



## A Pattern of Evolution

First Quarter Report • March 31, 2019



# Message From the President and CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2019 together with comparative figures for the same period of 2018. These financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Net earnings attributable to the Company's shareholders increased by 35% to \$1,643,000 for the first quarter of 2019 compared with \$1,216,000 in the first quarter of 2018. Earnings per share ("EPS") rose 27% to 19 cents this quarter compared to 15 cents in the first quarter of 2018. First quarter net earnings increased as a result of higher revenue and a lower provision for losses.

Adjusted net earnings, which comprises net earnings attributable to shareholders before non-operating stock-based compensation and business acquisition expenses (namely business transaction and integration costs and amortization of intangibles), rose 26% to \$1,816,000 in the first quarter of 2019 compared to

the \$1,441,000 earned in the first quarter of 2018. Adjusted EPS, based on the adjusted net earnings, were 22 cents in the first quarter versus 17 cents earned in last year's first quarter.

Revenue increased by 25% to \$12,588,000 in the first quarter of 2019 compared to \$10,033,000 last year mainly as a result of higher finance receivables and loans ("funds employed").

The Company's total funds employed were a record \$376 million at March 31, 2019, 45% higher than the \$259 million a year earlier and 11% higher than last year-end. Average funds employed in the current quarter increased 52% to \$347 million compared with \$229 million last year. Shareholders' equity was \$90 million at March 31, 2019 compared to \$78 million at March 31, 2018. Book value per share was \$10.65 versus \$9.38 a year ago.

This quarter marked the ninth straight quarter of strong portfolio growth. Revenue and earnings per share continue to increase year over year, with both



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Simon Hitzig

measures in the first quarter beating the same period last year by 25% and 27%, respectively. Trailing twelve months adjusted EPS clocked in at \$1.34, an all-time high. Our stock closed the quarter at \$10.04 per share, valued at 7.5 times trailing adjusted EPS.

As I wrote in the latest annual report, we are enjoying the financial performance resulting from Accord's transformation from our roots as a factoring company into a broad-based commercial finance company. This evolution achieved three objectives:

1. Expanded our product range to make Accord more valuable to our clients and referral sources
2. Broadened our geographic coverage, expanding our presence westward
3. Strengthened the management team in preparation for our next phase of growth

2019 marks the second year with all of the key building blocks in place. From five full-service offices across the United States and Canada, Accord can confidently lend up and down a company's balance sheet, secured by receivables, inventory and/or equipment. Our market presence continues to grow and our sterling reputation continues to win over new relationships in the key referral networks we serve.

Our focus this year falls into two categories: operational and strategic. On an operational level we are working hard to maintain strong growth momentum while at the same time protect our portfolio from loan losses. This is a challenge – we all know it's much easier to grow if we relax credit standards. Accord will never

waver on credit quality, so growth must be driven by other factors: marketing synergies derived from our acquisitions, strong relationships, differentiated products, service and speed.

Accord's strategic focus revolves around aligning five separate operating units around a singular vision and delivering seamless service to the disparate markets we serve. This is not an exercise in operating efficiency, it is 100% focused on being the best in North America at supporting promising middle market companies with the capital they need to reach their potential. From wherever a client first connects with Accord, we aim to deliver a consistent, frictionless experience from first contact, to funding, to ongoing service for the duration of the relationship.

After a busy period of investment and acquisition, Accord's internal organization chart looks complicated. But our key markets see a different picture; they see a single commitment: to simplify access to capital so they can thrive.

[At a recent Board of Directors meeting, a regular quarterly dividend of 9 cents per common share was declared payable June 3, 2019 to shareholders of record May 17, 2019.](#)

**Simon Hitzig**  
**President & CEO**  
**April 30, 2019**

# Management’s Discussion & Analysis of Results of Operations and Financial Condition (“MD&A”)

Quarter ended March 31, 2019 compared with quarter ended March 31, 2018

## Financial Highlights

(unaudited, in thousands except average funds employed, earnings per share and book value per share)	Three months ended March 31	
	2019	2018
Average funds employed (millions)	\$ 347	\$ 229
Revenue	12,588	10,033
Net earnings attributable to shareholders	1,643	1,216
Adjusted net earnings	1,816	1,441
Earnings per common share (basic and diluted)	0.19	0.15
Adjusted earnings per common share (basic and diluted)	0.22	0.17
Book value per share (March 31)	\$ 10.65	\$ 9.38

## Overview

The following discussion and analysis explains trends in Accord Financial Corp.’s (“Accord” or the “Company”) results of operations and financial condition for the quarter ended March 31, 2019 compared with the quarter ended March 31, 2018 and, where presented, the quarter ended March 31, 2017. It is intended to help shareholders and other readers understand the dynamics of the Company’s business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at April 30, 2019, should be read in conjunction with the Company’s condensed interim unaudited consolidated financial statements (the “Statements”) and notes thereto for the quarters ended March 31, 2019 and 2018, which are included as part of this 2019 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2018 audited consolidated financial statements and notes thereto included in the Company’s 2018 Annual Report.

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with International

Financial Reporting Standards (“IFRS”). Please refer to the Critical Accounting Policies and Estimates section below and note 2 and 3 to the Statements regarding the Company’s use of accounting estimates in the preparation of its financial statements in accordance with IFRS. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company’s profile with SEDAR at [www.sedar.com](http://www.sedar.com).

The following discussion contains certain forward-looking statements that are subject to significant risks and uncertainties that could cause actual results to differ materially from historical results and percentages. Factors that may impact future results are discussed in the Risks and Uncertainties section below.

## Non-IFRS Financial Measures

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company’s focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in its 2019 First Quarter Report are defined as follows:



Stuart Adair

- i) **Return on average equity (“ROE”)** – this is a profitability measure that presents net earnings attributable to shareholders (“shareholders’ net earnings”) as an annualized percentage of the average shareholders’ equity employed in the period to earn the income. The Company includes all components of shareholders’ equity to calculate the average thereof;
- ii) **Adjusted net earnings, adjusted earnings per common share and adjusted ROE** – adjusted net earnings presents shareholders net earnings before stock-based compensation and business acquisition expenses (namely, business transaction and integration costs and amortization of intangibles). The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of ongoing operating performance than shareholders’ net earnings as it excludes items which do not directly relate to ongoing operating activities. Adjusted (basic and diluted) earnings per common share is adjusted net earnings divided by the (basic and diluted) weighted average number of common shares outstanding in the period, while adjusted ROE is adjusted net earnings for the period expressed as an annualized percentage of average shareholders’ equity employed in the period;
- iii) **Book value per share** – book value is defined as shareholders’ equity and is the same as the net asset value of the Company (calculated as total assets minus total liabilities) less non-controlling interests in subsidiaries. Book value per share is the book value divided by the number of common shares outstanding as of a particular date;
- iv) **Financial condition and leverage ratios** – The table on page 10 presents the following percentages:
  - (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages, provide information on trends in the Company’s financial condition and leverage; and
  - v) **Average funds employed** – funds employed is another name that the Company uses for its finance receivables and loans (also referred to as “Loans” in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period.

## Accord’s Business

Accord is one of North America’s leading independent finance companies serving clients throughout the United States and Canada. Accord’s flexible finance programs cover the full spectrum of asset-based lending (“ABL”), from receivables and inventory finance, to equipment leasing and trade finance, to film and media finance. Accord’s business also includes credit protection and receivables management, and supply chain financing for importers. The Company’s financial services are discussed in more detail in its 2018 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 20(a) to the Statements.

The Company founded in 1978, operates six finance companies in North America, namely, Accord Financial Ltd. (“AFL”), Accord Financial Inc. (“AFIC”) and Accord Small Business Finance (“ASBF”) in Canada, and Accord Financial, Inc. (“AFIU”), BondIt Media Capital (“BondIt”) and Accord CapX LLC (“CapX”) (doing business as CapX Partners) in the United States.

The Company's business principally involves: (i) asset-based lending by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as financing other tangible assets, such as inventory and equipment; (ii) equipment financing (leasing and equipment loans) by CapX and ASBF. ASBF also provides working capital financing to small businesses; (iii) film and media production financing by BondIt; and (iv) credit protection and receivables management services by AFL, which principally involves providing credit guarantees and collection services, generally without financing.

## Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Net earnings	Earnings per common share*
<b>2019</b>	<b>March 31</b>	<b>\$ 12,588</b>	<b>\$ 1,643</b>	<b>\$ 0.19</b>
2018	December 31	\$ 12,951	\$ 4,161	\$ 0.50
	September 30	13,120	2,616	0.31
	June 30	10,823	2,363	0.28
	March 31	10,033	1,216	0.15
Fiscal 2018		\$ 46,927	\$ 10,356	\$ 1.24
2017	December 31	\$ 9,935	\$ 2,433	\$ 0.29
	September 30	8,370	1,983	0.24
	June 30	6,603	369	0.04
	March 31	6,501	1,226	0.15
Fiscal 2017		\$ 31,409	\$ 6,010**	\$ 0.72

\* basic and diluted

\*\* Due to rounding the total of the four quarters does not agree with the total of the fiscal year.

## Results of Operations

Quarter ended March 31, 2019 compared with quarter ended March 31, 2018

Shareholders' net earnings for the quarter ended March 31, 2019 increased by 35% or \$427,000 to \$1,643,000 compared to the \$1,216,000 earned in the first quarter of 2018 and were \$417,000 or 34% higher than the \$1,226,000 earned in first quarter of 2017. Shareholders' net earnings compared to 2018 rose mainly as a result of higher revenue and a lower provision for losses, while they mainly rose on higher revenue compared to the first quarter of 2017. Basic and diluted earnings per common share ("EPS") rose by 27% to 19 cents compared to the 15 cents earned in the first quarter of 2018 and 2017. The Company's ROE in the current quarter increased to 7.5% compared to 6.4% last year and 6.6% in the first quarter of 2017.

Adjusted net earnings increased by 26% to \$1,816,000 in 2019 compared to \$1,441,000 in the first quarter of 2018 and were 33% higher than the \$1,362,000 earned in the first quarter of 2017. Adjusted EPS were 22 cents, 29% higher than the 17 cents earned in the first quarter of 2018 and 38% above the 16 cents earned in the first quarter of 2017. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarter ended March 31			
(in thousands)			
	2019	2018	2017
Shareholders' net earnings	\$ 1,643	\$ 1,216	\$ 1,226
Adjustments, net of tax:			
Stock-based compensation expense	42	22	69
Business acquisition expenses	131	203	67
Adjusted net earnings	\$ 1,816	\$ 1,441	\$ 1,362

Revenue rose by 25% or \$2,555,000 to \$12,588,000 in the current quarter compared to \$10,033,000 in the first quarter of 2018 and was \$6,087,000 or 94% higher than the \$6,501,000 in the first quarter of 2017. Interest income rose by \$3,040,000 or 38% to \$11,009,000 in the first quarter of 2019 compared to \$7,969,000 in the first quarter of 2018 on a 52% increase in average funds employed, partly offset by a 9% decline in average loan yields. Other income declined by \$485,000 to \$1,579,000 in the current quarter compared to \$2,064,000 in the first quarter of 2018 as management fees earned by CapX for managing a legacy equipment finance fund declined as the fund winds down, and receivables management fees decreased. Interest income in the current quarter increased by \$5,886,000 or 115% compared to the first quarter of 2017 on a 142% rise in average funds employed, which was partly offset by a 12% decrease in average yields. Other income in the current quarter rose by \$201,000 or 15% compared to the first quarter of 2017 mainly as a result of management fees earned by CapX for managing a legacy equipment finance fund (2017: nil). Average funds employed in the first quarter of 2019 increased to \$347 million compared to \$229 million in the first quarter of 2018 and \$143 million in the first quarter of 2017.

