



Investing in Opportunities for Growth

**First Quarter Report · March 31, 2018**



## We love helping companies reach their potential.

In fact it's our core purpose — our very reason for being. Accord's transparency as a public company gives our referral partners and clients complete visibility into the financial strength we bring to our relationships. Our people are passionate in their support of each client's vision. And our team is equally energetic in their approach to finding solutions to help businesses grow.

We are dynamic, delivering solutions with the speed needed to keep our clients moving forward. But we are also meticulous, which means the opportunities we finance for our clients are viable and sustainable.

Unrivalled experience is the cornerstone of our culture. It allows us to continually adapt to the marketplace, enhance our range of solutions, and uncover opportunities for growth. And when we find a mutual opportunity, we bring all of our resources to bear to help our clients succeed — you can count on us to deliver.

This unique blend of experience, passion and energy gives us insights into areas often overlooked by our competitors. And our financial strength turns insights into opportunities to invest in growth.

## Table of Contents

- 1 From Our President and CEO
- 2 Management's Discussion and Analysis
- 14 Consolidated Statements of Financial Position (unaudited)
- 15 Consolidated Statements of Earnings (unaudited)
- 15 Consolidated Statements of Comprehensive Income (unaudited)
- 15 Consolidated Statements of Changes in Equity (unaudited)
- 16 Consolidated Statements of Cash Flows (unaudited)
- 17 Notes to Consolidated Financial Statements (unaudited)

Inside back cover Corporate Information

## Just ask them.

"The Accord Team has delivered creative, structured financing solutions to us and our clients. We have utilized a variety of their financing options and have been impressed with their commitment to customer service. Accord has demonstrated an ability to underwrite a wide range of deal sizes and has partnered with us on many successful deal closings. We look forward to many successful business transactions in the future."

~ **Dustin White**  
Partner, Dynamic Capital

"I think very highly of Accord. Their entire team is very responsive and direct, which—when you're an intermediary—is very helpful. They are upfront and follow through. Accord delivers what they promise. I know Tom Henderson, and others, personally, and they all have a high degree of integrity. They shoot straight, treat people fairly and simply do the right thing. My reaction to the CapX tie-up was that's a really great fit. I already had a relationship with CapX; they are similar in their approach to borrowers with the same fair, straightforward approach."

~ **Phil Kain**  
Managing Partner, Rush Street Capital

"We have worked with the team at Accord over the last two years. They have been a pleasure to work with. They are professional, and always responsive to our needs. We have enjoyed the relationship so much we are extending our agreement! I would recommend Accord to any company that is looking for an ABL lender to service their business."

~ **Oliver Morante**  
President, The John Forsyth Shirt Company Inc.

"The team is very professional and straightforward. There is no guesswork involved. They walk you through every step carefully and make sure you understand before entering into the deal. The process is easy, quick and a good experience from start to finish . . . I have used BondIt's services repeatedly."

~ **Adrian Fulle**  
Principal, Poya Pictures

## From Our President and CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2018 together with comparative figures for the same period of 2017. 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 were \$1,216,000 for the first quarter of 2018 compared with \$1,226,000 in the first quarter of 2017. Earnings per share ("EPS") remained unchanged at 15 cents. First quarter net earnings decreased slightly mainly as a result of a higher provision for losses and other expenses.

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 6% to \$1,441,000 in the first quarter of 2018 compared to the \$1,362,000 earned in the first quarter of 2017. Adjusted EPS, based on the adjusted net earnings, were 17 cents in the first quarter versus 16 cents earned in last year's first quarter.

Revenue increased by 54% to a quarterly record \$10,033,000 in the first quarter of 2018 compared to \$6,501,000 last year mainly as a result of higher finance receivables and loans ("funds employed"), including the funds employed of BondIt Media Capital ("BondIt") and Accord CapX ("CapX"), companies in which we acquired controlling interests in the second half of 2017.

The Company's total funds employed were a record \$259 million at March 31, 2018, 68% higher than the \$154 million a year earlier and 18% higher than last year-end. Average funds employed in the current quarter increased 60% to \$229 million compared with \$143 million last year. Shareholders' equity was \$78 million at March 31, 2018 compared to \$76 million at March 31, 2017. Book value per share was a record \$9.38 versus \$9.13 a year ago.

We had our first calendar quarter that included the results of the two acquisitions we made in the second half of 2017. As you recall, we acquired a majority interest in BondIt in July and CapX Partners in late October. I am very happy to report that both of these new group companies are doing well and the positive financial results we expect from them are on target to become noticeable within the next 12 months.



Tom Henderson

Just a few weeks ago BondIt closed on its first major borrowing facility. The facility is a three year US\$20 million credit line from a specialty financial institution in Texas. With this financing in place, we expect to see significant asset growth by this very profitable specialty lender.

With respect to CapX, I'm pleased to report they are on track to generate the significant asset growth we expected. They are revving up momentum and have already financed several equipment lease and loan transactions and have a very nice looking pipeline. You may recall when we acquired this business it had a full truck load of talented people but was building its loan position from scratch. This was part of our plan of course. By the end of 2018 we expect this unit to start recording an operating profit and I'm confident it will take off from there.

As our assets have grown significantly over the last year, due to very satisfying internal growth and the two acquisitions discussed, your management has been working hard to make sure that adequate funding is in place. In that regard we have gone a long way towards finalizing a brand new bank line that will provide us with the majority of the funding we will need to keep growing over the next three years. That facility is expected to close on or before the end of the second quarter.

Our financial results were along expected lines. While we had expected top line improvement, we did not expect any significant year-over-year improvement in net earnings this quarter and as you can see, from the foregoing, adjusted net earnings grew by only 6%. Nonetheless, I am quite pleased to report we are on track to produce improved results later in this current fiscal year provided we continue to maintain quality assets on our balance sheet. We work hard every day to make sure that is the case.

At a recent Board of Directors meeting, a regular quarterly dividend of 9 cents per common share was declared payable June 1, 2018 to shareholders of record May 17, 2018.

A handwritten signature in black ink, appearing to read 'Tom Henderson', written over a circular scribble.

**Tom Henderson**  
**President and Chief Executive Officer**

**May 2, 2018**



Stuart Adair

## Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A")

*Quarter ended March 31, 2018 compared with quarter ended March 31, 2017*

### 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, 2018 compared with the quarter ended March 31, 2017 and, where presented, the quarter ended March 31, 2016. 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 May 2, 2018, 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, 2018 and 2017, which are included as part of this 2018 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2017 audited consolidated financial statements and notes thereto included in the Company's 2017 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 are defined as follows:

- i) Return on average equity ("ROE")** – this is a profitability measure that presents the net earnings attributable to shareholders ("shareholders' net earnings") for the period 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, business acquisition expenses (namely business transaction and integration costs and amortization of intangibles) and restructuring expenses. 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 total 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. 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** – (a) total equity expressed as a percentage of total assets; and (b) debt (bank indebtedness and notes payable) expressed as a percentage of total equity. These percentages provide information on trends in the Company's financial position 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 a leading North American provider of asset-based financial services to businesses, namely, asset-based lending ("ABL") (including factoring, receivables, inventory, lease and equipment financing), working capital financing, film and media financing, credit protection and receivables management, and supply chain financing for importers. The Company's financial services are discussed in more detail in its 2017 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 16(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 Varion Capital Corp. ("Varion") (doing business as 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

Quarter ended		Earnings		
		Revenue	Net Earnings	Per Common Share*
<b>2018</b>	<b>March 31</b>	<b>\$ 10,033</b>	<b>\$ 1,216</b>	<b>\$ 0.15</b>
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	\$ 6,011	\$ 0.72
2016	December 31	\$ 7,722	\$ 2,210	\$ 0.27
	September 30	7,032	1,265	0.15
	June 30	6,897	1,627	0.20
	March 31	6,871	1,465	0.18
Fiscal 2016		\$ 28,522	\$ 6,566**	\$ 0.79**

\* Basic and diluted

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

## Results of Operations

### Quarter ended March 31, 2018 compared with quarter ended March 31, 2017

Shareholders' net earnings for the quarter ended March 31, 2018 decreased by \$10,000 to \$1,216,000 compared to the \$1,226,000 earned in the first quarter of 2017 and were 17% below 2016's first quarter net earnings of \$1,465,000. Shareholders' net earnings decreased compared to 2017 and 2016 mainly as a result of a higher provision for losses.

