets when circumstances indicate the carrying value may be impaired. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. During the third quarter of 2017, the market capitalization of the Company fell below the book value of its equity, indicating a potential impairment of goodwill. As a result, management performed impairment tests as at September 30 and December 31, 2017.

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. Prior to September 30, 2017, the carrying values of goodwill for Consumer Finance, Mobile Engagement, and Live Engagement CGUs were $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, discounted to a present value. The discount rates the Company applied in determining the value-in-use 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.

	2017		**2016**	
	Pre-tax discount rate	**Perpetual growth rate**	**Pre-tax discount rate**	**Perpetual growth rate**
Mobile Engagement	**16%**	**3%**	16 %	3%
Consumer Finance	**31%**	**3%**	31 %	3%

For the Live Engagement, the impairment testing performed indicated that the carrying value of the goodwill exceeded the fair value less costs to sell, resulting in the recognition of impairment loss of $1,771 as at September 30, 2017.

For the Consumer Finance, the impairment testing indicated that the carrying value of the goodwill exceeded the expected future cash flows, resulting in the recognition of impairment loss of $17,854 as at December 31, 2017.

Debentures, Notes Payable and Secured Borrowings

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

in $'000s	December 31, 2017	September 30, 2017	December 31, 2016	Change over Setpember 30, 2017	Change over December 31, 2016
	$	$	$	%	%
Secured debentures	**34,768**	41,734	21,635	(16.7)	60.7
Senior secured debentures	**9,354**	-	-	n/a	n/a
Secured promissory note	**7,148**	2,000	3,000	257.4	138.3
Unsecured convertible VTB note	**2,490**	2,472	2,420	0.7	2.9
Secured borrowings	**130,898**	128,760	118,387	1.7	10.6
	184,658	174,966	145,442	5.5	27.0

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 warrant being 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.

On May 5, 2016, the Company issued a $3 million secured debenture under this existing facility at a fixed interest rate of 5.85%, maturing on June 30, 2017. The debenture was extended to mature on October 13, 2017 at the rate of 9.0%. This was subsequently extended to mature on January 11, 2018 when it was repaid in full.

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.

In April 2017, the Company, through a wholly owned subsidiary, issued $20 million of debentures under an existing facility to mature on October 13, 2017. The debentures bear interest at 9.0%. This was subsequently extended to mature on January 11, 2018 under the same terms. On November 29, 2017, the Company repaid $7 million of the secured debentures. Subsequent to year-end, the outstanding principal of $13 million was repaid.

Included in restricted cash was $4,384 [2016 - $4,671] of funds received under the secured debentures. These funds can only be used for the originations of finance receivable contracts.

Also included in restricted cash are total cash reserves of $3,600 [2016 – $2,300] to support the credit risk associated with the three secured debentures. In addition, the debentures are secured against consumer finance contracts with a book value of $31.9 million [2016 – $18.5 million].

Secured promissory note

As part of the February 18, 2016 acquisition of EcoHome, the Company issued an $8 million promissory note to Chesswood bearing interest at 4.0% per annum, to mature on April 28, 2016. The note 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. The note is secured against a pool of consumer finance contracts.

During 2016, the Company repaid a total of $5 million to Chesswood and extended the remaining balance of $3 million to mature on September 30, 2017, with interest at 5.5% per annum. The note was repayable in three instalments of $1 million each, due on April 3, 2017 and July 3, 2017 and upon maturity. On April 3, 2017, the Company repaid $1 million. The remaining $2 million of the note was subsequently extended to October 16, 2017.

On October 16, 2017, the Company reached an agreement with Chesswood to amend and restate the note, inter alia, to evidence an additional loan in the amount of $5.5 million, for an aggregate principal amount of $7.5 million, bearing interest at the prime rate plus 3% per annum, with specific monthly repayment provisions, and final principal repayment of $1 million due on the maturity date of October 16, 2020.

Unsecured convertible vendor take-back note

As part of the February 18, 2016 acquisition of EcoHome, the Company issued Chesswood 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. Subsequent to year-end, the outstanding principal of $2.5 million was repaid to Chesswood.