Total expenses for the first quarter of 2019 increased by \$2,027,000 or 24% to \$10,652,000 compared to \$8,625,000 last year. Interest, G&A and depreciation, increased by \$2,572,000, \$829,000 and \$131,000,

respectively. The provision for credit and loan losses, transaction and integration costs and amortization of intangibles declined by \$1,412,000, \$69,000 and \$24,000, respectively.

Interest expense rose by 175% to \$4,038,000 in the first quarter of 2019 from \$1,466,000 last year on 69% higher average borrowings and increased interest rates. Market interest rates rose, while the Company also borrowed at higher rates under its bank facility, as well as on its loan payable, term notes payable and convertible debenture debt.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A increased by 15% or \$829,000 to \$6,235,000 in the current quarter compared to \$5,406,000 last year. G&A increased on higher personnel costs, which rose by \$882,000, including a \$241,000 severance cost and a \$66,000 rise in profit sharing bonus accrual resulting from increased earnings. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by \$1,412,000 to \$27,000 in the first quarter of 2019 compared to \$1,439,000 last year. The provision comprised:

Quarter ended March 31 (in thousands)	2019	2018
Net charge-offs	\$ 46	\$ 886
Reserves (recovery) expense related to change in total allowances for losses	(19)	553
	\$ 27	\$ 1,439

Net charge-offs declined by \$840,000 to \$46,000 in the current quarter compared to \$886,000 last year, while the non-cash reserves expense declined by \$572,000 to a recovery of \$19,000. Last year's charge-off included one account totalling \$503,000. The Company's allowances for losses and its portfolio are discussed in detail below and also in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

Depreciation expense increased by \$131,000 to \$178,000 in the first quarter of 2019. On January 1, 2019, the Company adopted IFRS 16, Leases, and capitalized four office leases as "right-of-use" assets (see detail on page 13 below). Depreciation of \$109,000 (2018 – nil) was charged on the right-of use assets in the first quarter.

Business acquisition expenses consist of transaction and integration costs pertaining to the accretion expense on the CapX contingent purchase consideration, and amortization of intangibles. For the quarter ended March 31, 2019, these expenses totalled \$174,000 (2018 – \$268,000). Transaction and integration costs totalled \$96,000 (2018 – \$166,000), while the amortization of intangible assets relating to ASBF and CapX totalled \$78,000 (2018 – \$102,000).

Income tax expense rose by \$641,000 to an expense of \$465,000 in the current quarter compared to a recovery of \$176,000 in the first quarter of 2018. Recent U.S. tax regulations released in December 2018 have impacted tax planning such that the Company will see an increase in its effective tax rate in 2019 and potentially for years thereafter. The Company is currently reviewing alternative tax planning opportunities in order to lower its effective tax rate in future years.

Canadian operations reported a net loss of \$484,000 in the first quarter as a result of higher interest expense. Revenue increased by \$857,000 or 17% to \$5,769,000. Expenses increased by \$1,236,000 to \$6,415,000. Interest expense rose by \$2,249,000 or 160% to \$3,657,000, while depreciation rose by \$51,000. The provision for credit and loan losses, G&A, and business acquisition expenses declined by \$998,000, \$40,000 and \$26,000, respectively. Income tax expense decreased by \$107,000 to a recovery of \$162,000 on a \$379,000 decrease in pre-tax earnings.

U.S. operations reported a \$699,000 increase in shareholders' net earnings in the first quarter of 2019 compared to 2018 (see note 19 to the Statements). Shareholders' net earnings rose to \$2,127,000 compared to \$1,428,000 last year. Revenue increased by \$1,799,000 to \$6,920,000 on higher funds employed. Expenses rose by \$891,000 or 26% to \$4,338,000. G&A increased by \$869,000 to \$3,546,000, interest expense rose by \$424,000 to \$482,000, while depreciation increased

by \$80,000. The provision for credit and loan losses decreased by \$414,000 to \$84,000, while business acquisition expenses declined by \$68,000 to \$130,000. Income tax increased by \$748,000 to an expense of \$627,000. Net loss attributable to non-controlling interests in subsidiaries totalled \$172,000 compared to net earnings of \$367,000 in the first quarter of 2018.

## Review of Financial Position

Shareholders' equity at March 31, 2019 totalled \$89,760,000 slightly below the \$89,818,000 at December 31, 2018 but was 15% higher than the \$77,964,000 at March 31, 2018. Book value per common share was \$10.65 at March 31, 2019 compared to \$10.66 at December 31, 2018 and \$9.38 at March 31, 2018. The slight decrease in equity since December 31, 2018 mainly resulted from a decline in accumulated other comprehensive income. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 20 of this First Quarter Report.

Total assets rose by 8% to \$403,168,000 at March 31, 2019 compared to \$373,783,000 at December 31, 2018 and were 42% higher than the \$283,276,000 at March 31, 2018. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 61% of total assets at March 31, 2019 compared to 62% at December 31, 2018 and 52% at March 31, 2018 (see note 19 to the Statements).

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, increased by 11% to \$375,802,000 at March 31, 2019 compared to \$339,102,000 at December 31, 2018 and were 45% higher than the \$259,183,000 at March 31, 2018. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Receivable loans	\$ 138,936	\$ 134,422	\$ 112,750
Other loans*	162,460	135,307	116,430
Lease receivables	74,406	69,373	30,003
Finance receivables and loans	375,802	339,102	259,183
Less allowance for losses	3,388	3,450	2,616
Finance receivables and loans	\$ 372,414	\$ 335,652	\$ 256,567

\* Other loans primarily comprise inventory and equipment loans.

The Company's receivable loans increased by \$4,514,000 to \$138,936,000 at March 31, 2019 compared to \$134,422,000 at December 31, 2018 and were 23% higher than the \$112,750,000 at March 31, 2018. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, as well as unsecured working capital loans, rose by 20% to \$162,460,000 at March 31, 2019 compared to \$135,307,000 at December 31, 2018 and were 40% higher than the \$116,430,000 at March 31, 2018. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 7% to \$74,406,000 at March 31, 2019 compared to \$69,373,000 at December 31, 2018 and were 148% higher than the \$30,003,000 at March 31, 2018. Net of the allowance for losses thereon, Loans increased by 11% to \$372,414,000 at March 31, 2019 compared to \$335,652,000 at December 31, 2018 and were 45% higher than the \$256,567,000 at March 31, 2018. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 80 clients in a wide variety of industries, as well as ASBF's and CapX's lease receivables and equipment and related loans to over 250 clients. The largest client comprised 6% of gross Loans, while another client also comprised over 5%.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled \$40 million at March 31, 2019 and December 31, 2018 compared to \$57 million at March 31, 2018. Managed receivables comprise the receivables of approximately 75 clients at March 31, 2019. The 25 largest clients comprised 85% of total volume in the first quarter of 2019. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At March 31, 2019, the 25 largest customers accounted for 51% of total managed receivables, of which the largest five comprised 37%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and monitored.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, rose by 9% to \$415 million at March 31, 2019 compared to \$379 million at December 31, 2018 and were 31% higher than the \$316 million at March 31, 2018.

As described in note 20(a) to the Statements, the Company's business principally involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's asset-based lending businesses, AFIC and AFIU, media finance business, Canadian equipment finance business (ASBF), and credit protection business is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of \$1,000,000 (US\$500,000 for BondIt credit), the Company's Chairman and Vice Chairman of its Board. Credit in excess of \$2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by its Investment Committee, with amounts in excess of US\$2,500,000 also being approved by the Company's Chairman and Vice Chairman. CapX credit in excess of US\$4,000,000 is then approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are usually term loans with payments spread out evenly over the term of the lease or loan, which can typically be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at anytime. Of the total managed

receivables that the Company guarantees payment, 4.4% were past due more than 60 days at March 31, 2019. In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

The Company employs internal client rating systems to assess the credit risk in its asset-based lending and leasing businesses, which review, amongst other things, the financial strength of each client and the Company's underlying collateral security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk), as well as an aged analysis thereof and also three stage credit criteria of IFRS 9. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the good quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases or lends against. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's Canadian leasing operations, security deposits are obtained in respect of each equipment lease or loan.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of \$2.5 million (US\$4 million in the case of CapX) is approved by the Company's Credit Committee on a case-by-case basis. Note 20(a) to the Statements provides details of the Company's credit exposure by industrial sector.

The Company's allowance for losses on Loans, calculated under the expected credit loss ("ECL") model of IFRS 9, totalled \$3,388,000 at March 31, 2019 compared to \$3,450,000 at December 31, 2018 and \$2,616,000 at March 31, 2018. The allowance for losses on the guarantee of managed receivables totalled \$74,000 at March 31, 2019 and December 31, 2018 compared to the \$135,000 at March 31, 2018. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first quarter of 2019 and 2018 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased to \$6,891,000 at March 31, 2019 compared to \$16,346,000 at December 31, 2018 but was higher than the \$4,629,000 at March 31, 2018. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled \$3,958,000 at March 31, 2019 compared to \$4,116,000 at December 31, 2018 and \$4,214,000 at March 31, 2018. Intangible assets totalling US\$2,885,000 were acquired upon the acquisition of CapX on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of

15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the ASBF acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Amortization of \$78,000 was expensed in the first quarter of 2019 (2018 - \$102,000). Please refer to note 7 to the Statements.

Goodwill totalled \$13,775,000 at March 31, 2019 compared to \$14,031,000 at December 31, 2018 and \$13,360,000 at March 31, 2018. Goodwill of US\$2,409,000 and US\$5,538,000 was acquired on the acquisition of BondIt and CapX on July 1, 2017 and October 27, 2017, respectively. BondIt and CapX goodwill is carried in the Company's U.S. operations, together with US\$962,000 from a much earlier acquisition. Goodwill of \$1,883,000 was also acquired as part of the ASBF acquisition and is carried in the Company's Canadian operations. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 6 to the Statements for information regarding the Company's annual goodwill impairment reviews.

The Company adopted IFRS 16, Leases, effective January 1, 2019, which replaced IAS 17, Leases. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at January 1, 2019 for four of the Company's office leases which resulted in an increase in both assets and liabilities. Right-of-use assets and lease liabilities totalling \$2,027,000 were recorded, with no impact on retained earnings. The Company's right-of-use assets totalled \$1,895,000 at March 31, 2019. See detailed discussion on adoption of IFRS 16 below and note 3(a) to the statements.

Other assets, income taxes receivable, net deferred tax assets, assets held for sale and capital assets at March 31, 2019 and 2018 and December 31, 2018 were not significant.

Total liabilities increased by \$29,728,000 to \$308,326,000 at March 31, 2019 compared to \$278,598,000 at December 31, 2018 and were \$107,159,000 higher than the \$201,167,000 at March 31, 2018. The increase mainly resulted from higher bank indebtedness, loan

payable and convertible debentures issued.

Amounts due to clients increased by \$1,337,000 to \$4,493,000 at March 31, 2019 compared to \$3,156,000 at December 31, 2018 and were \$22,000 higher than the \$4,471,000 at March 31, 2018. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by \$23,733,000 to \$246,595,000 at March 31, 2019 compared to \$222,862,000 at December 31, 2018 and was \$82,711,000 higher than the \$163,884,000 at March 31, 2018. Bank indebtedness mainly increased compared to last December 31 to fund the rise in Loans. The Company extended and increased its credit facility with a syndicate of six banks in the third quarter of 2018. The new facility totalling \$292 million is for a three year term maturing on July 25, 2021. The Company was in compliance with all loan covenants under the current and previous bank facilities in the first three months of 2019 and 2018. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable increased by \$1,645,000 to \$7,341,000 at March 31, 2019 compared to \$5,696,000 at December 31, 2018 (March 31, 2018 – nil). A revolving line of credit totalling \$13,349,000 (US\$10,000,000) was established during the second quarter of 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. BondIt failed two specific covenants at March 31, 2019 which the lender subsequently waived. BondIt expects that the credit facility will be amended to avoid similar technical defaults in the future. See note 9 to the Statements.