Earnings per common share remained unchanged at 15 cents compared to the first quarter of 2017 but were 17% below the 18 cents earned in the first quarter of 2016. ROE in the current quarter was 6.4% compared to 6.6% last year and 8.2% in the first quarter of 2016.

Adjusted net earnings totalled \$1,441,000, 6% higher than the \$1,362,000 in the first quarter of 2017 but 9% below the \$1,591,000 earned in the first quarter of 2016. Adjusted EPS were 17 cents, 6% higher than the 16 cents earned in the first quarter of 2017 but 11% lower than the 19 cents earned in 2016.

The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarter ended March 31 (in thousands)	2018	2017	2016
Shareholders' net earnings	\$ 1,216	\$ 1,226	\$ 1,465
Adjustments, net of tax:			
Stock-based compensation	22	69	32
Business acquisition expenses	203	67	94
Adjusted net earnings	\$ 1,441	\$ 1,362	\$ 1,591

Revenue in the current quarter increased to \$10,033,000, 54% or \$3,532,000 higher than last year's \$6,501,000 and 46% or \$3,162,000 above the \$6,871,000 in the first quarter of 2016. Revenue increased compared to 2017 and 2016 as a result of higher average funds employed, including the funds employed of BondIt and CapX, which companies were acquired in the second half of 2017. Revenue from BondIt and CapX totalled \$1,275,000 and \$1,090,000, respectively, in the current quarter. Average funds employed in the first quarter of 2018 totalled \$229 million, 60% higher than the \$143 million in the first quarter of 2017 and 61% higher than the \$142 million in the first quarter of 2016. Funds employed at March 31, 2018 were a record high \$259 million compared to \$153 million and \$144 million at March 31, 2017 and 2016, respectively.

Total expenses for the first quarter of 2018 increased by 70% or \$3,539,000 to \$8,625,000 compared to \$5,086,000 last year. General and administrative expenses ("G&A"), the provision for credit and loan losses, interest expense, business acquisition expenses (transaction and integration costs and amortization of intangibles) and depreciation increased by \$1,415,000, \$1,092,000, \$847,000, \$175,000 and \$10,000, respectively.

Interest expense rose by 137% to \$1,466,000 in the first quarter of 2018 compared to \$619,000 last year on a 112% rise in average borrowings and increased interest rates.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A increased by 35% or \$1,415,000 to \$5,406,000 in the current quarter compared to \$3,991,000 last year mainly as a result of the acquisitions of CapX and BondIt, whose G&A totalled \$1,146,000 and \$242,000, respectively, in the current quarter. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses increased by \$1,092,000 to \$1,439,000 in the first quarter of 2018 compared to \$347,000 last year. The provision for the first quarter of 2018 and 2017 comprised:

Quarter ended March 31 (in thousands)	2018	2017
Net charge-offs	\$ 886	\$ 388
Reserves expense (recovery) related to increase (decrease) in total allowances for losses	553	(41)
	\$ 1,439	\$ 347

Net charge-offs increased by \$498,000 or 128% to \$886,000 in the current quarter compared to \$388,000 last year, while the reserves expense rose by \$594,000 to \$553,000 compared to last year's reserves recovery of \$41,000. Included in the charge-offs in the current quarter is one account totalling \$503,000, while the reserves expense rose mainly as a result of a \$39 million rise in funds employed in 2018. The Company's allowances for losses, which reflect the adoption of the expected credit loss ("ECL") modelling required under IFRS 9, Financial Instruments, on January 1, 2018, are discussed

in detail below. 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.

Business acquisition expenses consist of transaction and integration costs relating to the CapX acquisition and amortization of intangibles. For the quarter ended March 31, 2018, these expenses totalled \$268,000 (2017 – \$92,000). Transaction and integration costs related to CapX totalled \$166,000 (2017 – nil), while the amortization of intangible assets totalled \$102,000 (2017 – \$92,000). Transaction costs of \$166,000 pertain to the accretion expense, or interest, on the contingent consideration that is payable on the CapX purchase (see below). Please refer to note 8 to the Statements for details of the Company's intangibles assets and amortization thereof.

Income tax expense decreased to a recovery of \$176,000 in the current quarter compared to an expense of \$189,000 in the first quarter of 2017.

Canadian operations reported a net loss to shareholders of \$212,000 in the current quarter (see note 15 to the statements) on higher interest expense and provision for credit and loan losses. Revenue rose by 8% or \$376,000 to \$4,912,000. Expenses increased by \$1,513,000 to \$5,179,000. Interest expense, the provision for credit and loan losses, G&A and depreciation increased by \$835,000, \$571,000, \$123,000 and \$6,000, respectively. Business acquisition expenses, specifically the amortization of intangibles, declined by \$22,000. Income tax expense declined to a recovery of \$55,000 on a \$255,000 pre-tax loss.

U.S. operations reported an \$810,000 increase in shareholders' net earnings in the first quarter of 2018 compared to 2017. Shareholders' net earnings increased to \$1,428,000 as a result of higher revenue. Revenue rose by \$3,156,000 or 161% to \$5,121,000 on higher funds employed, including the funds employed of BondIt and CapX. Expenses increased by \$2,027,000 to \$3,447,000. G&A, the provision for credit and loan losses, business acquisition expenses and interest rose by \$1,292,000, \$521,000, \$198,000 and \$12,000, respectively. Depreciation increased by \$4,000. Income tax declined by \$48,000 to an income tax recovery of \$121,000.

## Review of Financial Position

Shareholders' equity at March 31, 2018 was a record \$77,964,000, \$1,516,000 higher than the \$76,448,000 at December 31, 2017 and \$2,105,000 higher than the \$75,859,000 at March 31, 2017. Book value per common share was a record \$9.38 at March 31, 2018 compared to \$9.20 at December 31, 2017 and \$9.13 a year earlier. The increase in equity since December 31, 2017 resulted from a rise in accumulated other comprehensive income and retained earnings. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 15 of this report.

Total assets were a record high \$283,276,000 at March 31, 2018 compared to \$251,020,000 at December 31, 2017 and \$163,107,000 at March 31, 2017. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located in the United States were 52% of total assets at March 31, 2018 compared to 48% at December 31, 2017 and 36% at March 31, 2017.

