ACCORD
FINANCIAL

Strength | Stability | Continuity

Annual Report | **2022**

Strength | Stability | Continuity

In times of economic uncertainty, Accord's stakeholders – investors, clients, employees – can rely on our time-tested strength and stability. For forty-five years the Company has successfully navigated through multiple economic cycles, giving us valuable perspective as the current environment unfolds.

Small- and medium-sized businesses are facing a myriad of challenges: rapid inflation, supply chain problems, rising interest rates, and more. Throughout this period, Accord has brought every tool in our arsenal to keep businesses liquid, while the economy works to find its footing.

With Accord's unwavering support, our clients develop innovative products, provide outstanding service, hire the next generation of talent, and deliver the promise of progress. We know what it takes to navigate to a competitive advantage; to not only survive, but to thrive.

As always, Accord is here to help our clients and referral partners weather the storm and position themselves for growth ahead. With equal ambition, deep market presence and financial strength, Accord is similarly poised to unlock potential for our investors in the year ahead.

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Strong & Stable Financing Solutions from Accord

Asset-based Lending

Accord's asset-based lending serves companies of all sizes across North America. Our flexible ABL solutions allow clients to unlock working capital from their accounts receivable, inventory and equipment. Accord also provides financing solutions to other lending companies, enabling them to grow more quickly than they would with traditional funding. Forty-five years of superior service combined with exceptional financial strength makes us the most reliable finance partner for companies positioning for their next phase of growth.

Factoring

Accord has been factoring small- and medium-sized companies for more than forty years. Factoring – buying clients' accounts receivable – accelerates cash flow by unlocking the value of receivables for cash. In addition to improving liquidity, factoring also saves management time often tied up with cash flow planning, credit analysis and collections. Our experienced team has worked with companies in virtually every industry, which allows us to provide quick credit approvals for companies in transition or shifting into growth mode.

Small Business Finance

Accord provides a variety of financing solutions for Canadian small businesses, including equipment leasing and flexible working capital facilities. Under the AccordExpress banner, we offer a range of innovative programs designed with a streamlined approval process and fast funding. These programs deliver up to $250,000 of working capital, and up to $1 million when backed by receivables or equipment collateral, all with flexible terms designed to spur growth in 2023.

Equipment Financing

Accord finances equipment for small and middle market businesses, serving a broad base of North America's most dynamic industries, from forestry and energy, to construction and manufacturing. We're equally comfortable financing incremental capex or business expansion, or refinancing existing assets to optimize balance sheet strength. Our success has been built on our commitment to supporting private equity sponsors, finance professionals and SMEs directly.

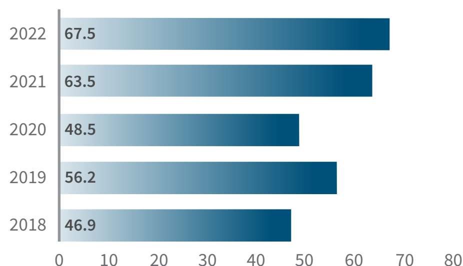
Media Finance

Accord provides media finance through affiliate BondIt Media Capital, a world renowned film, television and media financier founded in 2014. Since inception, BondIt has provided debt financing to more than 500 feature film and television productions ranging from micro-budgets to studio level projects. Based in Santa Monica, BondIt is a flexible financing partner for projects, producers and media companies alike.

International Trade Services

Since 1978, Accord has been a leader in cross-border trade services. Our alliance with Factors Chain International provides North American credit and collection services to a network of more than 265 banks and trade firms in 75 countries worldwide. Our expert knowledge of U.S. and Canadian buyers allows foreign banks to finance clients' export receivables while minimizing collection risk.

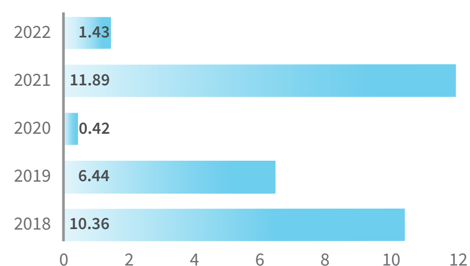
Five Year Financial Highlights



Revenue

(in millions of dollars)

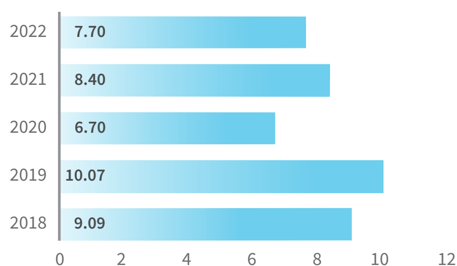
Revenue rose by 6% to $67.5 million in 2022 from $63.5 million in 2021.