Accounts payable and other liabilities decreased by \$1,864,000 to \$8,830,000 at March 31, 2019 compared to \$10,694,000 at December 31, 2018 and were \$2,790,000 below the \$11,620,000 a year earlier. The decrease since December 31, 2018 mainly resulted from payment of 2018 bonuses in the first quarter.

Notes payable increased by \$708,000 to \$18,787,000 at March 31, 2019 compared to \$18,079,000 at December 31,

2018 but were \$414,000 below the \$19,201,000 at March 31, 2018. Please see Related Party Transactions section below and note 10 to the Statements.

Convertible debentures with a face value of \$18.4 million were issued by the Company in 2018. On January 18, 2019, the underwriters of the Company's convertible debenture issue, exercised their over-allotment option and a further 1,090 convertible debentures were issued with a face value of \$1,090,000, bringing the total value of debentures issued under the offering to \$19,490,000. These unsecured convertible debentures carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year commencing from June 30, 2019. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of \$13.50 per common share. Net of transaction costs, a total of \$18,012,000 was raised. Please see note 11 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At March 31, 2019, the debt component was \$17,420,000 (December 31, 2018 – \$15,955,000, March 31, 2018 – nil) and the equity component was \$803,000 (December 31, 2018 – \$755,000, March 31, 2018 – nil), net of deferred taxes.

As described above, the Company adopted IFRS 16 on January 1, 2019 pursuant to which lease liabilities totalling \$2,027,000 for four of the Company's office leases were recognized as a liability. The outstanding lease liabilities totalled \$1,913,000 at March 31, 2019. See detailed discussion in note 3(a) and 12 to the statements.

Income taxes payable, deferred income and deferred tax liabilities at March 31, 2019 and 2018 and December 31, 2018 were not material.

Capital stock totalled \$8,115,000 at March 31, 2019 and December 31, 2018 compared to \$6,896,000 at March 31, 2018. There were 8,428,542 common shares outstanding at March 31, 2019 and December 31, 2018 (March 31, 2018 – 8,307,713). Please see note 13 to the Statements and the consolidated statements of changes in equity on page 20 of this report for details of changes in capital stock during the first three months of 2019 and 2018. At the date of this MD&A, April 30, 2019, 8,428,542 common shares remained outstanding.

Contributed surplus totalled \$1,121,000 at March 31, 2019 compared to \$1,073,000 at December 31, 2018 and \$306,000 at March 31, 2018. As noted above, included in contributed surplus for the current quarter, is the equity component of the convertible debentures which totalled \$803,000, net of deferred tax. Please refer to note 11 to the Statements. Please see the consolidated statements of changes in equity on page 20 of this report for details in changes in contributed surplus during the first quarter of 2019.

Retained earnings totalled \$72,443,000 at March 31, 2019 compared to \$71,559,000 at December 31, 2018 and \$64,217,000 at March 31, 2018. In the first three months of 2019, retained earnings increased by \$884,000. The increase comprised shareholders' net earnings of \$1,643,000 less dividends paid of \$759,000 (9 cents per common share). Please see the consolidated statements of changes in equity on page 20 of this report for details of changes in retained earnings during the first three months of 2019 and 2018.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled \$8,082,000 at March 31, 2019 compared to \$9,072,000 at December 31, 2018 and \$6,544,000 at March 31, 2018. Please refer to note 16 to the Statements and the consolidated statements of changes in equity on page 20 of this report, which details movements in the AOCI account during the first three months of 2019 and 2018. The \$990,000 decrease in AOCI balance in the first three months of 2019 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from \$1.3637 at December 31, 2018 to \$1.3349 at March 31, 2019. This reduced the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US\$40 million by \$990,000.

## Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's objectives when managing

its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to total equity and its total equity and tangible equity to total assets. These ratios are set out in the table below.

(as a percentage)	March 31 2019	Dec. 31, 2018	March 31, 2018
Total equity / Assets	24%	25%	29%
Tangible equity / Assets	19%	20%	23%
Debt* / Total equity	306%	276%	223%

\* bank indebtedness, loan payable, notes payable and convertible debentures

The Company's financing and capital requirements generally increase with the level of Loans outstanding. The collection period and resulting turnover of outstanding receivables also impact financing needs. In addition to cash flow generated from operations, the Company maintains lines of credit in Canada and the United States. The Company can also raise funds through its notes payable program or raise other forms of debt, such as convertible debentures.

The Company had credit lines totalling approximately \$306 million at March 31, 2019 and had borrowed \$254 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt decrease the usage of, and dependence on, these lines. Note 20(b) details the Company's financial assets and liabilities at March 31, 2019 by maturity date.

As noted in the Review of Financial Position section

## Contractual Obligations and Commitments at March 31, 2019

(in thousands)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	
Debt obligations	\$ 260,538	\$ 12,185	\$ 17,420	\$ —	\$ 290,143
Operating lease obligations	539	1,019	483	275	2,316
Purchase obligations	64	—	—	—	64
	\$ 261,141	\$ 13,204	\$ 17,903	\$ 275	\$ 292,523

above, the Company had cash balances of \$6,891,000 at March 31, 2019 compared to \$16,346,000 at December 31, 2018. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

Management believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet the cash requirements of working capital, capital expenditures, operating expenditures and dividend payments and will provide sufficient liquidity and capital resources for future growth over the next twelve months.

### *Cash flow for the quarter ended March 31, 2019 compared with quarter ended March 31, 2018*

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled \$2,311,000 in the first quarter of 2019 compared to \$2,205,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash outflow from operating activities of \$38,857,000 in the first quarter of 2019 compared to \$34,044,000 last year. The net cash outflow in the current quarter largely resulted from financing loans of \$40,794,000. In the first quarter of 2018, the net cash outflow largely resulted from financing gross loans of \$35,678,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 21 of this report.

Cash outflows from investing activities totalled \$51,000 (2018 – \$149,000) in the current quarter and comprised capital assets additions.

Net cash inflow from financing activities totalled \$29,913,000 in the current quarter compared to

\$26,542,000 last year. The net cash inflow this year resulted from an increase in bank indebtedness of \$27,127,000, issue of convertible debentures of \$1,090,000, increase in loan payable of \$1,765,000 and notes payables issued, net, of \$781,000. Partially offsetting this inflow were dividend payments totalling \$759,000 and lease liabilities principal of \$91,000. In the first three months of 2018, the net cash inflow resulted from an increase in bank indebtedness of \$23,984,000 and notes payable issued, net, of \$3,306,000, which was partly offset by dividend payments totalling \$748,000.

The effect of exchange rate changes on cash comprised a loss of \$461,000 in the current quarter compared to \$177,000 in the quarter ended March 31, 2018.

Overall, there was a net cash outflow of \$9,455,000 in the current quarter compared to an outflow of \$7,828,000 in first quarter of 2018.

### Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise short-term notes (due within one year) and long-term notes due on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand (\$3,799,000) and bear interest at rates that vary with bank Prime rate or Libor; and (ii) numerous BondIt notes (\$2,803,000) which are repayable on various dates the latest of which is August 2, 2019 and bear interest at rates of 8% and 12%. The long-term notes totalling \$12,185,000 maturing on July 31, 2021 were entered into for a three year term commencing August 1, 2018 and carry a fixed interest rate of 7%. Notes payable totalled \$18,787,000 at March 31, 2019 compared with \$18,079,000 at

December 31, 2018 and \$19,201,000 at March 31, 2018. Of these notes payable, \$15,991,000 (December 31, 2018 – \$15,536,000, March 31, 2018 – \$17,154,000) was owing to related parties and \$2,796,000 (December 31, 2018 – \$2,543,000, March 31, 2018 – \$2,047,000) to third parties. Interest expense on these notes in the first three months of 2019 totalled \$303,000 (2018 – \$138,000). Please refer to note 10 to the Statements.

The following related parties had notes payable with the Company:

Short-term notes payable		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C\$ 1,050,000
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	US\$ 138,990
Hitzig Bros., Hargreaves & Co. LLC*	Directors	US\$ 700,000
Tom Henderson	Director	US\$ 158,632
Term notes payable (due July 31, 2021)		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C\$ 3,500,000
Oakwest Corporation Inc.*	Director	C\$ 2,000,000
Belweather Capital Partners Inc.*	Director	C\$ 1,000,000
Ken Hitzig	Director	C\$ 1,500,000

\* A director(s) of the Company has an ownership interest in this Company.

Accord pays a rate of interest related to Canadian prime (currently it pays 3.45% or 3.95%) on its Canadian dollar unsecured short-term notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 3.75%). These rates of interest are below the rates that Accord pays on its main banking facility with The Bank of Nova Scotia (“BNS”) (and participants), which was renewed on July 26, 2018, resulting in interest savings to the Company.

Upon renewal of the BNS facility, the Company entered into 3-year unsecured notes payable maturing July 31, 2021. These notes are solely with related parties and pay a rate of interest of 7%. The renewed credit facility allows these 3-year notes to be treated as “quasi equity” and be included in the Company’s tangible net worth (TNW) for the purposes of leveraging our bank line (up to 3.5 x TNW). This created additional borrowing capacity that Accord can utilize at lower credit facility rates of interest, which was the main business purpose thereof.

## Financial Instruments

All financial assets and liabilities, with the exception of cash, lease liability, derivative financial instruments,

the guarantee of managed receivables and the Company’s LTIP liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our equipment finance business and lease liabilities, are short-term in nature and, therefore, their carrying values approximate fair values.

At March 31, 2019 and 2018, there were no outstanding foreign exchange contracts entered into by the Company.

## Critical Accounting Policies and Estimates

Critical accounting estimates represent those estimates that are highly uncertain and for which changes in those estimates could materially impact the Company’s financial results. The following are accounting estimates that the Company considers critical to the financial results of its business segments:

- i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management’s judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, typical industry loss experience, macro-economic factors and forward looking information. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

The Company’s allowance for losses on its Loans and its guarantee of managed receivables are provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against ECL which have not experienced a significant increase in credit risk (“SICR”) and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve month period after the reporting date. Stage 1 accounts are considered to be in good standing. In establishing its Stage 1 allowances,

the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watchlist." Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(e) and 4 to the Statements.

- ii) the extent of any provisions required for outstanding claims. In the normal course of business there is outstanding litigation, the results of which are not normally expected to have a material effect upon the Company. However, the adverse resolution of a particular claim could have a material impact on the Company's financial results. Management is not aware of any claims currently outstanding the aggregate liability from which would materially affect the financial position of the Company.

## Adoption of New Accounting Policy

Effective January 1, 2019, the Company adopted a new accounting standard as issued by the International Accounting Standards Board comprising IFRS 16, Leases, which replaced IAS 17, Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 was applied using the modified retrospective method pursuant to which the Company will not have to restate 2018 comparatives.

The adoption of IFRS 16 resulted in a fundamental change to the accounting treatment of leases. IFRS 16 eliminated the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is now a single, on-balance sheet accounting model that is similar to current finance lease accounting. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at the date of implementation resulting in an increase in both assets and liabilities. Lessees also recognize depreciation expense on the right-of-use assets and interest expense on the lease liabilities in the income statement. The Company has elected to use exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also for lease contracts of certain office equipment that are considered low value. On adoption of IFRS 16, the Company recognized right-of-use assets in respect of four of its office leases totalling \$2,027,000 and related lease liabilities in the same amount. There was no impact on the Company's retained earnings and the Company does not expect adoption of IFRS 16 to have a material impact on the Company's net earnings. For further details, please refer note 3(a) to the statements.

## Control Environment

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable

assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at March 31, 2019, management evaluated and concluded on the effective design of the Company's DC&P and ICFR and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's ICFR.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate and, as such, there can be no assurance that any design will succeed in achieving its stated goal under all potential conditions.

## **Risks And Uncertainties That Could Affect Future Results**

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 20 to the Statements, which discuss the Company's principal financial risk management practices.