Loans, before the allowance for losses thereon, totalled a record high \$259,183,000 at March 31, 2018, 18% above the \$220,104,000 at December 31, 2017 and 69% higher than the \$152,954,000 at March 31, 2017. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	March 31, 2018	Dec. 31, 2017	March 31, 2017
Factored receivables	\$ 112,750	\$ 96,852	\$ 82,445
Loans to clients	116,430	105,950	63,434
Lease receivables	30,003	17,302	7,075
Finance receivables and loans	259,183	220,104	152,954
Less allowance for losses	2,616	2,129	1,443
Finance receivables and loans	\$ 256,567	\$ 217,975	\$ 151,511

The Company's factored receivables increased by 16% to \$112,750,000 at March 31, 2018 compared to \$96,852,000 at December 31, 2017 and were 37% higher than the \$82,445,000 at March 31, 2017. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, as well as BondIt's media finance loans, rose by 10% to \$116,430,000 at March 31, 2018 compared to \$105,950,000 at December 31, 2017 and were 84% above the \$63,434,000 last March 31. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose 73% to \$30,003,000 at March 31, 2018 compared to

\$17,302,000 at December 31, 2017 and were 324% higher than \$7,075,000 at March 31, 2017. Net of the allowance for losses thereon, Loans increased by 18% to \$256,567,000 at March 31, 2018 compared to \$217,975,000 at December 31, 2017 and were 69% higher than the \$151,511,000 at March 31, 2017. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 70 clients in a wide variety of industries at March 31, 2018, as well as ASBF's and CapX's equipment leases and loans to approximately 300 clients and BondIt's media finance loans. Two clients each comprised over 5% of total Loans at March 31, 2018, of which the largest client comprised 7%.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables usually 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 \$57 million at March 31, 2018 compared to \$53 million at December 31, 2017 and \$69 million at March 31, 2017. Managed receivables comprise the receivables of approximately 80 clients at March 31, 2018. The 25 largest clients comprised 85% of non-recourse volume in the first quarter of 2018. 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, 2018, the 25 largest customers accounted for 52% of the total managed receivables, of which the largest five comprised 31%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

The Company's total portfolio, which comprises both Loans, as set out above, and managed receivables increased by 15% to a record \$316 million at March 31, 2018 compared to \$274 million at December 31, 2017 and were 42% higher than the \$222 million at March 31, 2017.

As described in note 16(a) to the Statements, the Company's 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. Credit in the Company's

asset-based lending businesses, 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 President and the 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 President. 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, 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 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, 2.3% were past due more than 60 days at March 31, 2018. 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 a client rating system to assess 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 business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. 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. 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 financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

The Company also minimizes credit risk by limiting the maximum amount 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. 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 usually obtained in respect of each equipment lease or loan. In its 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 16(a) to the Statements provides details of the Company's credit exposure by industrial sector.

After the customary detailed quarter-end review of the Company's portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for where necessary. The Company maintains separate allowances on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon.

The Company adopted IFRS 9 effective January 1, 2018, which replaced IAS 39, Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities. Under IFRS 9 the Company initially recognizes its financial assets at fair value plus or minus direct and incremental transaction costs, and subsequently measures them at amortized cost using the effective interest rate method, net of any allowances for ECLs. Upon adoption of IFRS 9 on January 1, 2018 the allowances for losses were remeasured. The allowance for losses on finance receivables and loans was reduced by \$132,000 to \$1,997,000 (IAS 39 - \$2,129,000), while the allowance for losses on the guarantee of managed receivables was increased by \$10,000 to \$140,000 (IAS 39 - \$130,000). These remeasurements, net of taxes, totalled approximately \$81,000, of which \$87,000 was credited to retained earnings and \$6,000 debited to non-controlling interests. See detailed discussion in note 3(a) to the statements.

The allowance for losses on Loans, calculated under the ECL model of IFRS 9, increased by 31% to \$2,616,000 at March 31, 2018 compared to the \$1,997,000 (remeasured under IFRS 9) at December 31, 2017. The allowance was 81% higher than the \$1,443,000 at March 31, 2017. The allowance for losses on the guarantee of managed receivables decreased to \$135,000 at March 31, 2018 compared to the \$140,000 (remeasured under IFRS 9) at December 31, 2017 and was 15% lower than the \$158,000 at March 31, 2017. 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 2018 and 2017 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 declined to \$4,629,000 at March 31, 2018 compared with \$12,457,000 at December 31, 2017 but was higher than the \$4,117,000 at March 31, 2017. 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 \$4,214,000 at March 31, 2018 compared to \$4,227,000 at December 31, 2017 and \$895,000 at March 31, 2017. Intangible assets totalling \$3,714,000 (US\$2,885,000) were acquired on 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. No intangible assets were acquired on the acquisition of BondIt. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the Varion acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 8 to the Statements.

Goodwill totalled \$13,360,000 at March 31, 2018 compared to \$13,082,000 at December 31, 2017 and \$3,161,000 at March 31, 2017. Goodwill of \$3,126,000 (US\$2,409,000) and \$7,130,000 (US\$5,538,000), respectively, was acquired on the acquisitions of BondIt and CapX. The BondIt and CapX goodwill is carried in the Company's U.S. subsidiary. Goodwill of \$1,883,000 was also acquired as part of the Varion acquisition in 2014, while goodwill of \$1,239,000 (US\$962,000) is also carried in the Company's U.S. subsidiary from an earlier acquisition. All goodwill carried in the Company's U.S. subsidiary 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.

Income taxes receivable, other assets, assets held for sale, deferred tax assets and capital assets at March 31, 2018 and 2017 and December 31, 2017 were not material.

Total liabilities increased by \$30,280,000 to \$201,167,000 at March 31, 2018 compared to \$170,887,000 at December 31, 2017 and were \$113,919,000 higher than the \$87,248,000 at March 31, 2017. The increase since December 31 and March 31, 2017 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by \$159,000 to \$4,471,000 at March 31, 2018 compared to \$4,630,000 at December 31, 2017 but were \$1,751,000 higher than the \$2,720,000 at March 31, 2017. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a few days of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by \$25,744,000 to \$163,884,000 at March 31, 2018 compared with \$138,140,000 at December 31, 2017 and was \$94,212,000 higher than the \$69,672,000 at March 31, 2017. Bank indebtedness mainly increased compared to last December 31 to fund the rise in Loans. The Company had approved credit lines with a number of banks totalling \$207 million at March 31, 2018 and was in compliance with all loan covenants thereunder in the three months ended March 31, 2018 and 2017. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Accounts payable and other liabilities increased by \$620,000 to \$11,620,000 at March 31, 2018 compared to \$11,000,000 at December 31, 2017 and were \$9,409,000 above the \$2,211,000 at March 31, 2017. The increase since last March 31 mainly comprised the estimated fair value of the contingent consideration payable on the acquisition of CapX, which totalled \$7,787,000 (US\$6,044,000) at March 31, 2018.

Notes payable increased to \$19,201,000 at March 31, 2018 compared to \$15,862,000 at December 31, 2017 and \$11,297,000 at March 31, 2017. The increase in notes payable resulted from new notes issued, as well as accrued interest. Please see Related Party Transactions section below and note 9 to the Statements.

Income taxes payable, deferred income and deferred tax liabilities at March 31, 2018 and 2017 and December 31, 2017 were not material.

Capital stock totalled \$6,896,000 at March 31, 2018 and 2017 and December 31, 2017. There were 8,307,713 common shares outstanding at those dates. Please see note 10 to the Statements and the consolidated statements of changes in equity on page 15 of this report for details of changes in capital

stock in the first quarter of 2018 and 2017. At the date of this MD&A, May 2, 2018, 8,307,713 common shares remained outstanding.

Retained earnings totalled \$64,217,000 at March 31, 2018 compared to \$63,661,000 at December 31, 2017 and \$61,120,000 at March 31, 2017. In the first quarter of 2018 retained earnings increased by \$556,000. The increase comprised net earnings of \$1,216,000 less dividends paid of \$747,000 (9 cents per common share) plus the \$87,000 increase relating to the remeasurement of the allowances for losses upon adoption of IFRS 9 (as discussed above). Please see the consolidated statements of changes in equity on page 15 of this report for details of changes in retained earnings in the first quarter of 2018 and 2017.