Senior secured debentures

On December 22, 2017, the Company issued 12,000 non-convertible senior secured debentures with a face value of $1,000 each under a non-brokered private placement. The debentures were sold at a 10% discount on closing, with cash proceeds of $10.8 million and a term of 24 months. The debentures bear interest at 6.0% per year, secured by the Company’s right, title and interest in all securities in Impact Mobile, and are redeemable at any time on 30-day advance written notice. The term may be accelerated on certain prescribed events and conditions. If repayment occurs after the first anniversary of the issuance date, the amount payable will be at 110% of the principal.

As part of the transaction, the Company issued a total of 48 million warrants or 4,000 non-transferrable share purchase warrants to the holder for every $1,000 Debenture purchased. Each warrant will entitle the holder to purchase one common share of the Company at an exercise price of $0.12 per share for a period of 24 months If the share price as denoted by the 10-day volume weighted average price exceeds $0.20, the holders are required to exercise the warrants within 30 days. The Company incurred total transaction costs of $805, $300 of which will be settled by the issuance of 2,777,777 common shares and is reported as shares to be issued on the consolidated statements of financial position. These common shares are restricted for trading until July 6, 2018.

The Company used the residual method to allocate the liability and equity portions of the secured debenture. The fair value of the warrants issued with the senior secured debentures was determined using the Black-Scholes option pricing model to be $722 net of allocated transaction costs of $58. 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 26%, which assumes no equity component. The fair value of the equity component was netted against the liability and is being accreted over the 12 months.

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*" above), if the Company defaults under these facilities.

The following table provides a summary of finance receivables transferred that do not qualify for derecognition, together with the associated liabilities:

in $'000s	**December 31, 2017**	**September 30, 2017**	**December 31, 2016**
	$	$	$
Carrying value of finance receivables transferred	**125,585**	122,939	105,963
Cash reserves	**10,418**	10,094	7,925
Available collateral	**136,003**	133,033	113,888
Carrying value of associated liabilities	**130,913**	128,954	118,664

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

The weighted average stated interest rate of the outstanding liabilities is 4.11% as at December 31, 2017 [2016 – 3.92%] and excludes deferred financing costs and premiums or discounts. Cash reserves held with counterparties and forming part of the collateral security for these facilities are $10,418 as at December 31, 2017 [December 31, 2016 – $7,925].

In August 2016, the Company entered into a $75 million securitization facility with a major Canadian life insurance company. During 2017, the Company securitized $31.2 million under this facility [2016 – $26 million]. In November 2017, the Company renewed this facility for $50 million of securitizations in 2018 and entered into a warehouse facility of $15 million. The facility has a term of 270 days from funding and bears interest at 90-day Banker's Acceptance rates plus 3.15%.

During the second quarter of 2016, the Company renewed an existing facility with a Schedule 1 bank. During 2017, the Company securitized $18.1 million under this facility [2016 – $44.8 million]. In November 2017, the Company renewed this existing facility.

In November 2017, the Company entered into an agreement with a global private investment fund that will initially provide the Company with up to $200 million of additional funding capacity over the next two years to support growth in the origination of Canadian-based home improvement loans and leases. The new facility has provisions that allow for the expansion of this capacity to up to $1 billion over the full ten-year term of the agreement. The Company has up to 12 months to begin using this facility. As at December 31, 2017, the Company has not utilized the existing facility.

Equity

Dealnet's capital base has transformed over the past 24 months. The Company has built a capital structure to support its growth plan.

Common share and common share warrant transactions are as follows:

[a] On January 13, 2017, the Company issued 12,523,364 common shares valued at $5,511 as part of the consideration to acquire a portfolio of consumer finance lease contracts valued at approximately $27.6 million and incurred share issuance costs of $36. The common shares issued were 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. As at December 31, 2017, 6,630,014 are held in escrow.