### **Competition from alternative sources of financing**

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects this level of competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current or future competitors. If the Company's competitors engage in aggressive pricing policies with respect to services that compete with those of the Company's, the Company would likely lose some

clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, some of the Company's competitors may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share. Further, because there are fewer barriers to entry to the markets in which the Company operates, new competitors could enter these markets at any time. Because of all these competitive factors, the Company may be unable to sustain its operations at its current levels or generate growth in revenues or operating income, either of which could have a material adverse impact on the Company's business, financial condition and results of operations.

### **Credit risk, inability to underwrite finance receivables and loan applications**

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financings, designed to serve small and medium-sized businesses, which are often owner-operated and have limited access to traditional financing. There is a high degree of risk associated with providing financing to such parties as a result of their lower creditworthiness. Even with an appropriately diversified lending business, operating results can be adversely affected by large bankruptcies and/or insolvencies. Losses from client loans in excess of the Company's expectations could have a material adverse impact on the Company's business, financial condition and results of operations.

In addition, since defaulted loans as well as certain delinquent loans cannot be used as collateral under the Company's credit facilities, higher than anticipated defaults and delinquencies could adversely affect the Company's liquidity by reducing the amount of funding available to the Company under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could cause the Company to be in breach of its financial covenants under its credit facilities, and could also result in adverse changes to the terms of future financing arrangements available to the Company, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

### **Interest rate risk**

The Company has fixed rate borrowings, as well as floating rate borrowings. The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes. However, as the Company's floating rate funds employed currently exceed its floating rate borrowings, the Company is exposed to some degree to interest rate fluctuations. Fluctuations in interest rates may have a material adverse impact on the Company's business, financial condition and results of operations.

### **Foreign currency risk**

The Company has international operations, primarily in the United States. Accordingly, a significant portion of its financial resources are held in currencies other than the Canadian dollar. In recent years, the Company has seen the fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. It has also affected the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the accumulated other comprehensive income component of equity to a loss position, although it is now in a large gain position. No assurances can be made that changes in foreign currency rates will not have a significant adverse effect on the Company's business, financial condition or results of operations.

### **External financing**

The Company depends and will continue to depend on the availability of credit from external financing sources, to continue to, among other things, finance new and refinance existing loans and satisfy the Company's other working capital needs. The Company believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet its cash requirements with respect to investments in working capital, operating expenditures and dividend payments, and also provide sufficient liquidity and capital resources for future growth over the next twelve months. However, there is no guarantee that the Company will continue to have financing available to it or if the Company were to require additional financing that it would be able to obtain it on acceptable terms or at all. If any or all of the Company's funding sources become unavailable

on terms acceptable to the Company or at all, or if any of the Company's credit facilities are not renewed or re-negotiated upon expiration of their terms, the Company may not have access to the financing necessary to conduct its businesses, which would limit the Company's ability to finance its operations and could have a material adverse impact on its business, financial condition and results of operations.

### **Deterioration in economic or business conditions; impact of significant events and circumstances**

The Company operates mainly in Canada and the United States. The Company's operating results may be negatively affected by various economic factors and business conditions, including the level of economic activity in the markets in which it operates. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. Delinquencies and credit losses generally increase during economic slowdowns or recessions.

As the Company extends credit primarily to small and medium-sized businesses, many of its customers are particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavorable economic conditions may also make it more difficult for the Company to maintain new origination volumes and the credit quality of new loans at levels previously attained. Unfavorable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities and other capital markets funding sources or result in a decision by the Company's lenders not to extend further credit. Any of these events would have a material adverse impact on the Company's business, financial condition and results of operations.

### **Dependence on key personnel**

Employees are a significant asset of the Company, and the Company depends to a large extent upon the abilities and continued efforts of its key operating personnel and senior management team. If any of these persons becomes unavailable to continue in such capacity, or if the Company is unable to attract and retain other qualified employees, it could have a material adverse impact on the Company's businesses, financial condition and results of operations. Market

forces and competitive pressures may also adversely affect the ability of the Company to recruit and retain key qualified personnel.

### **Income tax matters**

The income of the Company must be computed in accordance with Canadian, U.S. and foreign tax laws, as applicable, and the Company is subject to Canadian, U.S. and foreign tax laws, all of which may be changed in a manner that could adversely affect the Company's business, financial condition or results of operation.

### **Recent and future acquisitions and investments**

In recent years, the Company has acquired or invested in businesses and may seek to acquire or invest in additional businesses in the future that expand or complement its current business. Recent acquisitions by the Company have increased the size of the Company's operations and the amount of indebtedness that may have to be serviced by the Company and future acquisitions by the Company, if they occur, may result in further increases in the Company's operations or indebtedness. The successful integration and management of any recently acquired businesses or businesses acquired in the future involves numerous risks that could adversely affect the Company's business, financial condition, or results of operations, including: (i) the risk that management may not be able to successfully manage the acquired businesses and that the integration of such businesses may place significant demands on management, diverting their attention from the Company's existing operations; (ii) the risk that the Company's existing operational, financial, management, due diligence or underwriting systems and procedures may be incompatible with the markets in which the acquired business operates or inadequate to effectively integrate and manage the acquired business; (iii) the risk that acquisitions may require substantial financial resources that otherwise could be used to develop other aspects of the Company's business; (iv) the risk that as a result of acquiring a business, the Company may become subject to additional liabilities or contingencies (known and unknown); (v) the risk that the personnel of any acquired business may not work effectively with the Company's existing personnel; (vi) the risk that the Company fails to effectively deal with competitive pressures or barriers to entry applicable to the acquired business or the markets in which it

operates or introduce new products into such markets; and (vii) the risk that the acquisition may not be accretive to the Company. The Company may fail to successfully integrate such acquired businesses or realize the anticipated benefits of such acquisitions, and such failure could have a material adverse impact on the Company's business, financial condition or results of operations.

### **Fraud by lessees, borrowers, vendors or brokers**

The Company may be a victim of fraud by lessees, borrowers, vendors and brokers. In cases of fraud, it is difficult and often unlikely that the Company will be able to collect amounts owing under a lease/loan or repossess any related equipment. Increased rates of fraud could have a material adverse impact on the Company's business, financial condition and results of operations.

### **Risk of future legal proceedings**

The Company is threatened from time to time with, or is named as a defendant in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting its businesses. A significant judgment or the imposition of a significant fine or penalty on the Company could have a material adverse impact on the Company's business, financial condition or results of operation. Significant obligations may also be imposed on the Company by reason of a settlement or judgment involving the Company, as well as risks pertinent to financing facilities, including acceleration and/or loss of funding availability. Publicity regarding involvement in matters of this type, especially if there is an adverse settlement or finding in the litigation, could result in adverse consequences to the Company's reputation that could, among other things, impair its ability to retain existing or attract further business. The continuing expansion of class action litigation in U.S. and Canadian court actions has the effect of increasing the scale of potential judgments. Defending such a class action or other major litigation could be costly, divert management's attention and resources and have a material adverse impact on the Company's business, financial condition and results of operations.

## Outlook

The Company's principal objective is managed growth – putting quality new business on the books while maintaining high underwriting standards.

The Company, which had a record year in 2018, is benefitting from the continued substantial growth in its funds employed, which have grown \$236 million or 169% from the \$140 million at the end of 2016 to finish the first quarter of 2019 at a record high \$376 million. Growth in funds employed, a key indicator of where the Company is heading, has been achieved organically through the introduction of new lending products and through the investments in ASBF in 2014, and BondIt and CapX in the second half of 2017.

2018 revenue, a record high, was 49% higher than 2017's and was achieved on average funds employed in the year of \$271 million; funds employed at March 31, 2019 were 39% higher than 2018's average. Growth in funds employed is expected to continue and will result in improved revenues in the future which bodes well for future results, although the Company continues to face intense competition, particularly in the U.S. which has resulted in lower loan yields there in recent years. It is anticipated that the Company's asset-based financing units, AFIC and AFIU, will be able to continue to build on their growth, particularly in the U.S. where synergies with CapX are being realized, despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business, ASBF, is forecasting growth to continue in future years. That unit continues to expand its product offerings, including working capital loans and the equipment revolving line of credit product it introduced in 2017, as well as carefully increasing its average equipment finance deal size.

Our newest group companies are also expected to strongly grow their funds employed. BondIt closed on a new credit facility in the second quarter of 2018, which will help it in this regard, while CapX, which started from scratch in the fourth quarter of 2017, had grown funds employed to \$90 million at the end of March 2019. Our credit protection and receivables management business faces intense competition from multinational credit insurers which is expected to continue.

To support this growth, in July 2018 the Company increased its bank line with a syndicate of six banks which should provide it with the majority of funding that it will need for growth in 2019. In addition, in December 2018, the Company went to market with a convertible debenture offering and raised \$19.5 million, including over-allotment proceeds received in January 2019. We will continue to review alternative sources of financing to augment our balance sheet if and when necessary.

Recent U.S. tax regulations that were released in December 2018 have impacted tax planning such that the Company will see an increase in its effective tax rate in 2019 and potentially for years thereafter. The Company is currently reviewing alternative tax planning opportunities in order to lower its effective tax rate in future years.

With its substantial capital and borrowing capacity, Accord is well positioned to capitalize on market conditions. That, coupled with experienced management and staff, will enable the Company to meet increased competition and develop new opportunities. Accord continues to introduce new financial and credit services to fuel growth in a very competitive and challenging environment.



**Stuart Adair**  
Senior Vice President, Chief Financial Officer  
April 30, 2019

## Consolidated Statements of Financial Position (unaudited)

	March 31, 2019	December 31, 2018	March 31, 2018
<b>Assets</b>			
Cash	\$ 6,890,822	\$ 16,345,848	\$ 4,629,001
Finance receivables and loans, net (note 4)	372,414,239	335,651,770	256,566,748
Income taxes receivable	694,532	327,553	1,415,456
Other assets	1,362,523	1,133,367	1,452,615
Assets held for sale	46,882	46,882	71,882
Deferred tax assets, net	1,233,284	1,207,699	777,675
Capital assets	898,225	923,080	787,160
Right-of-use assets (note 5)	1,894,586	—	—
Intangible assets (note 7)	3,958,258	4,115,886	4,214,490
Goodwill (note 6)	13,774,748	14,031,320	13,360,494
	<b>\$ 403,168,099</b>	<b>\$ 373,783,405</b>	<b>\$ 283,275,521</b>
<b>Liabilities</b>			
Due to clients	\$ 4,492,653	\$ 3,156,045	\$ 4,471,022
Bank indebtedness (note 8)	246,595,248	222,861,724	163,883,939
Loan payable (note 9)	7,340,570	5,695,568	—
Accounts payable and other liabilities	8,829,854	10,693,554	11,620,132
Income taxes payable	736,066	129,083	433,184
Notes payable (note 10)	18,787,103	18,078,919	19,201,358
Convertible debentures (note 11)	17,420,122	15,954,642	—
Lease liabilities (note 12)	1,912,500	—	—
Deferred income	1,615,641	1,514,199	1,414,367
Deferred tax liabilities, net	596,428	514,700	142,509
	<b>308,326,185</b>	<b>278,598,434</b>	<b>201,166,511</b>
<b>Equity</b>			
Capital stock (note 13)	\$ 8,114,733	\$ 8,114,733	\$ 6,896,153
Contributed surplus (note 13(c))	1,120,549	1,072,753	306,246
Retained earnings	72,442,671	71,558,552	64,216,799
Accumulated other comprehensive income (note 16)	8,081,729	9,071,661	6,544,528
Shareholders' equity	89,759,682	89,817,699	77,963,726
Non-controlling interests in subsidiaries	5,082,232	5,367,272	4,145,284
<b>Total equity</b>	<b>94,841,914</b>	<b>95,184,971</b>	<b>82,109,010</b>
	<b>\$ 403,168,099</b>	<b>\$ 373,783,405</b>	<b>\$ 283,275,521</b>

**Notice to Reader** - Management has prepared these condensed interim unaudited consolidated financial statements and notes and is responsible for the integrity and fairness of the financial information presented therein. They have been reviewed and approved by the Company's Audit Committee and Board of Directors. Pursuant to National Instrument 51-102, Part 4, Subsection 4.3(3)(a), the Company advises that its independent auditor has not performed a review or audit of these condensed interim unaudited consolidated financial statements.