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 U.S. dollar reporting foreign subsidiaries. The AOCI balance totalled \$6,544,000 at March 31, 2018 compared to \$5,593,000 at December 31, 2017 and \$7,613,000 at March 31, 2017. Please refer to note 13 to the Statements and the consolidated statements of changes in equity on page 15 of this report, which details movements in the AOCI account during the first quarter of 2018 and 2017. The \$955,000 increase in the first three months of 2018 resulted from a rise in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar strengthened to \$1.2884 from \$1.2571 at December 31, 2017. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US\$34 million by \$955,000 in the first quarter.

## 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 equity and its equity to total assets. These ratios are set out in the table below.

(as a percentage)	March 31, 2018	December 31, 2017	March 31, 2017
Debt* / Equity	223%	193%	107%
Equity / Assets	29%	32%	47%

\* bank indebtedness and notes payable

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 bank lines of credit in Canada and the United States. The Company can also raise funds through its notes payable program.

The Company had bank credit lines totalling approximately \$207 million at March 31, 2018 and had borrowed approximately \$164 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of \$4,629,000 at March 31, 2018 compared to \$12,457,000 at December 31, 2017. 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, dividend payments and share repurchases and will provide sufficient liquidity and capital resources for future growth over the next twelve months.

### Cash flow for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled \$2,205,000 in the first quarter of 2018 compared to \$1,522,000 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 \$34,044,000 in the first quarter of 2018 compared to \$15,256,000 last year. The net cash outflow in the current quarter largely resulted from financing Loans of \$35,678,000. In the first quarter of 2017, the net cash outflow principally resulted from financing Loans of \$13,795,000. 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 16 of this report.

Cash outflows from investing activities totalled \$149,000 (2017 - \$2,000) in the current quarter and comprised capital asset additions.

Net cash inflow from financing activities totalled \$26,542,000 in the current quarter compared to \$6,369,000 last year. The net cash inflow in the current quarter resulted from an increase in bank indebtedness of \$23,984,000 and notes payables issued, net, of \$3,306,000. Partially offsetting this inflow was a dividend payment of \$748,000. The net cash inflow in the first quarter of 2017 resulted from an increase in bank indebtedness of \$7,189,000. Partially offsetting this inflow was a dividend payment of \$748,000 and notes payable redemptions, net, of \$72,000.

The effect of exchange rate changes on cash comprised a reduction of \$177,000 in the current quarter compared to a gain of \$233,000 in the quarter ended March 31, 2017.

Overall, there was a net cash outflow of \$7,828,000 in the current quarter compared to \$8,656,000 in the first quarter of 2017.

### Contractual Obligations and Commitments at March 31, 2018

(in thousands)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	
Operating lease obligations	\$ 603	\$ 1,011	\$ 822	\$ 367	\$ 2,803
Purchase obligations	148	70	—	—	218
	\$ 751	\$ 1,081	\$ 822	\$ 367	\$ 3,021

### Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. The majority of these notes are repayable on demand or a week after demand and bear interest at rates that vary with bank Prime or Libor. Notes payable at March 31, 2018 totalled \$19,201,000 compared with \$15,862,000 at December 31, 2017 and \$11,297,000 at March 31, 2017. Of these notes payable, \$17,154,000 (December 31, 2017 - \$14,038,000; March 31, 2017 - \$10,232,000) was owing to related parties and \$2,047,000 (December 31, 2017 - \$1,824,000; March 31, 2017 - \$1,065,000) to third parties. Interest expense on these notes totalled \$138,000 in the quarter ended March 31, 2018 compared to \$73,000 last year. Please refer to note 9 to the Statements.

### Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables and the Company's share appreciation rights and long-term incentive plan liabilities, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets or liabilities, other than the lease receivables and equipment loans in our equipment financing businesses, are short term in nature and, therefore, their carrying values approximate fair values.

At March 31, 2018, there were no outstanding forward 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 allowances on its Loans and its guarantee of managed receivables may comprise specific and general components. A specific allowance may be established against Loans that the Company identifies as impaired, or non-performing, which it determines, based on its review, identification and evaluation, and concludes that the timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where the Company concludes that the clients' customer could become insolvent and its guarantee called upon. In such cases, the Company will estimate the fair value of the required payments to clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate. These allowances are categorized as Stage 3 allowances and are credited against the loan balance.

A general or collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against expected credit losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its Stage 1 collective allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis, while its Stage 2 general allowances are based on a review of the loan or managed receivable. As stated above 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. 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; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises an allowance for those financial instruments which have experienced a SICR since initial recognition; or where there is objective evidence of impairment. We recognize lifetime ECL for Stage 2 financial instruments compared to 12 months ECL for Stage 1 financial instruments. 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(a) 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 Policies

Effective January 1, 2018, the Company adopted two new accounting standards as issued by the IASB comprising IFRS 9 and IFRS 15, Revenue from Contracts with Customers. As discussed above IFRS 9 replaced IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 was applied on a retrospective basis. Accord did not restate prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented for 2018.

The adoption of IFRS 9 resulted in changes in accounting policy in two principal areas: classification and measurement, and impairment. Please refer to note 3(a) to the Statements for a detailed discussion on the adoption of IFRS 9.

Under IFRS 15, there was no material change to the way that the Company accounts for revenue. Please refer to the Company's revenue recognition policy in note 3(c) below.

## Future Changes in Accounting Policies

IFRS 16, Leases, will replace existing guidance on accounting for leases. The accounting treatment of leases by lessees will change fundamentally. 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 is effective for fiscal years beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 is being determined.

## 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, 2018, 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 16 to the Statements, which

discuss the Company's principal financial risk management practices.

### Competition

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 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 and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, 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, operating results and financial condition. The Company will not, however, compromise its credit standards.

### Economic slowdown

The Company operates mainly in Canada and the United States. Economic weakness in either of the Company's markets can affect its ability to do new business as quality prospects become limited, although in a weak economy competition may lessen, which could result in the Company seeing more prospects. Further, the Company's clients and their customers are often adversely affected by economic slowdowns and this can lead to increases in its provision for credit and loan losses.

### Credit risk

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financing. The Company's portfolio totalled \$316 million at March 31, 2018. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 16(a) to the Statements.

### Interest rate risk

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 some degree. However, as the Company's floating rate Loans currently exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. This is partially mitigated in its equipment financing businesses, where lease receivables and equipment loans are typically term loans at fixed effective interest rates, while related bank borrowings tend to be floating rate. Please refer to note 16(c)(ii) to the Statements.

### Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources is held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. 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 impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the AOCI component of equity to a loss position, although this has now recovered to a sizable gain position at March 31, 2018. Please see notes 13 and 16(c)(i) to the Statements.

### Potential acquisitions and investments

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth. Business combinations also require management to exercise judgment in measuring the fair value of assets acquired, liabilities and contingent liabilities assumed and equity instruments issued.

### Personnel significance

Employees are a significant asset of the Company. Market forces and competitive pressures may adversely affect the ability of the Company to recruit and retain key qualified personnel. The Company mitigates this risk by providing a competitive compensation package, which includes profit sharing, long-term incentives, and medical benefits, as it continuously seeks to align the interests of employees and shareholders.