[b] During the first quarter of 2017, all outstanding broker compensation options of 999,819 were exercised for cash proceeds of $400 [book value – $668]. In addition, the Company issued 999,819 common shares and 499,909 warrants. On December 22, 2016, broker compensation options of 1,070,181 were exercised for cash proceeds of $428 [book value – $715]. In return, the Company issued an equal number of common shares and 535,090 warrants.

[c] During the first quarter of 2017, a total of 7,427,499 common shares were issued upon the exercise of an equal number of warrants with a weighted exercise price of $0.50 for cash proceeds of $3,713 [book value – $5,978]. During 2016, 38,314,245 warrants were exercised with a weighted average price of $0.33 each for total cash proceeds of $12,515 [book value – $13,524].

[d] On December 22, 2017, the Company issued a total of 48 million warrants as part of the issuance of 12,000 non-convertible senior secured debentures. Each warrant will entitle the holder to purchase one common share of the Company at an exercise price of $0.12 per share for a period of 24 months. If the share price as denoted by the 10-day volume weighted average price exceeds $0.20, the holders are required to exercise the warrants within 30 days.

[e] During the year, the Company issued 106,675 [2016 – 757,167] common shares from the exercise of employee stock options at a weighted average exercise price of $0.28 [2016 – $0.26] each for cash proceeds of $30 [2016 – $198] and a book value of $32 [2016 – $198].

[f] On February 5, 2016, the Company 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. In connection with the private placement, $284 of direct costs were incurred and the underwriters received cash commissions of $1,770 and 3,218,200 non-transferable broker warrants fair valued at $449. 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. In addition, the Company also issued 6,039,689 common shares of the Company having an aggregate value of $2,940 upon finalization of EcoHome purchase price allocation completed in December 2016.

[g] 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 [$0.54 per share].

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. 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 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, 2017 and 2016 were as follows:

Common share stock options	[# 000s]	Weighted average exercise price $
As at January 1, 2016	8,986	0.35
Issued	14,420	0.59
Exercised	(757)	0.26
Expired/forfeited	(318)	0.55
As at December 31, 2016	**22,331**	**0.50**
Issued	**1,600**	**0.26**
Exercised	**(107)**	**0.28**
Expired/forfeited	**(6,336)**	**0.58**
As at December 31, 2017	**17,488**	**0.45**

During 2017, the Company granted 1,100,000 stock options to employees and consultants. In 2016, 14,420,000 stock options were granted to directors, employees and consultants. The stock options vest over a period of 18 months [2016 – 18 months], exercisable for a period of 4 and 5 years [2016 – 5 years] at a weighted average exercise price of $0.26 [2016 – $0.59]. The fair value of these options was estimated to be $202 [2016 – $2,685] on the date of grant using the Black-Scholes option pricing model.

The remaining contractual life and weighted average exercise price of options outstanding as at December 31, 2017 are as follows:

	Options outstanding [# 000s]	Weighted average exercise price $	Remaining contractual life [# 000s]	Options vested [# 000s]	Options unvested [# 000s]
Expiry date					
2018	1,483	0.24	0.29	1,483	—
2019	—	—	—	—	—
2020	5,010	0.34	2.52	4,910	100
2021	9,695	0.58	3.59	7,860	1,835
2022	1,300	0.24	4.67	250	1,050
	17,488	**0.45**	**3.08**	**14,503**	**2,985**

Selected Financial Information – For the Years Ended December 31, 2017, 2016 and 2015

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, 2017. Such financial statements are prepared with IFRS and are reported in Canadian dollars.

in $'000s except for per share amounts	**2017**	**2016**	**2015**
Revenue			
Consumer Finance*	14,315	7,604	248
Live Engagement	15,447	18,499	9,997
Mobile Engagement	10,576	8,193	5,665
	40,338	34,296	15,910
Gross profit	16,769	14,314	6,282
Net loss	(44,698)	(10,490)	(6,497)
Total assets	214,822	209,812	24,603
Debentues and notes payable	53,760	27,055	3,804
Secured Borrowings	130,898	118,387	-
Income (loss) per share - basic and diluted	(0.16)	(0.05)	(0.06)
Dividends	Nil	Nil	Nil

* Consumer Finance represents interest income only and excludes fee and ancillary revenue.