## Consolidated Statements of Earnings (unaudited)

Three months ended March 31	2019	2018
<b>Revenue</b>		
Interest (note 4)	\$ 11,009,686	\$ 7,968,955
Other income (note 4)	1,578,807	2,064,015
	<b>12,588,493</b>	10,032,970
<b>Operating expenses</b>		
Interest	4,038,124	1,466,131
General and administrative	6,235,511	5,405,996
Provision for credit and loan losses (note 4)	26,899	1,439,241
Depreciation	177,714	46,532
Business acquisition expenses:		
Transaction and integration costs	96,458	165,817
Amortization of intangible assets	77,745	101,764
	<b>10,652,451</b>	8,625,481
Earnings before income tax	1,936,042	1,407,489
Income tax expense (recovery)	465,000	(176,000)
<b>Net earnings</b>	<b>1,471,042</b>	1,583,489
Net (loss) earnings attributable to non-controlling interests in subsidiaries	(171,646)	367,194
<b>Net earnings attributable to shareholders</b>	<b>\$ 1,642,688</b>	\$ 1,216,295
<b>Basic and diluted earnings per common share (note 14)</b>	<b>\$ 0.19</b>	\$ 0.15

## Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2019	2018
Net earnings attributable to shareholders	\$ 1,642,688	\$ 1,216,295
Other comprehensive (loss) income:		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange (loss) income on translation of self-sustaining foreign operations (note 16)	(989,932)	951,102
Comprehensive income	<b>\$ 652,756</b>	\$ 2,167,397

## Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock		Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 17)	Total equity
	Number of common shares outstanding	Amount					
Balance at January 1, 2018	8,307,713	\$ 6,896,153	\$ 297,825	\$ 63,661,034	\$ 5,593,426	\$ 3,684,071	\$ 80,132,509
Comprehensive Income	—	—	—	1,216,295	951,102	—	2,167,397
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	367,194	367,194
Stock-based compensation expense related to stock option grants	—	—	8,421	—	—	—	8,421
Dividend paid	—	—	—	(747,694)	—	—	(747,694)
Translation adjustments on non-controlling interests	—	—	—	—	—	100,179	100,179
Impact of IFRS 9 remeasurement	—	—	—	87,164	—	(6,160)	81,004
Balance at March 31, 2018	8,307,713	\$ 6,896,153	\$ 306,246	\$ 64,216,799	\$ 6,544,528	\$ 4,145,284	\$ 82,109,010

Balance at January 1, 2019	8,428,542	\$ 8,114,733	\$1,072,753	\$ 71,558,552	\$ 9,071,661	\$ 5,367,272	\$ 95,184,971
Comprehensive Income	—	—	—	1,642,688	(989,932)	—	652,756
Equity component of convertible debentures issued on Jan. 17, 2019, net of tax	—	—	47,796	—	—	—	47,796
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	(171,646)	(171,646)
Dividend paid	—	—	—	(758,569)	—	—	(758,569)
Translation adjustments on non-controlling interests	—	—	—	—	—	(113,394)	(113,394)
Balance at March 31, 2019	8,428,542	\$ 8,114,733	\$1,120,549	\$ 72,442,671	\$ 8,081,729	\$5,082,232	\$ 94,841,914

## Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2019	2018
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings	\$ 1,471,042	\$ 1,583,489
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	(19,412)	552,929
Deferred income	36,389	87,045
Amortization of intangible assets	77,745	101,764
Depreciation of capital assets	68,507	46,532
Depreciation of right-to-use assets	109,207	—
Loss on disposal of capital assets	—	816
Stock-based compensation expense related to stock option grants	—	8,421
Accretion of convertible debentures	102,824	—
Deferred tax expense	45,576	32,000
Current income tax expense (recovery)	419,424	(208,000)
	2,311,302	2,204,996
<b>Changes in operating assets and liabilities</b>		
Finance receivables and loans, gross	(40,793,815)	(35,677,842)
Due to clients	1,350,919	(172,222)
Other assets	(244,014)	(564,471)
Accounts payable and other liabilities	(1,274,142)	523,582
Income tax paid, net	(207,000)	(358,294)
	(38,856,750)	(34,044,251)
<b>Investing activities</b>		
Additions to capital assets, net	(50,595)	(149,215)
	(50,595)	(149,215)
<b>Financing activities</b>		
Bank indebtedness	27,126,345	23,984,210
Loan payable	1,765,286	—
Notes payable issued, net	781,362	3,305,463
Dividend paid	(758,569)	(747,694)
Convertible debentures issued	1,090,000	—
Lease liabilities principal	(91,342)	—
	29,913,082	26,541,979
<b>Effect of exchange rate changes on cash</b>	(460,763)	(176,512)
Decrease in cash	(9,455,026)	(7,827,999)
Cash at January 1	16,345,848	12,457,000
Cash at March 31	\$ 6,890,822	\$ 4,629,001
<b>Supplemental cash flow information</b>		
Net cash used in operating activities includes:		
Interest paid	\$ 3,202,417	\$ 1,350,728

# Notes to the Consolidated Financial Statements (unaudited)

Three months ended March 31, 2019 and 2018

## 1. Description of the business

Accord Financial Corp. (the "Company") is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing factoring, financing, leasing, credit investigation, credit protection and receivables management, to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 40 Eglinton Avenue East, Suite 602, Toronto, Ontario, Canada.

## 2. Basis of presentation and statement of compliance

These condensed interim unaudited consolidated financial statements ("Statements") are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2019, the more significant of which are detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2018.

The preparation of the condensed interim unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions

are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(e) and 4), the determination of the value of intangible assets and goodwill on acquisition (notes 7 and 6), as well as the net realizable value of assets held for sale (note 3(l)) and deferred tax assets and liabilities. Management believes that these estimates are reasonable and appropriate. The condensed interim unaudited consolidated financial statements of the Company have been prepared on an historical cost basis except for the following items which are recorded at fair value:

- Cash
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Senior executive long-term incentive plan ("LTIP")
- Lease liabilities
- Guarantee of managed receivables\*

\* a component(s) of accounts payable and other liabilities

These condensed interim unaudited consolidated financial statements for the three months ended March 31, 2019 were approved for issue by the Company's Board of Directors ("Board") on April 30, 2019.

## 3. Significant accounting policies

### (a) Adoption of new accounting policies

Effective January 1, 2019, the Company adopted a new accounting standard as issued by IASB. IFRS 16, Leases, replaced IAS 17, Leases, existing guidance on accounting for leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 affects the accounting for the Company's office leases where payments

under such leases were previously expensed as part of operating expenses. On January 1, 2019, the Company assessed whether its lease contracts conveyed the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has recognized four office leases as right-of-use assets and lease liabilities under IFRS 16. The Company has elected to use the exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also lease contracts of certain office equipment that are considered low value and, accordingly, has not recognized right-of-use assets and lease liabilities in respect of these leases. Upon adoption of IFRS 16, the Company used the modified retrospective method under which it has not restated 2018 comparatives.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date for those leases subject to the provisions of IFRS 16. A right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-to-use assets are depreciated to the end of their useful life using the straight-line method over the lease term as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 8 years for the four office leases recognized as right-of-use assets.

A lease liability is initially measured at the present value of the lease payments which are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rates. A lease liability is measured at amortized cost using the effective interest method whereby payments under the lease include both a principal and an interest component. It is remeasured when there

is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company recognized right-of-use assets and lease liabilities at January 1, 2019 which resulted in an increase in both assets and liabilities. Right-of-use assets and lease liabilities totalling \$2,027,000 were recorded at January 1, 2019, with no impact to retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates at January 1, 2019. The discount rates applied ranged from 6.00% to 7.25%.

The following table shows the Company's operating lease obligations at December 31, 2018 that were capitalized at the present value of the lease obligations on initial application of IFRS 16 on January 1, 2019.

(in thousands)

Undiscounted operating lease commitments at December 31, 2018	\$ 2,485
Less: short-term leases elected for exemption on adoption of IFRS 16	(100)
Undiscounted operating lease commitments at January 1, 2019 for leases recognized pursuant to IFRS 16	2,385
Discounted using incremental borrowing rates of 6.00% to 7.25%	(358)
Lease liabilities recognized on adoption of IFRS 16 on January 1, 2019	\$ 2,027

**(b) Basis of consolidation**

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries; namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion Capital Corp. (doing business as Accord Small Business Finance ("ASBF")) in Canada and Accord Financial, Inc. ("AFIU") in the United States. The Company exercises 100% control over each of its subsidiaries.

The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation.

**(c) Revenue recognition**

Revenue principally comprises interest, including discount fees, and factoring commissions and other fees from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. Interest charged on finance receivables and loans is recognized as revenue using the effective interest rate method. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. For managed receivables, factoring commissions are charged upfront and a certain portion is deferred and recognized over the period that costs are incurred collecting the receivables. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of ASBF and Accord CapX LLC ("CapX"), a subsidiary of AFIU, are considered an integral part of the yield earned on the debtor balance and are accounted for using the effective interest rate method. Other revenue, such as management fees, due diligence fees, documentation fees and commitment fees is recognized as revenue when earned.

**(d) Finance receivables and loans**

The Company finances its clients principally by providing asset-based loans, including factoring receivables and financing equipment leases. Finance receivables and loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Finance receivables and loans are initially measured at

fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method.

The Company's leasing operations have standard lease contracts that are non-cancellable direct financing leases and provide for monthly lease payments, usually for periods of one to five years. The present value of the minimum lease payments and residual values expected to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of execution costs, and the cost of the leased asset is unearned revenue, which is recorded as a reduction in the asset value, with the net amount being shown as the net investment in leases (specifically, the Company's lease receivables). The unearned revenue is then recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return on the net investment throughout the lease term.

**(e) Allowances for losses**

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, under which allowances for expected credit losses ("ECL") are recognized on all financial assets that are classified either at amortized cost or fair value through other comprehensive income ("FVOCI") and for all loan commitments and financial guarantees that are not measured at fair value through profit and loss ("FVTPL"). ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment.

The Company's ECL allowances are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition. Stage 1 ECL is the portion of lifetime expected credit losses that represent the

expected credit losses that result from default events on the financial instrument that are possible within the twelve month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its “watchlist.” We recognize lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1.

The calculation of ECL is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Company expects to receive. The key inputs in the measurement of ECL allowances are as follows: (i) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. No allowance for ECL is provided for Stage 3 accounts, rather the financial instrument is written down to its estimated net realizable value, or in respect of the Company’s managed receivables, an amount accrued for the expected payment under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial

recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as “workout” accounts. Accounts are in “workout” as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses.

**(f) Goodwill**

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit (“CGU”). If the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

**(g) Intangible assets**

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized

at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

**(h) Foreign subsidiaries**

The Company's foreign subsidiaries report in U.S. dollars and their assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at the period-end. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive income or loss and presented in the accumulated other comprehensive income or loss component of equity.

**(i) Stock-based compensation**

The Company accounts for stock options issued to directors and/or employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the stock options on the grant date. The fair value of the stock options is recorded in general and administrative expenses over the awards vesting period.