Net Earnings

(in millions of dollars)

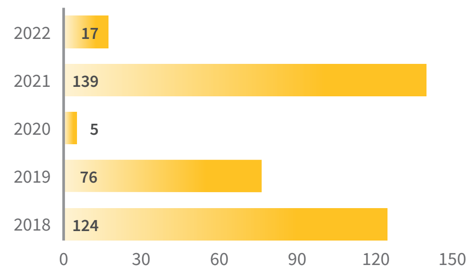
Net earnings decreased to $1.43 million in 2022 from $11.89 million in 2021. Adjusted net earnings in 2022 were $2.1 million.



Share Price

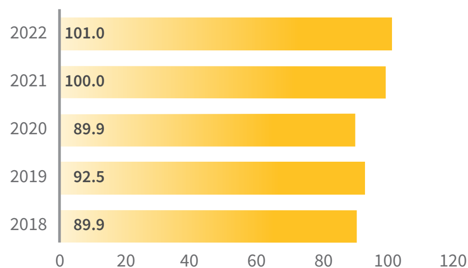
(at close on December 31)

Accord's share price (TSX: ACD) closed 2022 at $7.70.



Diluted Earnings per Share

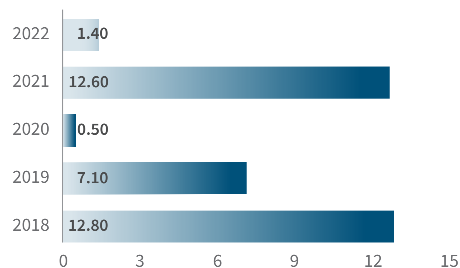
2022 diluted earnings per share were 17 cents compared to $1.39 in 2021. 2022 adjusted diluted EPS were 24 cents compared to $1.53 in 2021.



Shareholders' Equity

(in millions of dollars)

Shareholders' equity increased to $101 million at December 31, 2022. Book value per share was $11.80 at December 31, 2022.



Return on Average Equity

(as a percent per annum of average equity)

Return on average equity decreased to 1.4% in 2022 from 12.6% in 2021.

Three Year Financial Highlights Summary

Operating Data Years ended December 31 (in thousands of dollars except where indicated)	**2022**	2021	2020
Revenue	$ **$67,491**	$ 63,480	$ 48,501
Net earnings attributable to shareholders	**1,427**	11,887	417
Adjusted net earnings	**2,079**	13,068	2,032
Return on average equity	**1.40%**	12.60%	0.50%
Adjusted return on average equity	**2.04%**	13.80%	2.20%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	$ **449,830**	$ 402,015	$ 347,493
Total assets	**491,761**	520,109	384,913
Shareholders' equity	**100,972**	99,967	89,850
Common Share Data **(per common share)**			
Earnings per share - basic and diluted	$ **0.17**	$ 1.39	$ 0.05
Adjusted earnings per share - basic and diluted	**0.24**	1.53	0.24
Dividends paid	**0.30**	0.20	0.24
Share price - high	**9.50**	9.20	10.15
- low	**7.50**	6.23	3.51
- close at December 31	**7.70**	8.40	6.70
Book value per share at December 31	**11.80**	11.68	10.50

The Company's financial statements have been prepared in accordance with IFRS. The Company uses a number of other financial measures to monitor its performance and believes that these measures may be useful to investors in evaluating the Company's operating performance and financial position. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency between companies using these measures and are, therefore, considered to be non-IFRS measures. The non-IFRS measures presented in the Three Year Financial Highlights Summary, Ten Year Financial Summary, Letter to Our Shareholders, Management's Discussion and Analysis and elsewhere in this annual report are summarized on pages 4, 5 and 6 of this Annual Report, as well as set out in detail on pages 28 to 30. Such non-IFRS measures include adjusted net earnings, adjusted earnings per share, book value per share, return on average equity, adjusted return on average equity, average funds employed, etc. Please refer to the above noted pages.

Letter to Our Shareholders

Following Accord's record performance in 2021, the economic environment deteriorated in 2022, creating challenges within our core markets and headwinds to growth and earnings. Inflation and rising interest rates hampered financial performance for small- and medium-sized businesses across many industries, and Accord's operating companies faced related challenges, including a weaker credit environment, and in many sectors, weaker deal flow as middle market companies took a more cautious approach to incurring incremental debt to buy equipment, expand operations, or make acquisitions.

Against this backdrop Accord maintained a conservative approach to adding new business; the Company's finance receivables and loans declined 5% over the year to $453 million at December 31, 2022. Other metrics, however, remained strong, including average funds employed, which reached $450 million in 2022 up from $402 million in 2021. Revenue followed suit, achieving a record of $67.5 million compared to $63.5 million last year.

Reflecting the economic headwinds and their impact on certain businesses within the portfolio, the Company's 2022 net earnings were hampered by a $8.3 million provision for credit losses, compared to a recovery of $614,000 in 2021. The Company anticipates that inflation and rising interest rates may weaken the payment performance of some of its existing clients. To gauge credit quality against this backdrop, the Company employs a comprehensive process, incorporating third-party economic forecasts, quantitative credit evaluation of each company in the portfolio, and expert judgment refined over multiple economic cycles. In this context the Company continues to carry a robust allowance for expected credit losses on the balance sheet: $8.2 million at December 31, 2022 compared to $5.3 million a year earlier.