### Outlook

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

The Company is starting to benefit from the substantial growth in its funds employed, which rose 58% in 2017 to finish the year at \$220 million. In the first quarter of

2018, funds employed rose a further 18% to finish the quarter at a new record high \$259 million. Growth in funds employed, a key indicator of where the Company is heading, has been achieved organically and through the acquisitions of BondIt and CapX in the second half of 2017. Revenue in the first quarter of 2018 exceeded \$10 million for the first time. Growth in funds employed is expected to continue, and will result in improved revenues in the future and 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.

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 in 2018. 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 new group companies are also expected to strongly grow their funds employed. BondIt has just closed on a new credit facility, which will help in this regard, while CapX, which started from scratch, is growing nicely. Our credit protection and receivables management business continues to face intense competition from multinational credit insurers, although with 2016's restructuring behind it, it is positioned to operate profitably.

To support this growth the Company is working on finalizing an increased bank line which should provide it with the majority of funding that it will need to keep growing over the next few years. This facility is expected to close before the end of the second quarter.

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  
May 2, 2018

## Consolidated Statements of Financial Position (unaudited)

	March 31, 2018	December 31, 2017	March 31, 2017
<b>Assets</b>			
Cash	\$ 4,629,001	\$ 12,457,000	\$ 4,116,698
Finance receivables and loans, net (note 4)	256,566,748	217,975,156	151,511,265
Income taxes receivable	1,415,456	1,023,144	412,459
Other assets	1,452,615	863,886	953,733
Assets held for sale (note 5)	71,882	71,882	1,215,656
Deferred tax assets, net	777,675	640,249	517,083
Capital assets	787,160	679,828	324,103
Intangible assets (note 8)	4,214,490	4,227,011	894,710
Goodwill (note 6)	13,360,494	13,081,651	3,161,468
	<b>\$ 283,275,521</b>	<b>\$ 251,019,807</b>	<b>\$ 163,107,175</b>
<b>Liabilities</b>			
Due to clients	\$ 4,471,022	\$ 4,629,555	\$ 2,719,691
Bank indebtedness (note 7)	163,883,939	138,140,342	69,672,378
Accounts payable and other liabilities	11,620,132	10,999,747	2,211,192
Income taxes payable	433,184	408,854	477,292
Notes payable (note 9)	19,201,358	15,862,033	11,297,360
Deferred income	1,414,367	682,813	433,995
Deferred tax liabilities	142,509	163,954	436,100
	<b>201,166,511</b>	<b>170,887,298</b>	<b>87,248,008</b>
<b>Equity</b>			
Capital stock (note 10)	\$ 6,896,153	\$ 6,896,153	\$ 6,896,153
Contributed surplus	306,246	297,825	229,709
Retained earnings	64,216,799	63,661,034	61,119,899
Accumulated other comprehensive income (note 13)	6,544,528	5,593,426	7,613,406
<b>Shareholders' equity</b>	<b>77,963,726</b>	<b>76,448,438</b>	<b>75,859,167</b>
Non-controlling interests in subsidiaries	4,145,284	3,684,071	—
<b>Total equity</b>	<b>82,109,010</b>	<b>80,132,509</b>	<b>75,859,167</b>
	<b>\$ 283,275,521</b>	<b>\$ 251,019,807</b>	<b>\$ 163,107,175</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	2018		2017	
<b>Revenue</b>				
Interest and other income (note 4)	\$	10,032,970	\$	6,500,953
<b>Expenses</b>				
Interest		1,466,131		618,805
General and administrative		5,405,996		3,991,197
Provision for credit and loan losses (note 4)		1,439,241		347,195
Depreciation		46,532		36,962
Business acquisition expenses:				
Transaction and integration costs		165,817		—
Amortization of intangible assets		101,764		92,008
		8,625,481		5,086,167
Earnings before income tax expense		1,407,489		1,414,786
Income tax (recovery) expense		(176,000)		189,000
<b>Net earnings</b>		1,583,489		1,225,786
Net earnings attributable to non-controlling interests in subsidiaries		367,194		—
<b>Net earnings attributable to shareholders</b>	\$	1,216,295	\$	1,225,786
<b>Basic and diluted earnings per common share (note 11)</b>	\$	0.15	\$	0.15

## Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2018		2017	
<b>Net earnings attributable to shareholders</b>	\$	1,216,295	\$	1,225,786
Other comprehensive income (loss):				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange income (loss) on translation of self-sustaining foreign operations (note 13)		951,102		(334,989)
<b>Comprehensive income</b>	\$	2,167,397	\$	890,797

## Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock		Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries	Total
	Number of common shares outstanding	Amount					
<b>Balance at January 1, 2017</b>	8,307,713	\$ 6,896,153	\$ 195,704	\$ 60,641,807	\$ 7,948,395	\$ —	\$ 75,682,059
Comprehensive Income	—	—	—	1,225,786	(334,989)	—	890,797
Stock-based compensation expense related to stock option grants	—	—	34,005	—	—	—	34,005
Dividend paid	—	—	—	(747,694)	—	—	(747,694)
Balance at March 31, 2017	8,307,713	\$ 6,896,153	\$ 229,709	\$ 61,119,899	\$ 7,613,406	\$ —	\$ 75,859,167
<b>Balance at January 1, 2018</b>	<b>8,307,713</b>	<b>\$ 6,896,153</b>	<b>\$ 297,825</b>	<b>\$ 63,661,034</b>	<b>\$ 5,593,426</b>	<b>\$ 3,684,071</b>	<b>\$ 80,132,509</b>
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 remeasurements at January 1, 2018 (note 3(a))	—	—	—	87,164	—	(6,160)	81,004
<b>Balance at March 31, 2018</b>	<b>8,307,713</b>	<b>\$ 6,896,153</b>	<b>\$ 306,246</b>	<b>\$ 64,216,799</b>	<b>\$ 6,544,528</b>	<b>\$ 4,145,284</b>	<b>\$ 82,109,010</b>

## Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2018	2017
<b>Cash (used in) provided by</b>		
<b>Operating activities</b>		
Net earnings	\$ 1,583,489	\$ 1,225,786
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	552,929	(40,983)
Deferred income	87,045	(15,075)
Amortization of intangible assets	101,764	92,008
Depreciation	46,532	36,962
Loss on disposal of capital assets	816	—
Stock-based compensation expense related to stock option grants	8,421	34,005
Deferred tax expense (recovery)	32,000	(91,824)
Current income tax (recovery) expense	(208,000)	280,824
	<b>2,204,996</b>	1,521,703
Change in operating assets and liabilities		
Finance receivables and loans, gross	(35,677,842)	(13,794,591)
Due to clients	(172,222)	(1,355,980)
Other assets	(564,471)	123,109
Accounts payable and other liabilities	523,582	(1,145,281)
Income tax paid, net	(358,294)	(604,828)
	<b>(34,044,251)</b>	(15,255,868)
<b>Investing activities</b>		
Additions to capital assets, net	(149,215)	(2,469)
	<b>(149,215)</b>	(2,469)
<b>Financing activities</b>		
Bank indebtedness	23,984,210	7,188,917
Notes payable issued (redeemed), net	3,305,463	(72,095)
Dividend paid	(747,694)	(747,694)
	<b>26,541,978</b>	6,369,128
Effect of exchange rate changes on cash	(176,512)	233,001
Decrease in cash	(7,827,999)	(8,656,208)
Cash at January 1	12,457,000	12,772,906
Cash at March 31	\$ 4,629,001	\$ 4,116,698
<b>Supplemental cash flow information</b>		
Net cash used in operating activities includes:		
Interest paid	\$ 1,350,728	\$ 593,781

# Notes to the Consolidated Financial Statements (unaudited)

## Three months ended March 31, 2018 and 2017

### 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 asset-based financial services, including 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, 2018, 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, 2017.