The Company's LTIP (note 13(f)) contemplates that grants thereunder may be settled in common shares and/or cash. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the

Company's adjusted return on average equity over the three-year vesting period of an award. The fair value of the LTIP awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

**(j) Financial assets and liabilities**

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, the LTIP liability, lease liabilities and the guarantee of managed receivables, which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date. The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

**(k) Convertible debentures**

Convertible debentures include both a debt and equity component due to the embedded financial derivative associated with the conversion option. The debt component of the debenture is initially recognized at fair value determined by discounting

the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debt instruments. The equity component of the convertible debenture is initially determined as the difference between the gross proceeds of the debenture issue and the debt component, net of any deferred tax liability that arises from the temporary difference between the carrying value of the debt and its tax basis. The equity component is included in contributed surplus within total equity. Directly attributable transaction costs related to the issuance of convertible debentures are allocated to the debt and equity components on a pro-rata basis, reducing their fair value at the time of initial recognition.

**(l) Assets held for sale**

Assets acquired or repossessed on realizing security on defaulted finance receivables and loans are held for sale and are stated at the lower of cost or recoverable amount (also referred to as "net realizable value").

**4. Finance receivables and loans and managed receivables**

**(a) Finance receivables and loans**

	March 31, 2019	Dec. 31, 2018	March 31, 2018
Receivable loans	\$138,936,367	\$134,422,542	\$112,749,562
Other loans*	162,459,532	135,306,707	116,430,351
Lease receivables	74,406,340	69,372,521	30,002,835
Finance receivables and loans, gross	375,802,239	339,101,770	259,182,748
Less allowance for losses	3,388,000	3,450,000	2,616,000
Finance receivables and loans, net	\$372,414,239	\$335,651,770	\$256,566,748

\* Other loans primarily comprise inventory and equipment loans.

Lease receivables comprise the net investment in leases by ASBF and CapX as described in note 3(d). Lease receivables at March 31, 2019 are expected to be collected over a period of up to five years.

The Company's finance receivables and loans are generally collateralized by: (i) a first charge on substantially all of the borrowers' assets; or (ii) leased assets or factored receivables which the Company owns. Collateral securing the finance receivables and loans primarily comprises

receivables, inventory and equipment, as well as, from time-to-time, other assets such as real estate and guarantees.

Interest income earned on finance receivables and loans during the quarter ended March 31, 2019 totalled \$11,009,686 (2018 - \$7,968,955).

Finance receivables and loans based on the contractual repayment dates thereof can be summarized as follows:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Less than 1 year	\$ 222,636	\$ 215,562	\$ 176,808
1 to 2 years	96,265	60,313	41,691
2 to 3 years	33,802	39,619	25,195
3 to 4 years	18,374	17,648	8,526
4 to 5 years	4,719	5,853	6,712
Thereafter	6	107	251
	\$ 375,802	\$ 339,102	\$ 259,183

The aged analysis of the Company's finance receivables and loans was as follows:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Current	\$ 367,101	\$ 333,031	\$ 251,197
Past due but not impaired:			
Past due less than 90 days	3,758	1,983	1,010
Past due 90 to 180 days	1,318	3,263	3,658
Past due 180 days or more	3,347	765	112
Impaired loans	278	60	3,206
	\$ 375,802	\$ 339,102	\$ 259,183

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR or an impairment, which may be rebutted where payments are delayed for non-credit related reasons, such as specific industry related reasons or practices. Moreover as the Company's finance receivables and loans are generally collateralized, past due amounts more than 90 days do not necessarily lead to a significant ECL allowance depending on the net realizable value of the collateral security which may result in a low or no LGD.

The Company maintains internal credit risk ratings on its finance receivables and loans by client which it uses for credit risk management purposes.

The internal credit risk ratings are defined as follows:

**Low risk:** finance receivables and loans that exceed the credit risk profile standard of the Company with a below average expected credit loss.

**Medium risk:** finance receivables and loans that are typical for the Company's risk appetite, credit standards and retain an average expected credit loss.

**High risk:** finance receivables and loans within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average expected credit loss. These finance receivables and loans are expected to represent a small percentage of the Company's total finance receivables and loans.

**Impaired:** finance receivables and loans on which the Company has commenced enforcement proceedings available to it under its contractual agreements and/or where there is objective evidence that there has been a deterioration in credit quality to the extent that the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest.

The following table summarizes the Company's finance receivables and loans by their internal credit risk rating:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Low risk	\$ 137,384	\$ 122,212	\$ 73,561
Medium risk	214,385	205,689	169,941
High risk	23,755	11,141	12,627
Impaired	278	60	3,054
	<b>\$ 375,802</b>	<b>\$ 339,102</b>	<b>\$ 259,183</b>

Finance receivables and loans classified under the three stage credit criteria of IFRS 9 were as follows:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Stage 1	\$ 365,486	\$ 332,015	\$ 253,809
Stage 2	10,038	7,027	2,168
Stage 3	278	60	3,206
	<b>\$ 375,802</b>	<b>\$ 339,102</b>	<b>\$ 259,183</b>

Stage 1 finance receivables and loans comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 finance receivables and loans comprise those accounts that have experienced a SICR since initial recognition. The Company refers to these finance receivables and loans as its "watchlist" accounts, while Stage 3 finance receivables and loans comprise those accounts which are impaired. The Company refers to these as "workout" accounts.

The activity in the allowance for losses on finance receivables and loans account during the first three months of 2019 and 2018 was as follows:

	2019	2018
Allowance for losses at January 1	\$ 3,450,000	\$ 1,996,966
Specific charge-offs reclassified to allowance for losses	—	35,000
Provision for loan losses	(10,774)	867,761
Charge-offs	(75,259)	(318,658)
Recoveries	66,621	8,825
Foreign exchange adjustment	(42,588)	26,106
Allowance for losses at March 31	<b>\$ 3,388,000</b>	<b>\$ 2,616,000</b>

The allowance for losses on finance receivables and loans at March 31, 2019 comprised a Stage 1 and Stage 2 allowance as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2019	\$2,669,024	\$ 780,976	\$3,450,000
Transfer from Stage 1 to Stage 2	(37,157)	37,157	—
Reserves expense related to change in allowance for losses*	(8,176)	(11,236)	(19,412)
Foreign exchange adjustment	(29,751)	(12,837)	(42,588)
Allowance for losses at March 31, 2019	\$2,593,940	\$ 794,060	\$3,388,000

\*a component of the provision for losses

There was no Stage 3 allowance for losses at March 31, 2019 as impaired finance receivables and loans are written down to the present value of their estimated net recoverable amount.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing

other assets, such as inventory and equipment. These transactions are conducted on terms that are usual and customary to the Company's asset-based lending activities. The Company controls the credit risk associated with its finance receivables and loans, and managed receivables, as discussed below, in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 20(a).

At March 31, 2019, the Company held cash collateral of \$1,576,542 (2018 – \$1,703,529) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

#### (b) Managed receivables

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At March 31, 2019, the gross amount of these managed receivables was \$39,648,116 (December 31, 2018 – \$40,145,156, March 31, 2018 – \$57,098,589). Fees from the Company's receivables management and credit protection business during the first quarter of 2019 totalled \$597,861 (2018 – \$720,515). This is included in other income.

The aged analysis of the Company's managed receivables was as follows:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Current	\$ 29,302	\$ 23,561	\$ 43,536
Past due but not impaired:			
Past due less than 90 days	8,792	16,143	12,865
Past due more than 90 days	1,554	441	698
	\$ 39,648	\$ 40,145	\$ 57,099

Managed receivables classified under the three stage credit criteria of IFRS 9 were as follows:

(in thousands)	March 31, 2019	Dec. 31, 2018	March 31, 2018
Stage 1	\$ 39,119	\$ 39,678	\$ 56,789
Stage 2	529	467	310
Stage 3	—	—	—
	\$ 39,648	\$ 40,145	\$ 57,099

Stage 1 managed receivables comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 managed

receivables comprise those accounts that have experienced a SICR since initial recognition. The Company refers to these managed receivables as its "watchlist" accounts. There were no Stage 3 (impaired) managed receivables at the above dates as any outstanding client claims for payments under the Company's guarantees are an actual liability that is accrued for and included in accounts payable and other liabilities.

Management provides an allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during three months ended March 31, 2019 and 2018 was as follows:

	2019	2018
Allowance for losses at January 1	\$ 74,000	\$ 140,000
Provision for loan losses	37,672	571,482
Charge-offs	(43,293)	(576,482)
Recoveries	5,621	—
Allowance for losses at March 31	\$ 74,000	\$ 135,000

The allowance for losses on the guarantee of managed receivables at March 31, 2019 comprised Stage 1 and Stage 2 allowances as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2019	\$ 31,943	\$ 42,057	\$ 74,000
Reserves expense (recovery) related to increase in allowance for losses*	10,586	(10,586)	—
Allowance for losses at March 31, 2019	\$ 42,529	\$ 31,471	\$ 74,000

\* a component of the provision for losses

There were no transfers between the two stages of the allowance for losses on the guarantee of managed receivables during the quarter.

## 5. Right-of-use assets (office leases)

Upon adoption of IFRS 16 on January 1, 2019, the Company recognized right-of-use assets in respect

of four of its office leases each of which had a remaining lease term of over one year at that date. The Company's right-of-use assets and movements therein during the three months ended March 31, 2019 were as follows:

(in thousands)	Office leases
Right-of-use assets recognized on adoption of IFRS 16 on January 1, 2019	\$ 2,027
Depreciation expense	(109)
Foreign exchange adjustment	(23)
Right-of-use assets at March 31, 2019	\$ 1,895

## 6. Goodwill

	2019	2018
Balance at January 1	\$ 14,031,320	\$ 13,081,651
Foreign exchange adjustment	(256,572)	278,843
Balance at March 31	\$ 13,774,748	\$ 13,360,494

## 7. Intangible assets

Intangible assets and movements therein during the first three months of 2019 and 2018 were as follows:

2019	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
<b>Cost:</b>					
January 1, 2019	\$ 1,179,097	\$ 2,076,915	\$ 1,343,938	\$ 1,857,359	\$ 6,457,309
Foreign exchange adjustment	—	(43,862)	—	(39,225)	(83,087)
March 31, 2019	\$ 1,179,097	\$ 2,033,053	\$ 1,343,938	\$ 1,818,134	\$ 6,374,222
<b>Accumulated amortization:</b>					
January 1, 2019	\$ (1,179,097)	\$ (158,658)	\$ (1,003,668)	\$ —	\$ (2,341,423)
Amortization expense	—	(33,794)	(43,951)	—	(77,745)
Foreign exchange adjustment	—	3,204	—	—	3,204
March 31, 2019	\$ (1,179,097)	\$ (189,248)	\$ (1,047,619)	\$ —	\$ (2,415,964)
<b>Book value:</b>					
January 1, 2019	\$ —	\$ 1,918,257	\$ 340,270	\$ 1,857,359	\$ 4,115,886
March 31, 2019	\$ —	\$ 1,843,805	\$ 296,319	\$ 1,818,134	\$ 3,958,258
<b>2018</b>	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
<b>Cost:</b>					
January 1, 2018	\$ 1,179,097	\$ 1,914,563	\$ 1,343,938	\$ 1,712,171	\$ 6,149,769
Foreign exchange adjustment	—	47,670	—	42,630	90,300
March 31, 2018	\$ 1,179,097	\$ 1,962,233	\$ 1,343,938	\$ 1,754,801	\$ 6,240,069
<b>Accumulated amortization:</b>					
January 1, 2018	\$ (1,104,817)	\$ (18,409)	\$ (799,532)	\$ —	\$ (1,922,758)
Amortization expense	(18,571)	(32,159)	(51,034)	—	(101,764)
Foreign exchange adjustment	—	(1,057)	—	—	(1,057)
March 31, 2018	\$ (1,123,388)	\$ (51,625)	\$ (850,566)	\$ —	\$ (2,025,579)
<b>Book value:</b>					
January 1, 2018	\$ 74,280	\$ 1,896,154	\$ 544,406	\$ 1,712,171	\$ 4,227,011
March 31, 2018	\$ 55,709	\$ 1,910,608	\$ 493,372	\$ 1,754,801	\$ 4,214,490

At March 31, 2019 and 2018, goodwill of US\$8,908,713 was carried in the Company's U.S. subsidiary. A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period-end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at March 31, 2019 and 2018:

	2019	2018
U.S. operations	\$ 11,892,241	\$ 11,477,987
Canadian operations	1,882,507	1,882,507
Balance at March 31	\$ 13,774,748	\$ 13,360,494

Goodwill is tested for impairment annually. During 2018, the Company conducted annual impairment reviews on each CGU and determined that there was no impairment to the carrying value of goodwill.