At year end the Company also recognized an impairment of goodwill, reflected as a $1,883,000 non-cash expense, which decreased the Company's shareholders' equity. Tangible equity, which represents net assets deployed for growth, was unaffected by the expense.

Affected by the provision for credit losses and the non-cash goodwill charge, net earnings attributable to shareholders were $1.4 million in 2022 compared to $11.9 million in 2021, resulting in earnings per common share ("EPS") of $0.17 compared to $1.39 last year. Book value per common share rose to $11.80 at year end, up from $11.68 at the start of the year.

Heading into 2023 the economic environment is beginning to provide the ingredients for increasing growth and earnings. Economic uncertainty often leads the major banks to restrict their lending appetite, which provides opportunities for Accord as our lending expertise, and reliance on strong collateral, allows us to finance companies that may no longer meet the banks' criteria. As the new business pipeline grows, improving economic visibility will allow Accord to underwrite with confidence.

Accord is well positioned to perform in this environment. Over the past two years we've strengthened the management team, built a world class sales & marketing platform, rejuvenated the product lineup, and diversified our funding sources to support the next stage of growth. Turning our attention to client-facing activities, we're now advancing our strategy to maximize sales & marketing

Simon Hitzig

performance by leveraging our ability to deliver multiple product solutions through our integrated sales channels.

Accord's founders and investors have shown strong support throughout this period. The Company maintains a solid investor base, with more than $100 million of equity. The Company also enjoys support from a syndicate of six major banks, which recently increased its credit facility commitment to $437 million with a new maturity date of July 2025. In anticipation of renewed growth, the Company is evaluating a range of options to increase its available capital, including both private and private channels. This is consistent with other similar companies, whereby funds are raised publicly, privately, through forward-flow and/or asset management structures, or a combination of these and other strategies.

While 2022 fell short of our growth and earnings expectations, Accord's renowned strength and stability allowed our clients and referral partners to weather the storm and position themselves for growth ahead. With equal ambition, deep market presence and financial strength, Accord is similarly poised to unlock potential for our investors in the year ahead.

Simon Hitzig
President & Chief Executive Officer
March 22, 2023

Announcement

Irene Eddy

Senior Vice President,
Chief Financial Officer

In May 2022, after several years of stellar work strengthening Accord's capital base, Irene Eddy was promoted to Chief Financial Officer. She quickly rallied the finance teams across Accord's operating companies, and together they set to work streamlining a number of key processes, capped off by successfully implementing a new enterprise accounting system at year end.

Since joining Accord in 2019 as SVP of capital markets, she broadened our network of financing relationships, negotiated key funding deals, and diversified Accord's capital base. She now heads Accord's entire finance organization, providing leadership in all areas of planning, finance, reporting and strategy.

"Joining Accord meant embracing change," Eddy says. "In today's economy, managing the ups and downs successfully as an organization is as important to us as it is to our clients. Adapting over time is our hallmark of success."

Eddy's impressive resume includes more than twenty years at GE Capital, playing a crucial role in structuring more than $23 billion in asset securitization and alternative funding solutions.

2023 and beyond will bring new challenges – we couldn't be more pleased to have Irene navigate those challenges from the CFO chair.

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

Year ended December 31, 2022 compared with year ended December 31, 2021

FINANCIAL HIGHLIGHTS

Years ended December 31 (in thousands except average funds employed, earnings per common share, adjusted earnings per common share, and book value per share)	2022	2021
Average funds employed (millions)	**$ 450**	$ 402
Revenue	**67,491**	63,480
Earnings before income tax	**2,646**	14,949
Net earnings attributable to shareholders	**1,427**	11,887
Adjusted net earnings	**2,079**	13,068
Earnings per common share (basic and diluted)	**0.17**	1.39
Adjusted earnings per common share (basic and diluted)	**0.24**	1.53
Book value per share (December 31)	**$ 11.80**	$ 11.68

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 year ended December 31, 2022 compared with the year ended December 31, 2021 and, where presented, the year ended December 31, 2020. 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 March 22, 2023, should be read in conjunction with the Company's 2022 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 31) and the Letter to Our Shareholders, all of which form part of this 2022 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.

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.

Irene Eddy

NON-IFRS FINANCIAL MEASURES AND RATIOS

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in its 2022 Annual Report are defined as follows:

i) **Return on average equity ("ROE")** – this is a profitability measure that presents net earnings attributable to shareholders ("shareholders' net earnings") as an annualized percentage of the average shareholders' equity employed in the period to earn the income. The Company includes all components of shareholders' equity, as shown on the Company's balance sheet, calculated on a month-by-month basis 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 costs and amortization of intangibles) and restructuring expenses. The Company considers these terms 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 (see note 18 to the Statements), while adjusted ROE is adjusted net earnings for the period expressed as an annualized percentage of average shareholders' equity employed in the period;

iii) **Book value per share** – book value is defined as shareholders' equity, as shown on the Company's balance sheet, and is the same as the net asset value of the Company (calculated as total assets minus total liabilities) less non-controlling interests in subsidiaries. Book value per share is the book value, or shareholders' equity, divided by the number of common shares outstanding as of a particular date;

iv) **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 on a month-by-month basis, over a particular period.