Summary of Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, as originally reported, the latest of which ended December 31, 2017. 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 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue								
Consumer Finance*	3,587	3,606	3,631	3,491	1,625	2,637	2,343	999
Live Engagement	4,210	3,589	3,982	3,666	4,433	4,614	4,824	4,628
Mobile Engagement	3,105	2,628	2,483	2,360	2,473	2,031	1,834	1,855
	10,902	9,823	10,096	9,517	8,531	9,282	9,001	7,482
Gross profit	3,683	4,560	4,289	4,237	3,070	4,459	3,937	2,848
Net income (loss)	(22,114)	(16,617)	(3,113)	(2,854)	(7,310)	(1,553)	(2,117)	490
Total assets	214,822	223,658	241,612	229,777	209,812	181,354	161,884	152,141
Debentues and notes payable	53,760	46,206	46,154	27,104	27,055	21,625	22,905	20,256
Secured Borrowings	130,898	128,760	128,280	131,973	118,387	94,404	78,483	72,586
Income (loss) per share - basic and diluted	(0.08)	(0.06)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)	0.00
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

* Consumer Finance represents interest income only and excludes fee and ancillary revenue.

Key factors that account for the fluctuation in the Company's quarterly revenues and net loss are primarily the result of:

1. The acquisition of EcoHome on February 18, 2016 accounted for the increase of revenue for the quarter to quarter increase in early 2016.
2. In Q4 2016, as a result of the finalization of the purchase price allocation to the fair value of assets acquired and liabilities assumed of EcoHome, the gross profit was negatively impacted by a yield adjustment of $1,358 and a net loss by $3,617.
3. In December 2016, $1,766 was awarded as short-term incentives to employees.
4. In the third quarter of 2017, the impairment loss of $13,691 accounted for the main fluctuation in quarter-to-quarter net loss.
5. In the fourth quarter of 2017, impairment loss of $17,854 contributed to the net loss of $22,114.

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Liquidity & Capital Resources

Going Concern - Liquidity Risk

The Company's ability to continue as a going concern is dependent upon the Company's ability to raise additional capital through secure private debt placements, monetize non-core assets, or equity. While the Company has been successful in obtaining financing in the past, there is uncertainty that such financing will be available in the future. As the Company has insufficient liquidity as at December 31, 2017 to meet all of its operating needs for the foreseeable future, these conditions indicate a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern.

Management has taken steps to address the Company's need for funds including:

1. In December 2017, the Company secured a $12 million debenture against the shares and assets of Impact Mobile. The debenture issue included 48 million warrants at an exercise price of 12 cents, which if exercised would result in an equity infusion of $5.8 million.
2. On March 9, 2018, the Company placed its Gemma call centre operations into bankruptcy, which will significantly reduce the negative cash flow generated by Live Engagement
3. Obtaining alternative financing of existing assets
4. Continue to closely manage liquidity by:
    - Reducing corporate overheads and operating expenses;
    - Increasing revenue by driving securitization gains on originations, and fees;
    - Reducing the need to buyback delinquent accounts from the Company's funders; and
    - Maximizing the cash flow from Impact Mobile.

The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at December 31, 2017.

Financial Instruments

The Company classifies its financial assets and financial liabilities into the following three categories:

- Financial assets and financial liabilities at fair value through profit and loss [FVTPL];
- Loans and receivables; and
- Financial liabilities.

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, expressed in thousands of dollars, as follows:

	2017				
	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Assets					
Cash and cash equivalents [i]	FVTPL	**12,799**	**—**	**—**	**12,799**
Restricted cash [i]	FVTPL	**18,402**	**—**	**—**	**18,402**
Trade receivables [i]	Loans and receivables	**—**	**4,866**	**—**	**4,866**
Finance receivables, net [ii]	Loans and receivables	**—**	**167,234**	**—**	**167,234**
Other receivables[i]	Loans and receivables	**—**	**2,852**	**—**	**2,852**
Liabilities					
Accounts payable and accrued liabilities [i]	Financial liabilities	**—**	**(10,058)**	**—**	**(10,058)**
Debentures and notes payable [iv]	Financial liabilities	**—**	**—**	**(53,036)**	**(53,036)**
Secured borrowings [iii]	Financial liabilities	**—**	**(128,371)**	**—**	**(128,371)**