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(a) and 4), the determination of the value of intangible assets and goodwill on acquisition (notes 8 and 6), as well as the net realizable value of assets held for sale (notes 3(j) and 5) 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)
- Share appreciation rights (“SARs”) and senior executive long-term incentive plan (“LTIP”) liabilities\*
- Guarantee of managed receivables\*

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

These condensed interim unaudited consolidated financial statements for the three months ended March 31, 2018 were approved for issue by the Company’s Board of Directors (“Board”) on May 2, 2018.

### 3. Significant accounting policies

#### (a) Adoption of new accounting policies

Effective January 1, 2018, the Company adopted two new accounting standards as issued the IASB comprising IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 was applied on a retrospective basis. Accord did not restate prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented for 2018. The adoption of IFRS 9 resulted in changes in accounting policy in two principal areas, classification and measurement, and impairment.

Classification and measurement – IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

When an entity first recognizes a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows: at amortized cost – a financial asset is measured at amortized cost if both of the following conditions are met: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest

rate method, net of any allowance for expected credit losses (ECL). Consistent with IAS 39, loans measured at amortized cost under IFRS 9 include factored receivables, loans to clients and lease receivables. In addition, and also consistent with IAS 39, bank indebtedness, notes payable and due to clients are accounted for at amortized cost under IFRS 9.

Financial assets are classified and measured at fair value through other comprehensive income ("FVOCI") if they are held in a business whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Any other financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss ("FVTPL").

Impairment – under IFRS 9 allowances for ECL are recognized on all financial assets that are classified either at amortized cost or FVOCI and for all loan commitments and financial guarantees that are not measured at FVTPL. 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. 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; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises an allowance for those financial instruments which have experienced a SICR since initial recognition; or where there is objective evidence of impairment. We recognize lifetime ECL for Stage 2 financial instruments compared to 12 months 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 12 months of ECL as the financial instrument has migrated back to Stage 1. The calculation of ECL allowances for losses 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 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 12 month period after the reporting date. Due to the inclusion of relative credit deterioration criteria and consideration of forward-looking information, lifetime credit losses are generally recognized earlier under IFRS 9 than IAS 39.

Changes in the required ECL allowances, including the impact of financial instruments migrating between Stage 1 and Stage 2, are recorded in provision for credit and loan losses in the consolidated statements of income. Significant judgment is required in the application of SICR. The Company generally considers a SICR to be when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its “watch list.” Stage 3 financial instruments are those that we have

classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be 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.

Under IFRS 9, financial instruments on which repayment of principal or payment of interest is contractually 30 days in arrears are generally presumed as having SICR, while financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears are generally presumed in default or impaired, unless the presumptions can be rebutted when reasonable and supportable information demonstrates that a more lagging default criterion is appropriate, such as reasons based on industry norms, seasonal fluctuations and non-credit related delays. 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 provision for credit and loan losses.

### Reconciliation of allowances for losses under IAS 39 and IFRS 9

Specific allowances for impaired instruments recognized under IAS 39 have generally been replaced by Stage 3 allowances for ECL under IFRS 9, while the collective allowances for non-impaired financial instruments have generally been replaced by Stage 1 and Stage 2 allowances for ECL under IFRS 9.

The following table reconciles the closing allowances for credit and loan losses in accordance with IAS 39 at December 31, 2017 to the opening ECL allowances determined in accordance with IFRS 9 upon adoption on January 1, 2018:

Allowance on:	Dec. 31, 2017		Jan. 1, 2018 under IFRS 9
	under IAS 39	Remeasurement	
Finance receivables and loans	\$ 2,129,000	\$ (132,034)	<b>\$ 1,996,966</b>
Guarantee of managed receivables	\$ 130,000	\$ 10,000	<b>\$ 140,000</b>

The allowance for losses on finance receivables and loans of \$1,996,966 under IFRS 9 at January 1, 2018 comprised a Stage 1 allowance of \$1,965,824 and a Stage 2 allowance of \$31,142, while the allowance for losses on the guarantee of managed receivables of \$140,000 comprised a Stage 1 allowance of \$88,600 and Stage 2 allowance of \$51,400.

The overall reduction in allowances for losses of \$122,034 upon adoption of IFRS 9 incorporates the re-estimate of allowance rates which are typically reviewed each reporting period based upon updated historic loss experience, macro-economic factors and other forward-looking information. Changes in the carrying amounts of financial instruments that resulted from

the adoption of IFRS 9 need to be recognized in the opening January 1, 2018 retained earnings. In the Company's case, however, there were no differences between the classification and carrying amounts of the financial instruments under IAS 39 and IFRS 9. The remeasurement of the allowances for ECL, net of tax, resulted in a credit to retained earnings and a debit to non-controlling interests in subsidiaries upon adoption of IFRS 9. Please refer to the consolidated statements of changes in equity on page 15 for details of these amounts.

Under IFRS 15, there was no material change in the way that the Company accounts for revenue. Please refer to the Company's revenue recognition policy in note 2(c) below.

### (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. ("Varion") 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 from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. 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. Interest charged on finance receivables and loans to clients is recognized as revenue using the effective interest rate method. 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 Varion 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 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 factoring their receivables, providing asset-based loans and financing equipment leases. Finance receivables (namely, factored receivables and lease receivables) and loans to clients 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 to clients 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) 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. 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.

#### **(f) 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 determined reliably. 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 and referral 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.

**(g) 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.

**(h) Stock-based compensation**

The Company accounts for SARs and 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 SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

The Company's LTIP (note 10(g)) 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 awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

**(i) Financial assets and liabilities**

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, the SARs and LTIP 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 estimated reliably.



**(j) 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”).

**(k) Future accounting policies**

IFRS 16, Leases, will replace existing guidance on accounting for leases. The accounting treatment of leases by lessees will change fundamentally. 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 is effective for fiscal years beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

**4. Finance receivables and loans**

	March 31, 2018	December 31, 2017	March 31, 2017
Factored receivables	\$ 112,749,562	\$ 96,852,291	\$ 82,445,221
Loans to clients	116,430,351	105,950,408	63,434,215
Lease receivables	30,002,835	17,301,457	7,074,829
Finance receivables and loans, gross	259,182,748	220,104,156	152,954,265
Less allowance for losses	2,616,000	2,129,000	1,443,000
Finance receivables and loans, net	\$ 256,566,748	\$ 217,975,156	\$ 151,511,265

Lease receivables comprise the net investment in leases by Varion and CapX as described in note 3(c). Lease receivables at March 31, 2018 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans during the quarter ended March 31, 2018 totalled \$7,577,373 (2017 – \$5,123,151). Fees from receivables management and credit protection services during the quarter ended March 31, 2018 totalled \$720,515 (2017 – \$1,001,515).

The activity in the allowance for losses on finance receivables and loans account during the first three months of 2018 and 2017 was as follows:

	2018	2017
Allowance for losses at January 1 as per IAS 39	\$ 2,129,000	\$ 1,516,000
Remeasurement on adoption of IFRS 9	(132,034)	—
Allowance for losses at January 1 as per IFRS 9	1,996,966	1,516,000
Specific charge-off reclassified to allowance for losses	35,000	—
Provision for loan losses	867,761	260,246
Charge-offs	(318,658)	(329,572)
Recoveries	8,825	1,343
Foreign exchange adjustment	26,106	(5,017)
Allowance for losses at March 31	\$ 2,616,000	\$ 1,443,000

The allowance for losses on finance receivables and loans of \$2,616,000 under IFRS 9 at March 31, 2018 comprised a Stage 1 allowance of \$2,250,190 and a Stage 2 allowance of \$365,810.