v) **Profitability, yield and efficiency ratios** – Table 1 on page 9 presents certain profitability measures. In addition to ROE and adjusted ROE, net revenue (revenue minus interest expense)

expressed as a percentage of average assets, and operating expenses comprising and administrative expenses ("G&A") and depreciation expressed as a percentage of average assets is shown, as is operating expenses as a percentage of revenue, which is also referred to as the efficiency ratio. These ratios are presented over a three-year period, which enables readers to see at a glance trends in the Company's profitability, yield and operating efficiency;

vi) **Financial condition and leverage ratios** – Table 2 on page 11 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank in debtedness, loans payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages provide information on trends in the Company's financial condition and leverage; and

vii) **Credit quality** – Table 3 on page 14 presents information on the quality of the Company's total portfolio, namely, its finance receivables and loans and managed receivables. It presents the Company's year-end allowances for expected credit losses as a percentage of its total portfolio and its annual net write-offs. It also presents net write-offs as a percentage of revenue.

The calculations of the above noted non-IFRS financial measures and ratios for the last 5 years are set out in the Appendix to this MD&A on pages 28 to 30 of this 2022 Annual Report.

ACCORD'S BUSINESS

Accord is one of North America's leading independent finance companies serving clients throughout the United States and Canada. Accord's flexible finance programs cover the full spectrum of asset-based lending ("ABL"), from receivables and inventory finance, equipment and trade finance, working capital finance, as well as film and media finance. Accord's business also includes credit protection and receivables management. Its clients operate in a wide variety of industries, examples of which are set out in note 24(a) to the Statements.

The Company, founded in 1978, operates six finance businesses in North America, namely, Accord Financial Inc. ("AFIC"), Accord Financial Canada Corp. ("AFCC") and Accord Financial Ltd. ("AFL") in Canada, and Accord Financial, Inc. ("AFIU"), BondIt Media Capital ("BondIt") and Accord CapX LLC (doing business as Accord Equipment Finance ("AEF")) in the United States. Some sections of this report present Accord's businesses as cash-generating units ("CGUs"), which is simply an aggregation of subsidiaries according to their country of operation.

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 AEF and AFCC. AFCC also provides working capital financing to small businesses through its Accord Small Business Finance ("ASBF") subsidiary; (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.

SELECTED ANNUAL INFORMATION

(audited, in thousands of dollars, except per share data)

	2022	2021	2020
Revenue	**$ 67,491**	$ 63,480	$ 48,501
Net earnings attributable to shareholders	**1,427**	11,887	417
Basic and diluted earnings per share	**0.17**	1.39	0.05
Dividends per share	**0.30**	0.20	0.24
Total assets	**491,761**	520,109	384,913
Long-term financial liabilities	**102,185**	86,496	23,510

RESULTS OF OPERATIONS

Years ended December 31 (in thousands unless otherwise stated)	2022 Actual	2022 % of Revenue	2021 Actual	2021 % of Revenue	% change from 2021 to 2022
Revenue					
Interest income	$ 60,212	89.2%	$ 51,898	81.8%	16.0%
Other income	7,278	10.8%	11,583	18.2%	(37.2%)
	67,491	100.0%	63,480	100.0%	6.3%
Expenses					
Interest	24,087	35.7%	15,887	25.0%	51.6%
General and administrative	29,599	43.9%	31,455	49.6%	(5.9%)
Provision for (recovery of) credit and loan losses	8,293	12.3%	(614)	(1.0%)	1,449.8%
Impairment of goodwill	1,883	2.8%	—	—	n/m
Impairment of assets held for sale	148	0.2%	873	1.4%	(83.0%)
Depreciation	702	1.0%	695	1.1%	0.9%
Business acquisition expenses:					
Transaction costs	—	—	94	—	n/m
Amortization of intangible assets	132	0.2%	141	0.2%	(6.4%)
Earnings before income taxes	2,646	3.9%	14,949	23.5%	(82.3%)
Income tax expense	1,001	1.5%	1,727	2.7%	(42.0%)
Net earnings	1,645	2.4%	13,222	20.8%	(87.6%)
Net earnings attributable to non-controlling interests in subsidiaries	218	0.3%	1,335	2.1%	(83.7%)
Net earnings attributable to shareholders	$ 1,427	2.1%	$ 11,887	18.7%	(88.0%)
Adjusted net earnings	$ 2,079	3.1%	$ 13,068	20.6%	(84.1%)
Earnings per common share (basic & diluted)	$ 0.17		$ 1.39		(88.0%)
Adjusted earnings per common share basic & diluted)	$ 0.24		$ 1.53		(84.1%)