	2016				
	Category	Level 1	Level 2	Level 3	Total
		$	$	$	$
Assets					
Cash and cash equivalents [i]	FVTPL	12,404	—	—	12,404
Restricted cash [i]	FVTPL	14,896	—	—	14,896
Trade receivables [i]	Loans and receivables	—	5,594	—	5,594
Finance receivables, net [ii]	Loans and receivables	—	138,092	—	138,092
Other receivables [i]	Loans and receivables	—	276	—	276
Liabilities					
Accounts payable and other liabilities [i]	Financial liabilities	—	(8,780)	—	(8,780)
Debentures and notes payable [iv]	Financial liabilities	—	—	(28,300)	(28,300)
Secured borrowings [iii]	Financial liabilities	—	(116,795)	—	(116,795)

There were no transfers between any levels between 2016 and 2017.

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] Fair value of finance receivables, net 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 origination date and current date.

[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.

Summary of Significant Accounting Policies and Judgements

The Company's audited consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the two-year period ended December 31, 2017, 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 years ended December 31 is as follows:

	2017	**2016**
	$	$
Salaries, bonuses and benefits	**2,497**	3,345
Termination benefits	**1,217**	—
Share-based compensation	**613**	921
	4,327	4,266

The amounts disclosed in the table are the amounts reflected in the consolidated financial statements during the reporting period and considered to be compensation to 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 14 during 2017 [2016 – 11].

Included in the 2016 amounts was $380 relating to management compensation for the acquisition of EcoHome.

During 2016, an officer and director of the Company exercised 3 million of warrants and stock options for total cash proceeds of $885. Directors, officers and key management personnel exercised a total of 3.3 million warrants for cash proceeds of $1 million.

Other related party transactions

In December 2017, upon the issuance of the Senior secured debentures, the Company received cash of $2,627 from officers, certain directors and key management personnel for face value of $2,919. In addition, 11,676,000 warrants were issued with a fair value of $176.

During 2016, the Company received subscriptions of $1,405 from an officer, certain directors and key management personnel 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, 2017. This is not a comprehensive list.

Liquidity Risk
Liquidity risk is the risk that a Company will not be able to meet its financial obligations as they fall due. The Company oversees its 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. This exposure is managed by term-matching the cash flows generated by the Company's net investment in leases and loans with the repayment requirements (i.e., all investments are matched funded with the obligations incurred to finance the investment).

Refer to Liquidity & Capital Resources for further discussion of the Company's liquidity risk and management's mitigation thereof.

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 due to market conditions. To the extent that Dealnet's models used to assess the creditworthiness of potential customers do not adequately identify all potential risks, the credit scores that the Company produces may 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.

Reportable Segment Information

The Company's chief operating decision makers monitor the operating results of these business units separately for the purposes of assessing performance and allocating resources. The primary measure that is used in assessing operating performance of the operating segment is segment profit which is defined as revenue less cost of sales, salaries and wages and general administrations expenses. All numbers are expressed in thousands of dollars.

	2017				
	Live Engagement $	Mobile Engagement $	Consumer Finance $	Corporate $	Consolidated $
Revenue					
Canada	**10,960**	**8,520**	**16,301**	**—**	**35,781**
United States	**4,487**	**2,056**	**—**	**—**	**6,543**
	15,447	**10,576**	**16,301**	**—**	**42,324**
Cost of sales	**11,699**	**2,952**	**10,904**	**—**	**25,555**
Gross profit	**3,748**	**7,624**	**5,397**	**—**	**16,769**
Expenses					
Salaries, wages and benefits	**2,884**	**2,543**	**4,336**	**5,964**	**15,727**
General and administrative	**3,461**	**685**	**2,435**	**4,156**	**10,737**
Impairment loss	**2,495**	**—**	**29,050**	**—**	**31,545**
Segment profit (loss)	**(5,092)**	**4,396**	**(30,424)**	**(10,120)**	**(41,240)**
Depreciation and amortization					**(2,119)**
Share-based compensation					**(1,289)**
Loss before income taxes					**(44,648)**