## 8. Bank Indebtedness

A revolving line of credit totalling approximately \$292 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line of credit was entered into for a three-year term on July 26, 2018 and superceded earlier lines of credit. The line is collateralized primarily by finance receivables and loans. At March 31, 2019, the amount outstanding under the line of credit totalled \$246,595,248 (December 31, 2018 – \$222,861,724, March 31, 2018 – \$163,883,939). The Company was in compliance with all loan covenants under its bank line(s) of credit during the first three months of 2019 and 2018.

## 9. Loan payable

A revolving line of credit totalling \$13,349,000 (US\$10,000,000) was established by BondIt in April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit matures in October 2019 and is collateralized by all of BondIt's assets. At March 31, 2019, the amount outstanding under this line of credit totalled \$7,340,570 (December 31, 2018 – \$5,695,568, March 31, 2018 – nil). Under this revolving credit facility, BondIt failed two specific covenant tests at March 31, 2019 which the lender subsequently waived. BondIt expects that the credit facility will be amended to avoid similar technical defaults in the future.

## 10. Notes payable

Notes payable comprise unsecured short-term notes (due in less than one year), as well as long-term notes (due after one year) which were entered into for a three-year term on August 1, 2018 and mature on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand (\$3,798,913); and (ii) numerous BondIt notes (\$2,803,290) which are repayable on various dates the latest of which is August 2, 2019. Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable were as follows:

	March 31, 2019	Dec. 31, 2018	March 31, 2018
Short-term notes:			
Related parties	\$ 3,805,959	\$ 3,377,550	\$ 17,153,967
Third parties	2,796,244	2,487,669	2,047,391
	6,602,203	5,865,219	19,201,358
Long-term notes:			
Related parties	12,184,900	12,213,700	—
	\$ 18,787,103	\$ 18,078,919	\$ 19,201,358

Notes due on, or within a week of, demand bear interest at rates that vary with bank prime rate or Libor, while the BondIt notes bear interest at rates of 8% and 12%. The long-term notes carry a fixed interest rate of 7% with interest payable each calendar quarter-end.

Interest expense on the notes payable for the three months ended March 31, 2019 and 2018 was as follows:

	2019	2018
Related parties	\$ 257,533	\$ 115,959
Third parties	45,373	21,590
	\$ 302,906	\$ 137,549

## 11. Convertible debentures

In December 2018, the Company issued 18,400 7.0% convertible unsecured debentures with a face value of \$1,000 each for proceeds of \$18,400,000. On January 17, 2019, the underwriters of the debenture issue exercised their over-allotment option and a further 1,090 convertible debentures were issued for proceeds of \$1,090,000, bringing the total proceeds of the offering to \$19,490,000. Interest on these convertible debentures is payable semi-annually on June 30 and December 31 each year commencing on June 30, 2019. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of \$13.50 per common share.

These debentures are not redeemable by the Company prior to December 31, 2021 except in limited circumstances following a change of

control. On or after December 31, 2021 and at any time prior to December 31, 2022, these debentures may be redeemed at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon provided that the market price is at least 125% of the conversion price. On or after December 31, 2022 and prior to the maturity date, these debentures may be redeemed in whole or in part at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest.

The Company used the residual method to calculate the split between the debt component of these debentures and its equity component. The gross proceeds of \$19,490,000 were allocated towards the debt component of these debentures by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debentures. The equity component is initially determined to be the difference between the gross proceeds and the debt component. Transaction costs were then allocated to the debt and equity components on a pro-rata basis. The equity component is carried net of deferred taxes and is included in contributed surplus.

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at March 31, 2019 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	\$18,307,604	\$1,182,396	\$19,490,000
Transaction costs	(1,388,520)	(89,772)	(1,478,292)
Net proceeds	16,919,084	1,092,624	18,011,708
Deferred taxes	—	(289,545)	(289,545)
Accretion in carrying value of debenture liability	41,598	—	41,598
Amortization of transaction costs	78,884	—	78,884
Accrued interest	380,556	—	380,556
Balance March 31, 2019	\$17,420,122	\$ 803,079	\$18,223,201

## 12. Lease liabilities

The following table presents the contractual undiscounted cash flows for the Company's lease commitments at March 31, 2019:

(in thousands)	
Less than one year	\$ 539
One to five years	1,502
Thereafter	275
Total undiscounted lease commitments	2,316
Less: short-term leases elected for exemption under IFRS 16	(79)
Future interest	(324)
Lease liabilities at March 31, 2019	\$ 1,913

For the three months ended March 31, 2019, principal and interest payments for the four leases recognized under IFRS 16 totalled \$91,342 and \$30,351, respectively, for total lease payments of \$121,693. No variable lease payments are included in the measurement of the Company's lease liabilities. See note 3(a) for details on the accounting policy for lease liabilities.

## 13. Capital stock, contributed surplus, dividends, stock option plans, senior executive long-term incentive plan, and stock-based compensation

### (a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At March 31, 2019 and 2018 and December 31, 2018, there were no first preferred shares outstanding.

### (b) Issued and outstanding

The Company's issued and outstanding common shares during the first quarter of 2019 and 2018 are set out in the consolidated statements of changes in equity.

### (c) Contributed surplus

The Company's contributed surplus and movements therein during the first quarter of 2019 and 2018 are set out in the consolidated statements of changes in equity.

**(d) Dividends**

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2019 and March 31, 2018, a dividend of \$0.09 per common share was declared and paid totalling \$758,569 (2018 – \$747,694).

On April 30, 2019, the Company declared a quarterly dividend of \$0.09 per common share, payable June 3, 2019 to shareholders of record at the close of business on May 17, 2019.

**(e) Stock option plans**

The Company has established an employee stock option plan. Under the terms of the plan, an aggregate of 1,000,000 common shares has been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries. According to the terms of the plan, these options vest over a period of three years provided certain minimum earnings criteria are met. Although the Company may still grant stock options to employees, it has not done so since 2004.

The Company has also established a non-executive directors' stock option plan ("NEDSOP"). Under the terms of the plan, an aggregate of 500,000 common shares has been reserved for issue upon the exercise of options granted to non-executive directors of the Company. Fifty percent of these options vest after one year and fifty percent after two years. The options have to be exercised within five years of the grant date at which time they expire.

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date.

Outstanding options granted under the NEDSOP were as follows:

Exercise price	Grant Date	March 31, 2019	Dec. 31, 2018	March 31, 2018
\$9.56	October 28, 2015	80,000	80,000	100,000
\$9.28	July 27, 2016	80,000	80,000	100,000
Outstanding		160,000	160,000	200,000
Earned and exercisable		160,000	160,000	150,000

A director who resigned on June 30, 2018 did not exercise his options within the required sixty day period after he ceased to be director. Accordingly, his 40,000 options expired on August 29, 2018.

The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions on the grant date:

	July 27, 2016 grant	Oct. 28, 2015 grant
Risk free interest rate	0.65%	0.82%
Expected dividend yield	3.88%	3.77%
Expected share price volatility	23.78%	23.50%
Expected life of option	5.0 years	5.0 years
Fair value per option	\$1.35	\$1.40

**(f) Senior executive long-term incentive plan**

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted consolidated net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return on equity thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

**(g) Stock-based compensation**

During the three months ended March 31, 2019, the Company recorded a stock-based compensation expense of \$57,000 (2018 – \$26,795), all of which was in respect of LTIP awards (2018 – \$18,374). During the three months ended March 31, 2018 there was also an \$8,421 charge in respect of the Company's NEDSOP grants.

**14. Earnings per common share and weighted average number of common shares outstanding**

Basic earnings per share have been calculated based on the weighted average number of common shares outstanding in the year without the inclusion

of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding in the year, which in the Company's case consist of stock options and convertible debentures.

The following is a reconciliation of common shares used in the calculation for the three months ended March 31:

	March 2019	March 2018
Basic weighted average number of common shares outstanding	8,428,542	8,307,713
Effect of dilutive stock options	3,370	—
Diluted weighted average number of common shares outstanding	8,431,912	8,307,713

All outstanding stock options were excluded from the calculation of the diluted weighted number of shares outstanding for the three months ended March 31, 2018 because they were considered to be anti-dilutive for earnings per common share purposes. Details of stock options outstanding are set out in note 13(e). All convertible debentures were similarly excluded from the calculation for the first three months of 2019.

## 15. Contingent liabilities

- (a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At March 31, 2019 and 2018, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company, and thus had not accrued a loss.

- (b) At March 31, 2019, there were no letters of credit issued on behalf of clients for which the Company was contingently liable (December 31, 2018 – \$508,170; March 31, 2018 – \$1,015,028). The Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of \$13,349 at March 31, 2019 (December 31, 2018 – \$13,637; March 31, 2018 – \$12,884). These amounts were considered in determining the allowance for losses on finance receivables and loans.

## 16. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the three months ended March 31, 2019 and 2018 are set out in the consolidated statements of changes in equity.

## 17. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at March 31, 2019 and 2018 and December 31, 2018 comprise an effective 49% interest in BondIt's common member units and a 10% interest in CapX common units. Please see the consolidated statements of changes in equity for movements in non-controlling interests during the first quarter of 2019 and 2018.

## 18. Fair values of financial assets and liabilities

Any financial assets or liabilities recorded at cost are short term in nature and, therefore, their carrying values approximate fair values. Under the fair value hierarchy, finance receivables and loans would be classified as Level 3.

## 19. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. There were no significant changes to capital assets and goodwill during the periods under review.

Three months ended March 31 (in thousands)	2019				2018			
	Canada	United States	Inter-company	Total	Canada	United States	Inter-company	Total
Identifiable assets	\$ 166,493	\$ 245,389	\$ (8,714)	\$ 403,168	\$ 135,703	\$ 147,573	\$ —	\$ 283,276
Revenue								
Interest income	\$ 4,788	\$ 6,322	\$ (101)	\$ 11,009	\$ 3,851	\$ 4,118	\$ —	\$ 7,969
Other income	981	598	—	1,579	1,061	1,003	—	2,064
	5,769	6,920	(101)	12,588	4,912	5,121	—	10,033
Expenses								
Interest	3,657	482	(101)	4,038	1,408	58	—	1,466
General and administrative	2,689	3,546	—	6,235	2,729	2,677	—	5,406
Provision for credit and loan losses	(57)	84	—	27	941	498	—	1,439
Depreciation	82	96	—	178	31	16	—	47
Business acquisition expenses	44	130	—	174	70	198	—	268
	6,415	4,338	(101)	10,652	5,179	3,447	—	8,626
Earnings (loss) before income taxes	(646)	2,582	—	1,936	(267)	1,674	—	1,407
Income tax expense (recovery)	(162)	627	—	465	(55)	(121)	—	(176)
Net earnings (loss)	(484)	1,955	—	1,471	(212)	1,795	—	1,583
Net earnings (loss) attributable to non-controlling interest in subsidiaries	—	(172)	—	(172)	—	367	—	367
Net earnings (loss) attributable to shareholders	\$ (484)	\$ 2,127	\$ —	\$ 1,643	\$ (212)	\$ 1,428	\$ —	\$ 1,216

## 20. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. In this respect, the Audit Committee meets with management and the Company's Risk Management Committee at least quarterly. The Company's risk management policies are established to identify, analyze, limit, control and monitor the risks faced by the Company. Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations.