n/m - not meaningful

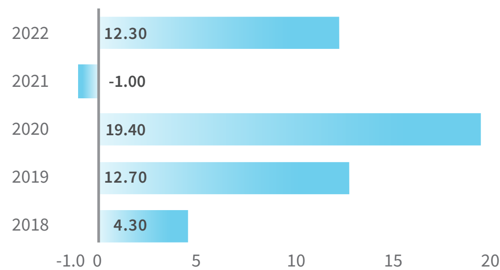
RESULTS OF OPERATIONS

Year ended December 31, 2022 compared with year ended December 31, 2021

Shareholders’ net earnings in 2022 were $1,427,000 compared to the $11,887,000 earned in 2021. Shareholders’ net earnings decreased mainly as a result of higher interest costs and a significant increase in provision for credit losses and a goodwill impairment charge. Basic and diluted earnings per common share (“EPS”) were 17 cents compared to the $1.39 earned last year and the 5 cents earned in 2020. The Company’s ROE was 1.4% in 2022 compared to 12.6% last year and 0.5% in 2020.

Adjusted net earnings decreased to $2,079,000 in 2022 compared to last year’s $13,068,000 and were higher than 2020’s $2,032,000. Adjusted EPS were 24 cents in 2022, compared to $1.53 earned in 2021 and 24 cents earned in 2020. Adjusted ROE was 2.0% in 2022 compared to 13.8% in 2021 and 2.2% in 2020. Please refer to the Appendix to the MD&A regarding these non-IFRS measures.

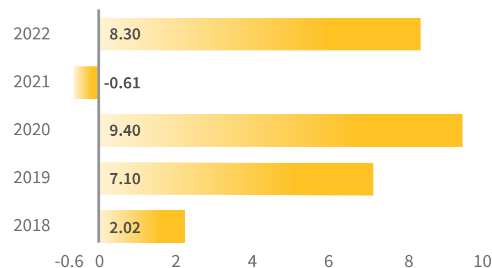
Revenue rose by 6.3% to a record $67,491,000 in 2022 compared to $63,480,000 in 2021 and was 39.2% higher than the $48,501,000 in 2020. Interest income rose by 16.0% to $60,212,000 in 2022 compared to $51,898,000 in 2021 on a 11.9% increase in average funds employed



Provision for (Recovery of) Credit Losses

(as a percentage of revenue)

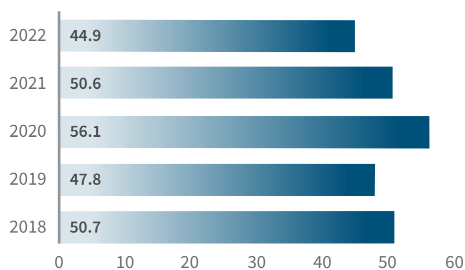
The provision for credit losses was 12.3% of revenue in 2022 compared to a recovery of 1% last year.



Provision for (Recovery of) Credit Losses

(in millions of dollars)

The provision for credit losses was $8.3 million in 2022 compared to a recovery of $0.6 million in 2021.



Operating Expenses (Efficiency Ratio)

(G&A and depreciation as a percentage of revenue)

The efficiency ratio improved to 44.9% of revenue in 2022 compared to 50.6% in 2021.

and higher yields on floating rate finance receivables and loans. Other income decreased by 37.2% to $7,278,000 compared to $11,583,000 2021 mainly due to lower termination fees, and a change in the recognition of origination fees at AFCC to recognize revenue over the term of related loan rather than at loan closing. Average funds employed in 2022 increased to $450 million compared to $402 million last year and were 29.5% higher than the $347 million in 2020.

Total expenses increased by 33.6% to $64,844,000 compared to 48,531,000 in 2021. Interest expense rose 51.6% to $24,087,000 from $15,887,000 last year due to a significant increase in average interest rates for borrowing and to a lesser extent on higher average borrowings. The provision for credit losses increased significantly to $8,293,000, while impairment of assets held for sale decreased by 83.0% to $148,000 and depreciation increased by 1.0%

G&A is comprised of personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, information technology expenses and general overhead. G&A decreased 5.9% to $29,599,000 mainly due to a reduction in personnel costs, including salary and employee incentives. The Company continues to manage its controllable expenses closely.

The provision for credit losses increased by $8,907,000 to $8,293,000 compared to a recovery of credit losses of $614,000 in 2021. The provision (recovery) for losses is comprised of:

Years ended Dec. 31 (in thousands)	2022	2021
Net write-offs	$ 5,355	$ 938
Increase (decrease) in reserves for expected loan losses	2,938	(1,552)
Total provision (recovery)	$ 8,293	$ (614)

Net write-offs increased by $4,417,000 to $5,355,000 in 2022 compared to $938,000 in the prior year.

The provision for credit losses as a percentage of revenue increased to 12.3% in 2022 from a recovery of 1.0% of revenue in 2021. This year's significant provision for credit losses reflects the impact of economic headwinds affecting our client base, including inflation and higher interest rates, and also considers third party economic forecasts and other forward-looking information. The Company's allowances for expected credit losses and its portfolio are discussed in detail below and also in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies and/or one-off losses. An expense related to the impairment of goodwill of $1,883,000 was recognized in 2022 (2021 – $nil) related to goodwill at the Company's Canadian operations.