	2016				
	Live Engagement $	Mobile Engagement $	Consumer Finance $	Corporate $	Consolidated $
Revenue					
Canada	14,011	6,083	8,710	—	28,804
United States	4,488	2,110	—	—	6,598
	18,499	8,193	8,710	—	35,402
Cost of sales	13,759	2,577	4,752	—	21,088
Gross profit	4,740	5,616	3,958	—	14,314
Expenses					
Salaries, wages and benefits	2,741	2,000	2,626	5,259	12,626
General and administrative	3,578	563	1,216	2,771	8,128
Segment profit (loss)	(1,579)	3,053	116	(8,030)	(6,440)
Business acquisition costs					(1,723)
Depreciation and amortization					(2,266)
Share-based compensation					(1,623)
Loss before income taxes					(12,052)

Total assets

Total assets are derived from the following geographic areas based on the location of the individual subsidiaries of the Company:

	2017				
	Live Engagement $	**Mobile Engagement** $	**Consumer Finance** $	**Corporate** $	**Consolidated** $
Canada	3,668	4,436	196,955	8,436	213,495
United States	533	794	—	—	1,327
Total assets	4,201	5,230	196,955	8,436	214,822

	2016				
	Live Engagement $	**Mobile Engagement** $	**Consumer Finance** $	**Corporate** $	**Consolidated** $
Canada	6,745	3,572	191,902	6,725	208,944
United States	227	641	—	—	868
Total assets	6,972	4,213	191,902	6,725	209,812

Consolidated Statements of Financial Position

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in $'000s	As at December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Cash and cash equivalents	12,799	4,697	7,220	4,116	12,404
Restricted cash	18,402	19,518	19,638	11,746	14,896
Trade receivables, net of allowance	4,866	3,863	4,968	4,886	5,594
Finance receivables, net	170,681	171,096	169,674	169,061	137,543
Other assets	3,514	2,936	1,593	1,874	1,725
Deferred income tax asset	-	-	3,251	2,863	2,591
Property and equipment, net	2,517	1,484	1,463	1,313	1,106
Intangible assets, net	1,754	1,921	13,891	14,004	14,039
Goodwill	289	18,143	19,914	19,914	19,914
Assets	214,822	223,658	241,612	229,777	209,812
Accounts payable and accrued liabilities	10,058	7,653	6,287	7,271	8,780
Debentures and notes payable	53,760	46,206	46,154	27,104	27,055
Secured borrowings	130,898	128,760	128,280	131,973	118,387
Deferred income tax liability	-	-	3,251	2,863	2,591
Deferred revenue	256	189	380	459	225
Total Liabilities	194,972	182,808	184,352	169,670	157,038
Share capital	71,473	71,473	71,473	71,459	59,320
Shares to be issued	300	-	-	-	-
Contributed surplus	6,474	5,608	5,381	5,097	7,049
Accumulated other comprehensive income (loss)	(59)	(7)	13	45	45
Deficit	(58,338)	(36,224)	(19,607)	(16,494)	(13,640)
Shareholders' equity	19,850	40,850	57,260	60,107	52,774
Total liabilities and shareholders' equity	214,822	223,658	241,612	229,777	209,812