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, 2018, the gross amount of these managed receivables was \$57,098,589 (December 31, 2017 – \$53,477,791; March 31, 2017 – \$68,841,051). At March 31, 2018, management provided an amount of \$135,000 (December 31, 2017 – \$130,000; March 31, 2017 – \$158,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. 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 statement of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during three months ended March 31, 2018 and 2017 was as follows:

	2018	2017
Allowance for losses at January 1	\$ 130,000	\$ 131,000
Remeasurement on adoption of IFRS 9	10,000	—
Allowance for losses at January 1 as per IFRS 9	140,000	131,000
Provision for credit losses	571,482	86,949
Charge-offs	(576,482)	(64,261)
Recoveries	—	4,312
Allowance for losses at March 31	\$ 135,000	\$ 158,000

The allowance for losses on the guarantee of managed receivables of \$135,000 comprised a Stage 1 allowance of \$83,600 and a Stage 2 allowance of \$51,400.

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 and factoring activities. The Company controls the credit risk associated with its finance receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 16(a).

At March 31, 2018, the Company held cash collateral of \$1,703,529 (December 31, 2017 – \$1,645,691; March 31, 2017 – \$1,525,386) to help reduce the risk of loss on certain of the Company's finance receivables and loans and managed receivables.

## 5. Assets held for sale

There were no movements in the assets held for sale balances during the first three months of 2018 and 2017.

From time to time, the Company obtains title to or repossesses certain long-lived assets securing defaulted loans. These assets are disposed of as market conditions permit. The estimated net realizable value of the assets is based upon appraisals thereof.

## 6. Goodwill

	2018	2017
Balance at January 1	\$ 13,081,651	\$ 3,173,777
Foreign exchange adjustment	278,843	(12,309)
Balance at March 31	\$ 13,360,494	\$ 3,161,468

Goodwill is tested for impairment annually. During 2017, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2018's impairment review will be conducted in the Company's fourth quarter unless impairment indicators arise earlier. At March 31, 2018 and December 31, 2017 goodwill of US\$8,908,713 (March 31, 2017 – US\$961,697) was carried in the Company's U.S. subsidiary and a foreign exchange adjustment is usually recognized each period-end when this balance is translated into Canadian dollars at the prevailing period-end exchange rate.

## 7. Bank indebtedness

Revolving lines of credit totalling approximately \$207,000,000 have been established with a number of banks, bearing interest varying with the bank prime rate or Libor. These lines of credit are collateralized primarily by finance receivables and loans to clients. One bank line totalling \$185,000,000 matures in August 2018, while another totalling \$22,000,000 is due on demand. At March 31, 2018, the amounts outstanding under the Company's lines of credit totalled \$163,883,939 (December 31, 2017 – \$138,140,342; March 31, 2017 – \$69,672,378). The Company was in compliance with all loan covenants under these lines of credit during the three months ended March 31, 2018 and 2017.

## 8. Intangible assets

The Company's intangible assets were as follows:

2018	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

2017	Existing customer contracts	Broker relationships	Total
<b>Cost:</b>			
January 1, 2017 and March 31, 2017	\$ 1,179,097	\$ 1,343,938	\$ 2,523,035
<b>Accumulated amortization:</b>			
January 1, 2017	\$ (940,921)	\$ (595,396)	\$ (1,536,317)
Amortization expense	(40,974)	(51,034)	(92,008)
March 31, 2017	\$ (981,895)	\$ (646,430)	\$ (1,628,325)
<b>Book Value:</b>			
January 1, 2017	\$ 238,176	\$ 748,542	\$ 986,718
March 31, 2017	\$ 197,202	\$ 697,508	\$ 894,710

## 9. Related party transactions (notes payable)

Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. The notes are unsecured, due on demand, or for some notes, a week after requesting repayment, and bear interest at rates that vary with bank prime rate or Libor.

Notes payable were as follows:

	March 31, 2018	Dec. 31, 2017	March 31, 2017
Related parties	\$ 17,153,967	\$ 14,037,950	\$ 10,232,359
Third parties	2,047,391	1,824,083	1,065,001
	\$ 19,201,358	\$ 15,862,033	\$ 11,297,360

Interest expense on the notes payable for the three months ended March 31, 2018 and 2017 was as follows:

	2018	2017
Related parties	\$ 115,959	\$ 66,857
Third parties	21,590	5,787
	\$ 137,549	\$ 72,644

## 10. Capital stock, contributed surplus, dividends, share appreciation rights, 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, 2018 and 2017 and December 31, 2017, there were no first preferred shares outstanding.

### (b) Issued and outstanding

The Company's issued and outstanding common shares during the first quarter of 2018 and 2017 are set out in the consolidated statement of changes in equity.

### (c) Contributed surplus

	2018	2017
January 1	\$ 297,825	\$ 195,704
Stock-based compensation expense related to stock option grants (note 10(h))	8,421	34,005
March 31	\$ 306,246	\$ 229,709

### (d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2018 and March 31, 2017 dividends totalling \$747,694 or \$0.09 per common share were declared and paid.

On April 26, 2018, the Company declared a quarterly dividend of \$0.09 per common share, payable June 1, 2018 to shareholders of record at the close of business on May 17, 2018.

### (e) Share appreciation rights

The Company has established a SARs plan, whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be granted in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company at the time of grant. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the ten days that the shares were

traded immediately preceding the date of grant, or other ten-day trading period that the Company's Board may determine. Employees can sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant.

No SARs have been granted by the Company to directors or employees since 2011. No SARs were outstanding at March 31, 2018 and December 31, 2017. The Company's vested and outstanding SARs at March 31, 2017 were as follows:

Exercise price	Grant date	March 31, 2017
\$ 6.03	July 28, 2009	7,500
\$ 5.50	May 7, 2010	15,000
\$ 7.97	May 4, 2011	45,000
		67,500

During the three months ended March 31, 2017 no SARs were sold to the Company.

### (f) 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	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2017
\$9.56	October 28, 2015	100,000	100,000	100,000
\$9.28	July 27, 2016	100,000	100,000	100,000
	Outstanding	200,000	200,000	200,000
	Earned and exercisable	150,000	150,000	50,000

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

#### (g) 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 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.

#### (h) Stock-based compensation

During the three months ended March 31, 2018, the Company recorded a stock-based compensation

expense of \$26,795 (2017 – \$81,655), of which \$18,374 (2017 – \$49,000) was in respect of LTIP awards, and \$8,421 (2017 – \$34,005) was in respect of the NEDSOP grants, while there was no expense in respect of SARs grants (2017 – recovery \$1,350).

### 11. 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 period 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 period, which in the Company's case consists entirely of stock options.

For the three months ended March 31, 2018 and 2017, all outstanding options were excluded from the calculation of the diluted weighted average number of common shares outstanding because they were considered to be anti-dilutive for earnings per common share purposes. Details of outstanding options are set out in note 10(f).

### 12. 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, 2018 and 2017, 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, 2018, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of \$1,015,028 (December 31, 2017 – \$1,018,475; March 31, 2017 – \$91,763). In addition, at March 31, 2018 the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of \$12,884 (December 31, 2017 – \$12,545; March 31, 2017 – \$398,370). These amounts were considered in determining the allowance for losses on finance receivables and loans.

### 13. 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, 2018 and 2017 are set out in the consolidated statements of changes in equity.