Impairment charges of $148,000 (2021 – $873,000) were taken during 2022 against certain assets held for sale to write them down to their estimated net recoverable value. See note 7 to the Statements.

Depreciation expense increased by $7,000 to $702,000 in 2022. Depreciation of $522,000 (2021 – $466,000) was charged against the right-of-use assets in 2022, while the balance related to capital assets.

Business acquisition expenses in 2022 totalled $132,000 (2021 – $235,000). Transaction costs of $nil (2021 – $94,000) were incurred, while the amortization of intangible assets related to AFCC and AEF totalled $132,000 (2021 – $141,000).

Income tax declined by $726,000 to an expense of $1,001,000 compared to an expense of $1,727,000 in 2021. Income tax declined on a $12.3 million decrease in the Company's share of pre-tax earnings. Income tax expense was also impacted by a limitation on the amount of a net operating loss deduction that may be used in any given year to 80% of U.S. taxable income. The Company's effective tax rate was 37.8%.

TABLE 1 – PROFITABILITY, YIELD AND EFFICIENCY RATIOS

(as a percentage)	**2022**	2021	2020
Return on average equity	**1.4**	12.6	0.5
Adjusted return on average equity	**2.0**	13.8	2.2
Net revenue / average assets	**8.8**	11.0	8.8
Operating expenses* / average assets	**6.2**	7.5	7.1
Operating expenses* / revenue	**44.9**	50.6	56.1

** G&A and depreciation*

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity.

Canadian operations reported a decrease in shareholders' net earnings of $6,751,000 to a net loss of ($3,074,000) compared to a net earnings of $3,677,000 last year. (see note 23 to the Statements). Revenue increased by $6,028,000 or 18% to $39,038,000. Expenses increased by $14,993,000 to $43,107,000. The provision for credit losses increased by $6,247,000 to $6,481,000 and interest expense increased by $6,388,000. Income tax decreased by $2,214,000 to a recovery of $995,000 on a $8,965,000 decrease in pre-tax earnings. An impairment charge of $1,883,000 related to goodwill was recorded compared to $0 in 2021.

U.S. operations reported a $3,709,000 or 45% decrease in shareholders' net earnings to $4,501,000 compared to $8,210,000 in 2021 (see note 2 to the Statements). Revenue decreased by $1,773,000 or 6% to $29,159,000. Expenses increased by $1,565,000 to $22,444,000. The provision for credit losses increased by $2,660,000 to $1,812,000 while impairment of assets held for sale decreased by $732,000. Interest expense increased by $2,056,000, while G&A expenses decreased by $2,244,000. Income tax increased by 1,488,000 to $1,996,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $218,000 compared to $1,335,000 in 2021.

Fourth Quarter 2022

Quarter ended December 31, 2022 compared to quarter ended December 31, 2021

Shareholders' net earnings for the quarter ended December 31, 2022, decreased $7,237,000 to a net loss of $3,664,000 compared to net earnings of $3,573,000 last year. Shareholders' net earnings decreased mainly as a result of higher interest costs, an increase in the provision for credit losses and impairment of goodwill. Basic and diluted loss per share were 43 cents compared to earnings per share of 42 cents in the fourth quarter of 2021.

Adjusted net earnings decreased to a net loss of $3,213,000 in the fourth quarter of 2022 compared to adjusted net earnings of $4,423,000 last year. Adjusted net loss per share was 37 cents compared to adjusted EPS of 52 cents in 2021. Please refer to the Appendix to the MD&A regarding these non-IFRS measures.

Revenue decreased by $94,000 or 1% to $18,371,000 in the current quarter compared to $18,465,000 in the fourth quarter of 2021. Interest income increased by $2,259,000 or 16% to $16,480,000 compared to $14,221,000 in the fourth quarter of 2021 on a 4% decrease in average funds employed and an increase in average loan yields. Other income decreased by $2,353,000 to $1,891,000 in the current quarter compared to $4,244,000 in the fourth quarter of 2021, mainly due to lower termination fees, and a change in the recognition of origination fees at AFCC to recognize revenue over the term of related loan rather than at loan closing. Average funds employed in the fourth quarter of 2022 decreased to $443 million compared to $460 million last year.

Total expenses in the fourth quarter of 2022 rose by 52% or $7,079,000 to $20,677,000 compared to $13,598,000 last year. The primary drivers were the provision for credit losses and interest expense.

The provision for credit losses increased by $3,397,000 to $3,123,000 in the fourth quarter compared to a recovery of $274,000 in the fourth quarter of 2021.

Quarters ended Dec. 31 (in thousands)	2022	2021
Net write-offs	$ 1,843	$ 337
Reserves expense (recovery) related to increase (decrease) in total allowances for expected losses.	1,280	(611)
Total provision (recovery)	$ 3,123	$ (274)

Interest expense increased by 53% or $2,519,000 to $7,298,000 for the quarter, due to a significant increase in average interest rates for borrowing, compared to $4,779,000 in the fourth quarter of 2021.