In the Company's case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with.

The carrying amount of these loans (\$376 million) and managed receivables (\$40 million) represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company will usually either: (i) own the factored receivables or leased assets that it finances; or (ii) will take collateral security over the other assets that it lends against. The Company also makes unsecured small business loans; these totalled \$2,112,296 at March 31, 2019. It does not take title to the managed receivables as it does not lend against them, but it assumes

the credit risk from the client in respect of these receivables.

In its asset-based lending business, the Company makes loans that are, in most cases, secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate. The Company provides a loss allowance on all of its finance receivables and loans based on the assessed credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during the three months ended March 31, 2019 and 2018.

At March 31, 2019, the Company had impaired loans of \$278,000 (December 31, 2018 - \$60,000, March 31, 2018 - \$3,206,000), while at that date, it held collateral for these loans with an estimated value of \$696,000 (December 31, 2018 - \$314,000, March 31, 2018 - \$3,332,000). These impaired loans were mainly secured by receivables inventory and/or equipment.

In its asset-based lending businesses, AFIC and AFIU, media financing business (BondIt), Canadian equipment finance business (ASBF), and credit protection and receivables management operations, credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of \$1.0 million (\$500,000 for BondIt), the Company's Chairman and Vice Chairman of its Board. Credit in excess of \$2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by its Investment Committee, with amounts in excess of US\$2,500,000 also being approved by the Company's Chairman and Vice Chairman. CapX credit in excess of US\$4,000,000 is also approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will

inevitably be defaults by clients or their customers.

In its asset-based lending operations, a primary focus continues to be on the credit-worthiness and collectability of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 4.4% were past due more than 60 days at March 31, 2019 (2018 - 2.3%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 which presents the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk), as well as an aged analysis thereof and also by the three stage credit criteria of IFRS 9. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it finances. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. Regular field examinations are conducted to verify

collateral such as inventory and equipment. In the Company's Canadian leasing operations, security deposits are also obtained as additional collateral for its equipment leases or loans.

In the Company's credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of \$2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At March 31, 2019, the Company had not guaranteed accounts receivable in excess of \$5 million for any customer.

The Company's credit exposure relating to its finance receivables and loans by industrial sector was as follows:

Industrial Sector (in thousands)	March 31, 2019		March 31, 2018	
	Gross finance receivables and loans	% of total	Gross finance receivables and loans	% of total
Manufacturing	\$ 100,916	27	\$ 43,154	17
Financial services	71,446	19	52,788	20
Wholesale and distribution	48,895	13	38,260	15
Professional Services	45,848	12	31,861	12
Transportation	29,810	8	20,086	8
Retail	24,601	7	30,627	12
Media	20,274	5	12,249	5
Construction	17,336	5	—	—
Real estate	—	—	7,900	3
Other	16,676	4	22,258	8
	<b>\$ 375,802</b>	<b>100</b>	<b>\$ 259,183</b>	<b>100</b>

The Company's credit exposure relating to its managed receivables by industrial sector was as follows:

Industrial Sector (in thousands)	March 31, 2019		March 31, 2018	
	Managed receivables	% of total	Managed receivables	% of total
Retail	\$ 33,555	85	\$ 49,756	87
Engineering	4,161	10	3,424	6
Wholesale and distribution	1,932	5	3,919	7
	<b>\$ 39,648</b>	<b>100</b>	<b>\$ 57,099</b>	<b>100</b>

As set out in notes 3(e) and 4, the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables in accordance with IFRS 9. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment,

are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

(b) **Liquidity risk**

The Company's financial assets and liabilities at March 31, 2019 by maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
<b>Financial assets</b>							
Cash	\$ 6,891	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,891
Finance receivables and loans	188,061	82,350	24,665	52,633	24,104	3,989	375,802
All other assets	2,056	—	—	—	—	—	2,056
	<b>\$ 197,008</b>	<b>\$ 82,350</b>	<b>\$ 24,665</b>	<b>\$ 52,633</b>	<b>\$ 24,104</b>	<b>\$ 3,989</b>	<b>\$ 384,749</b>
<b>Financial liabilities</b>							
Due to clients	\$ 4,493	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,493
Bank indebtedness	246,595	—	—	—	—	—	246,595
Loan payable	7,341	—	—	—	—	—	7,341
Notes payable	6,602	—	12,185	—	—	—	18,787
Convertible debentures	—	—	—	—	17,420	—	17,420
All other liabilities	7,752	1,682	—	—	—	—	9,434
	<b>\$ 272,783</b>	<b>\$ 1,682</b>	<b>\$ 12,185</b>	<b>\$ —</b>	<b>\$ 17,420</b>	<b>\$ —</b>	<b>\$ 304,070</b>

The Company's financial assets and liabilities at March 31, 2018 by maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
<b>Financial assets</b>							
Cash	\$ 4,629	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,629
Finance receivables and loans	174,035	36,936	22,844	5,738	19,615	15	259,183
All other assets	2,176	—	—	—	—	—	2,176
	<b>\$ 180,840</b>	<b>\$ 36,936</b>	<b>\$ 22,844</b>	<b>\$ 5,738</b>	<b>\$ 19,615</b>	<b>\$ 15</b>	<b>\$ 265,988</b>
<b>Financial liabilities</b>							
Due to clients	\$ 4,471	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,471
Bank indebtedness	163,884	—	—	—	—	—	163,884
Notes payable	19,201	—	—	—	—	—	19,201
All other liabilities	7,033	3,602	1,353	—	—	—	11,988
	<b>\$ 194,589</b>	<b>\$ 3,602</b>	<b>\$ 1,353</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 199,544</b>

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities.

Revolving credit lines totalling approximately \$306,000,000 have been established with a syndicate of banks, as well as a non-bank lender, bearing interest varying with the bank prime rate or Libor. At March 31, 2019, the Company had borrowed \$253,935,818 (December 31, 2018 – \$228,557,292; March 31, 2018 – \$163,883,939) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under its bank lines of credit during the first quarter of 2019 and 2018, although

BondIt failed two covenant tests with its non-bank lender at March 31, 2019, which were subsequently waived. See note 9. Notes payable of \$3,798,913 are due on, or within a week of demand, while BondIt notes totalling \$2,803,290 are repayable at various dates the latest of which is August 2, 2019. Long-term notes payable of \$12,184,900 entered into on August 1, 2018 mature on July 31, 2021 (see note 10). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At March 31, 2019, 85% (2018 – 89%) of these notes were due to related parties and 15% (2018 – 11%) to third parties. The Company's convertible debenture liability was \$17,420,000 at March 31, 2019. These debentures mature on December 31, 2023. Due to clients, principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At March 31, 2019, the Company had gross finance receivables and loans totalling \$375,802,239 (December 31, 2018 – \$339,101,770; March 31, 2018 – \$259,182,748) which substantially exceeded its total liabilities of \$308,326,185 at that date (December 31, 2018 – \$278,598,434; March 31, 2018 – \$201,166,511). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The objective of managing market risk is to control market risk exposures within acceptable parameters, while optimizing the return on risk.

**(i) Currency risk**

The Company's Canadian operations have some assets and liabilities denominated in foreign

currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time-to-time to hedge its currency risk when there is no economic hedge. At March 31, 2019, the Company's unhedged foreign currency positions in its Canadian operations totalled \$184,000 (December 31, 2018 – \$49,000; March 31, 2018 – \$175,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the foreign currencies against the Canadian dollar would not have a material impact on the Company's net earnings.

**(ii) Interest rate risk**

Interest rate risk pertains to the risk of loss due to the volatility of interest rates. The Company's lending and borrowing rates are usually based on bank prime rates of interest or Libor and are typically variable. The Company actively manages its interest rate exposure, where possible.

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's floating rate finance receivables and loans exceed its floating and short-term fixed rate (usually 30 days) borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity. This gap has been declining recently, as a result of the Company's equipment finance businesses, where ASBF and CapX lease receivables and equipment term loans to clients are usually at fixed effective interest rates for up to five years, while related bank borrowings are currently at floating rates. The Company also recently entered into long-term notes payable and issued convertible debentures, which mature on July 31, 2021 and December 31, 2023 (see note 10 and note 11), respectively, which borrowings are at fixed

interest rates for the term thereof. The Company expects it will deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with lease receivables and term loan maturities in our equipment finance businesses.

The following table shows the interest rate sensitivity gap at March 31, 2019:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
<b>Assets:</b>						
Cash	\$ 4,556	\$ —	\$ —	\$ —	\$ 2,335	\$ 6,891
Finance receivables and loans, net	245,757	30,329	68,824	30,049	(2,545)	372,414
All other assets	—	695	—	—	23,168	23,863
	250,313	31,024	68,824	30,049	22,958	403,168
<b>Liabilities:</b>						
Due to clients	—	—	—	—	4,493	4,493
Bank indebtedness	64,063	182,532	—	—	—	246,595
Loan payable	7,341	—	—	—	—	7,341
Notes payable	3,799	2,803	12,185	—	—	18,787
Convertible debentures	—	—	—	17,420	—	17,420
All other liabilities	—	736	—	—	12,954	13,690
<b>Equity</b>	—	—	—	—	94,842	94,842
	75,203	186,071	12,185	17,420	112,289	403,168
	\$ 175,110	\$(155,047)	\$ 56,639	\$ 12,629	\$(89,331)	\$ —

Based on the Company's interest rate positions as at March 31, 2019, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately \$200,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

## 21. Capital disclosure

The Company considers its capital structure to include equity and debt; namely, its bank indebtedness, loan payable, notes payable and convertible debentures. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (b) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (c) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. At March 31, 2019, as a percentage, these ratios were 306% (December 31, 2018 – 276%; March 31, 2018 – 223%) and 24% (December 31, 2018 – 25%; March 31, 2018 – 29%), respectively. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at March 31, 2019, the Company is required to maintain a debt to TNW ratio of less than 3.5 on its syndicated bank facility. BondIt, which has entered into a loan facility with a non-bank lender, is required to maintain a TNW of \$5,000,000. There were no changes in the Company's approach to capital management from previous periods.

## 22. Subsequent events

At April 30, 2019, there were no subsequent events occurring after March 31, 2019 that required disclosure or adjustments to the financial statements.

# Corporate Information



## Board of Directors

**Ken Hitzig**, Toronto, Ontario <sup>2</sup>

**Simon Hitzig**, Toronto, Ontario

**David Beutel**, Toronto, Ontario <sup>1,3</sup>

**Tom Henderson**, Greenville, South Carolina

**Gary Prager**, Atlanta, Georgia <sup>1,3</sup>

**Robert S. Sandler**, White Plains, New York <sup>2,3</sup>

**Stephen D. Warden**, Oakville, Ontario <sup>1,2</sup>

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Credit Committee

## Officers

**Ken Hitzig**, Chairman of the Board

**Tom Henderson**, Vice Chairman

**Simon Hitzig**, President & CEO

**Stuart Adair**, Senior Vice President,  
Chief Financial Officer

**Jim Bates**, Secretary

**Fred Moss**, Vice President

## Subsidiaries

### **Accord Financial Ltd.**

Jim Bates, President

### **Accord Financial Inc.**

Fred Moss, President

### **Accord Financial, Inc.**

Terry Keating, President

### **Accord Small Business Finance (Varion Capital Corp.)**

James Jang, President

### **Accord CapX LLC**

Jeff Pfeffer, President

### **BondIt Media Capital**

Matthew Helderman, President

## Auditors

KPMG LLP

## Legal Counsel

Stikeman Elliott

## Bankers

Bank of Montreal

The Bank of Nova Scotia

Branch Banking and Trust

Canadian Imperial Bank of Commerce

HSBC Bank Canada

M&T Bank

The Toronto-Dominion Bank

## Stock Exchange Listing

Toronto Stock Exchange

Symbol: ACD

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