### 14. 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.

### 15. 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, 2018

(in thousands)

	Canada	United States	Total
Identifiable assets	\$ 135,703	\$ 147,573	\$ 283,276
Revenue	\$ 4,912	\$ 5,121	\$ 10,033
Expenses:			
Interest	1,408	58	1,466
General and administrative	2,729	2,677	5,406
Provision for credit and loan losses	941	498	1,439
Depreciation	31	16	47
Business acquisition expenses	70	198	268
	5,179	3,447	8,626
Earnings before income tax expense (recovery)	(267)	1,674	1,407
Income tax (recovery)	(55)	(121)	(176)
Net earnings	(212)	1,795	1,583
Net earnings attributable to non-controlling interests in subsidiaries	—	367	367
Net earnings attributable to shareholders	\$ (212)	\$ 1,428	\$ 1,216

#### Three months ended March 31, 2017

(in thousands)

	Canada	United States	Total
Identifiable assets	\$ 103,822	\$ 59,285	\$ 163,107
Revenue	\$ 4,536	\$ 1,965	\$ 6,501
Expenses:			
Interest	573	46	619
General and administrative	2,606	1,385	3,991
Provision for credit and loan losses	370	(23)	347
Depreciation	25	12	37
Business acquisition expenses	92	—	92
	3,666	1,420	5,086
Earnings before income tax expense	870	545	1,415
Income tax expense (recovery)	262	(73)	189
Net earnings	608	618	1,226
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—
Net earnings attributable to shareholders	\$ 608	\$ 618	\$ 1,226

## 16. 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 and managed receivables 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, including factoring and leasing, 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. Typically, the Company takes title to the factored receivables and collateral security over the other assets that it lends against and does not lend on an unsecured basis. 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 businesses, media financing business, Canadian equipment finance business (Varion), 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 (US\$500,000 for BondIt), the Company's President and the 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 President. CapX credit in excess of US\$4,000,000 is then 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, the Company's 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, 2.3% were past due more than 60 days at March 31, 2018 (2017 – 3.5%). 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 a client rating system to assess 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. 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. 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 financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

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 purchases. 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 usually obtained as additional collateral for its equipment leases or loans.

In its 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, 2018, the Company had guaranteed accounts receivable in excess of \$5 million for one 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, 2018	
	Gross finance receivables and loans	% of total
Financial and professional services	\$ 84,649	32
Manufacturing	43,154	17
Wholesale and distribution	38,260	15
Retail	30,627	12
Other	62,493	24
	\$ 259,183	100

Industrial Sector (in thousands)	March 31, 2017	
	Gross finance receivables and loans	% of total
Financial and professional services	\$ 57,295	37
Wholesale and distribution	38,950	26
Manufacturing	30,375	20
Other	26,334	17
	\$ 152,954	100

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

Industrial Sector (in thousands)	March 31, 2018	
	Managed receivables	% of total
Retail	\$ 49,756	87
Other	7,343	13
	\$ 57,099	100

Industrial Sector (in thousands)	March 31, 2017	
	Managed receivables	% of total
Retail	\$ 57,294	83
Other	11,547	17
	\$ 68,841	100

As set out in notes 3(a) and 4 the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of these 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

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, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately \$207,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or Libor. At March 31, 2018, the Company had borrowed \$163,883,939 (December 31, 2017 – \$138,140,342; March 31, 2017 – \$69,672,378) 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 these lines of credit during the three months ended March 31, 2018 and 2017. Notes payable are mostly due on demand, or a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at March 31, 2018, 89% of these notes were due to related parties and 11% to third parties. 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, 2018, the Company had gross finance receivables and loans totalling \$259,182,748 (December 31, 2017 – \$220,104,156; March 31, 2017 – \$152,954,265) which substantially exceeded its total liabilities of \$201,166,511 (December 31, 2017 – \$170,887,298; March 31, 2017 – \$87,248,008). 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.

All assets and liabilities, other than the Company's lease receivables and equipment loans, capital assets, deferred tax, intangible assets, goodwill and the LTIP liability are expected to be settled within 12 months at the carrying values stated in the consolidated statements of financial position.

### (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 and 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, 2018, the Company's unhedged foreign currency positions in its Canadian operations totalled \$175,000 (December 31, 2017 – \$208,000; March 31, 2017 – \$117,000). 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 its unhedged foreign currency positions 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 finance receivables and loans currently 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 is partially mitigated in the Company's equipment finance businesses, where Varion's lease receivables and 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 following table shows the interest rate sensitivity gap at March 31, 2018:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
<b>Assets:</b>						
Cash	\$ 1,645	\$ —	\$ —	\$ —	\$ 2,984	\$ 4,629
Finance receivables and loans, net	184,499	22,753	25,310	23,760	245	256,567
All other assets	—	1,490	—	—	20,590	22,080
	186,144	24,243	25,310	23,760	23,819	283,276
<b>Liabilities:</b>						
Due to clients	—	—	—	—	4,471	4,471
Bank indebtedness	69,315	94,569	—	—	—	163,884
Notes payable	19,201	—	—	—	—	19,201
All other liabilities	—	433	—	—	13,178	13,611
<b>Equity</b>	—	—	—	—	82,109	82,109
	88,516	95,002	—	—	99,758	283,276
	\$ 97,628	\$ (70,759)	\$ 25,310	\$ 23,760	\$ (75,939)	\$ —

Based on the Company's interest rate positions as at March 31, 2018, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately \$265,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

## 17. Capital disclosure

The Company considers its capital structure to include equity and debt, namely, its bank indebtedness and notes payable. 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 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. As a percentage, these ratios were 223% (December 31, 2017 – 193%; March 31, 2017 – 107%) and 29% (December 31, 2017 – 32%; March 31, 2017 – 47%), respectively, at March 31, 2018 indicating the Company's continued financial strength and relatively low degree of leverage. 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, 2018, AFIC and AFIU are required to maintain a debt to TNW ratio of less than 3.0 on a combined basis. Varion is also required to maintain a debt to TNW ratio of less than 3.0. The Company was fully compliant with its banking covenants during the three months ended March 31, 2018 and 2017. There were no changes in the Company's approach to capital management from previous periods.

## 18. Subsequent events

At May 2, 2018, there were no other subsequent events occurring after March 31, 2018 that required disclosure or adjustments to the financial statements.

# Corporate Information

---

## Board of Directors

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

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

**Tom Henderson**, Greenville, South Carolina

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

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

**John J. Swidler**, Montreal, Quebec<sup>1</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



602-40 Eglinton Avenue East • Toronto • Ontario • Canada M4P 3A2

Tel (800) 967-0015 • Fax (416) 961-9443

[www.accordfinancial.com](http://www.accordfinancial.com)

---

## Officers

**Ken Hitzig**, Chairman of the Board

**Tom Henderson**, President & CEO

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

**Jim Bates**, Secretary

**Simon Hitzig**, Senior Vice President

**Fred Moss**, Vice President

## Subsidiaries

**Accord Financial Ltd.**

Jim Bates, President

**Accord Financial Inc.**

Fred Moss, President

**Accord Financial, Inc.**

Tom Henderson, 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

The Bank of Nova Scotia

Branch Banking and Trust

Canadian Imperial Bank of Commerce

HSBC Bank Canada

The Toronto-Dominion Bank

## Stock Exchange Listing

Toronto Stock Exchange

Symbol: ACD

## Registrar and Transfer Agent

Computershare Trust Company of Canada



Toronto (800) 967-0015  
Montreal (800) 231-2977  
Vancouver (844) 982-3010  
In the U.S. (800) 231-2757

[www.accordfinancial.com](http://www.accordfinancial.com)