Additionally, there was an impairment loss of $1,883,000 related to goodwill at the Company's Canadian operations in the fourth quarter of 2022 (2021 – $nil). G&A decreased by 9% or $837,000 mainly due to a reduction in personnel costs, including salary and employee incentives. In the fourth quarter of 2022, restructuring expenses totalling $524,000 (2021 – $968,000) were incurred relating to staff terminations. The Company continues to manage its controllable expenses closely.

An impairment of $111,000 was recorded against certain assets held for sale in the fourth quarter of 2022 (2021 – $nil) to write them down to their estimated NRV.

The Company did not receive any government subsidies during the fourth quarter of 2022 or 2021.

Income tax increased by $392,000 to an expense of $1,338,000 in the current quarter compared to an expense of $946,000 in the fourth quarter of 2021 as pre-tax earnings (losses) decreased by $7,172,000. The Company's effective tax rate was 37.8%. See note 17 to the Statements.

SUMMARY OF QUARTERLY RESULTS

Quarters ended (in thousands unless otherwise stated)	2022 Dec. 31	Sept. 30	June 30	Mar. 31	2021 Dec. 31	Sept. 30	June 30	Mar. 31
Average funds employed (millions)	**$ 443**	**$ 445**	**$ 454**	**$ 457**	$ 460	$ 414	$ 376	$ 358
Revenue								
Interest and other income	**$ 18,371**	**$ 16,452**	**$ 16,490**	**$ 16,178**	$ 18,465	$ 16,119	$ 15,416	$ 13,480
Expenses								
Interest	**7,298**	**6,356**	**5,446**	**4,987**	4,779	4,216	3,605	3,286
General and administrative	**8,058**	**6,937**	**7,310**	**7,294**	8,895	8,197	7,294	7,069
Provision for (recovery of) credit and loan losses	**3,122**	**1,069**	**4,009**	**93**	(274)	336	220	(896)
Impairment of goodwill	**1,883**	**—**	**—**	**—**	—	—	—	—
Impairment of assets held for sale	**111**	**—**	**38**	**—**	—	21	—	852
Depreciation	**171**	**201**	**173**	**158**	166	185	178	166
Business acquisition expenses	**35**	**33**	**32**	**32**	32	32	102	69
	20,677	**14,596**	**17,008**	**12,564**	13,598	12,987	11,399	10,546
Earnings (loss) before income tax	**(2,305)**	**1,856**	**(518)**	**3,614**	4,867	3,132	4,017	2,934
Income tax expense (recovery)	**1,338**	**(17)**	**(768)**	**448**	946	273	426	82
Net (loss) earnings	**(3,644)**	**1,873**	**250**	**3,166**	3,921	2,859	3,591	2,852
Net earnings attributable to non-controlling interests in subsidiaries	**20**	**42**	**127**	**28**	348	216	506	267
Net (loss) earnings attributable to shareholders	**$ (3,664)**	**$ 1,831**	**$ 123**	**$ 3,138**	$ 3,573	$ 2,643	$ 3,085	$ 2,585
Adjusted net (loss) earnings	**$ (3,213)**	**$ 1,926**	**$ 171**	**$ 3,195**	$ 4,423	$ 2,801	$ 3,161	$ 2,683
(Loss) earnings per common share **	**$ (0.43)**	**$ 0.21**	**$ 0.01**	**$ 0.37**	$ 0.42	$ 0.31	$ 0.36	$ 0.30
Adjusted net (loss) earnings per common share**	**$ (0.37)**	**$ 0.22**	**$ 0.02**	**$ 0.37**	$ 0.52	$ 0.33	$ 0.37	$ 0.31

** Due to rounding the total of the four quarters may not agree with the reported total for a fiscal year.*
*** Basic and diluted*

REVIEW OF FINANCIAL POSITION

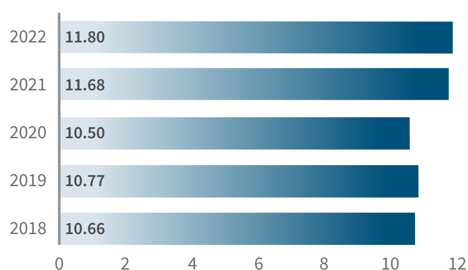
Shareholders' equity at December 31, 2022 was $100,972,000 or 1% higher than the $99,967,000 at December 31, 2021. Book value per common share was $11.80 at December 31, 2022 compared to $11.68 at December 31, 2021. Please see the consolidated statements of changes in equity on page 40 of this Annual Report.

Total assets decreased by 5.5% to $491,761,000 at December 31, 2022 compared to $520,109,000 at December 31, 2021. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 48% of total assets at December 31, 2022 compared to 49% at December 31, 2021 (see note 23 to the Statements).