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

	For the three months ended				
in $'000s except for per share amounts	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**
				$	$
Consumer finance					
Interest income	**3,587**	3,606	3,631	3,491	1,625
Interest expense	**2,219**	2,192	2,096	1,650	1,337
	1,368	1,414	1,535	1,841	288
Fee and ancillary revenue	**547**	686	468	285	345
Direct expense	**(344)**	(231)	(429)	(235)	(289)
Provision for credit losses	**(1,156)**	(167)	(132)	(53)	(138)
Other direct revenue (expense)	**(953)**	288	(93)	(3)	(82)
Finance income	**415**	1,702	1,442	1,838	206
Engagement					
Revenue	**7,315**	6,217	6,465	6,026	6,906
Cost of sales	**4,047**	3,359	3,618	3,627	4,042
	3,268	2,858	2,847	2,399	2,864
Gross profit	**3,683**	4,560	4,289	4,237	3,070
Operating expenses					
Salaries, wages and benefits	**3,955**	4,277	3,757	3,738	4,478
General and administrative	**3,490**	2,312	2,734	2,201	2,634
Business acquisition costs	**-**	-	-	-	267
Depreciation and amortization	**301**	661	587	570	161
Share-based compensation	**147**	236	324	582	273
Impairment loss	**17,854**	13,691	-	-	-
	25,747	21,177	7,402	7,091	7,813
Loss before income taxes	**(22,064)**	(16,617)	(3,113)	(2,854)	(4,743)
Income tax expense (recovery)	**50**	-	-	-	(31)
Deferred tax expense (recovery)	**-**	-	-	-	2,598
Net loss	**(22,114)**	(16,617)	(3,113)	(2,854)	(7,310)
Other comprehensive income (loss)					
Foreign currency translation	**(52)**	(20)	(32)	-	4
Total comprehensive loss	**(22,166)**	(16,637)	(3,145)	(2,854)	(7,306)
Loss per common share - basic and diluted	**(0.08)**	(0.06)	(0.01)	(0.01)	(0.03)
Weighted average number of shares outstanding	**281,224**	281,224	281,191	275,149	250,199

Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

Definition of non-IFRS measures

Performance Highlights	Definition
Consumer Finance	
Finance income ($mm)	Profits earned by Consumer Finance segment. Includes Net interest plus Other direct revenue, net
Net interest margin (%)	Net interest divided by Interest income, expressed as a percentage
Engagement	
Engagement income ($mm)	Engagement (Live and Mobile) revenue minus Cost of Sales
Engagement margin (%)	Engagement divided by Revenue, expressed as a percentage
Revenue Mix	
Revenue	Interest income plus Fee and ancillary revenue plus Engagement revenue
Consumer Finance - %	Interest income plus Fee and ancillary revenue divided by Revenue, expressed as a percentage
Engagement - %	Engagement revenue divided by Revenue, expressed as a percentage
Gross Profit Contribution	
Consumer Finance - %	Finance income divided by Gross profit, expressed as a percentage
Engagement - %	Engagement margin divided by total gross profit for all segments, expressed as a percentage.
Average Yield on Earning Assets	Interest income (annualized) and expressed as a % of average finance assets for the period
Weighted Average Interest expense (as a % of Earning Assets)	Interest expense over average earning assets for the quarter (annualized rate)
Consumer Finance OPEX (as a % of Average Earning Assets)	OPEX comprises salaries, wages and benefits plus general and admininistrative expenses plus impairment loss (as reported on the segment note), divided by Average earning assets, expressed as a percentage
Average Earning Assets ($mm)	Average of last 4 months' Finance receivables
Period Ending Earning Assets ($mm)	Finance receivable balance outstanding as at reporting period
Tangible Leverage	Financial strength ratio that measures proportion of the Company's total debt (secured borrowings, debentures and notes payable) to Tangible net worth. The number indicates that, for every dollar of tangible net worth, the Company owes $x in debt
Tangible net worth ($mm)	Total shareholders' equity minus Intangible assets, net and minus goodwill.
Consumer Finance Contracts	Number of lease and loan contracts outstanding as at reporting 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 23, 2018	**December 31, 2017**	**December 31, 2016**
Common Shares - Basic	284,001,390	281,223,613	260,166,256
Common share purchase warrants	50,000,000	50,000,000	16,970,490
Stock options	15,913,233	17,488,233	22,330,650
Broker compensation options	-	-	1,499,729
Convertible vendor take-back	-	3,906,250	3,906,250
Deferred share units	821,745	821,745	-
Common shares - fully diluted	350,736,368	353,439,841	304,873,375