TABLE 2 – FINANCIAL CONDITION AND LEVERAGE

(as a percentage)	**2022**	2021	2020
Tangible equity / assets	**17**	16	20
Equity / assets	**22**	20	24
Debt* / total equity	**3.44x**	3.82x	2.91x
(in thousands)			
Receivables and loans	**$ 452,678**	$ 478,150	$ 360,337
Managed receivable	**5,309**	11,441	18,523
Total portfolio	**$ 457,987**	$ 489,591	$ 378,860

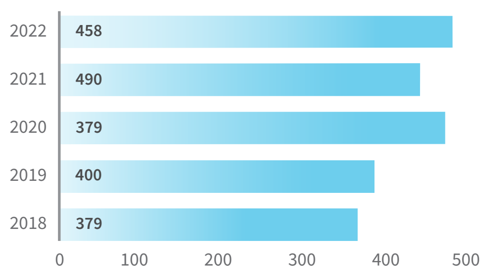
* *Bank indebtedness, loans payable, notes payable and convertible debentures*



Book Value per Share

(in dollars)

Book value per share was $11.80 at December 31, 2022 compared to $11.68 at December 31, 2021.



Total Portfolio

Loans and managed receivables

(in millions of dollars)

The Company's total portfolio declined to $458 million at December 31, 2022 from $490 million at last year-end.

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for expected credit losses thereon, decreased 5.3% to $452,678,000 at December 31, 2022 compared to $478,150,000 at December 31, 2021. As detailed in the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Working capital loans	$ 121,979	$ 109,518
Receivable loans	86,788	105,550
Other loans*	90,970	101,811
Media loans	87,770	81,497
Lease receivables	65,171	79,774
Finance receivables and loans, gross	452,678	478,150
Less allowance for expected losses**	8,220	5,251
Finance receivables and loans, net	$ 444,458	$ 472,899

* *other loans principally comprise inventory and equipment loans*
** *includes $31,000 related to managed receivables in 2022*

Net of the allowance for expected credit losses thereon, Loans decreased by 6% to $444,458,000 at December 31, 2022 compared to $472,899,000 at December 31, 2021. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 46 clients in a wide variety of industries, as well as AFCC's and AEF's lease receivables and equipment and working capital loans to approximately 996 clients and BondIt's media finance loans to approximately 75 media productions. The largest client in a well diversified loan portfolio comprised 4% of Loans.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables they do not appear on its consolidated statements of financial position. These managed receivables totalled $5 million at December 31, 2022 compared to $11 million at December 31, 2021. The Company made the decision to downsize its credit protection and receivables management operations in the past year. Most of the clients' customers for which the Company assumes the credit risk are from the

wholesale and distribution industries in North America. The Company monitors the credit risk related to its managed receivables very closely.

The Company's total portfolio, which comprises both Loans and managed receivables, as detailed above, decreased by 7% to $458 million at December 31, 2022 compared to $490 million at December 31, 2021.

As described in note 24(a) to the Statements, the Company's business principally involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory, equipment, and media productions. The Company, through it's subsidiary AFCC, also provides working capital term loans.

Credit approval for transactions supported by management in the Company's six operating businesses is delegated to a staff of senior credit officers within each business. Transactions in excess of $1.0 million (US$1.0 million for U.S. Group companies), are approved by the Company's SVP, Underwriting and Portfolio Risk in consultation with the Corporate Credit Committee. Transactions in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) are approved by the Credit Committee of the Board of Directors, which comprises three members of its Board. 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 risk is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

For its factoring products, the Company's primary focus continues to be on the creditworthiness 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 invoice date. 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 older receivables. Asset-based lending products additionally require focus on the performance of other collateral types (inventory, equipment and in certain cases real estate) as well as the underlying cash flows of the borrower. AFCC's and AEF's lease receivables and equipment and working capital loans are usually structured as term loans with payments spread out evenly over the term of the lease or loan, with terms up to 60 months. AFCC also has a revolving equipment loan product which has no fixed repayment terms and can be repaid at any time.

The Company uses a credit risk rating system for assessing obligor and transaction risk for finance receivables and loan exposures. Risk rating models use internal and external data to assess and assign credit ratings to borrowers, predict future performance and manage limits for existing loans and collection activities. The credit rating of the borrower is used (in addition to other criteria) to assess the predicted credit risk for each initial credit approval or significant account management action. Credit ratings improve credit decision quality, adjudication time frames and consistency in the credit decision process and facilitate risk-based pricing. In the Company's credit protection business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 5 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by the three-stage credit criteria of IFRS 9, Financial Instruments ("IFRS 9"), as well as an aged analysis thereof. Credit risk is managed by ensuring that, as far as possible, the receivables financed are of good quality and any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending and equipment finance

operations, the Company assesses the financial strength of its clients and its clients' customers and the industries in which they operate on a regular and ongoing basis. Cash flows from a client's ongoing business operations represent the primary source of repayment.

The Company also manages credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases or lends against. In its factoring operations, the Company administers and collects the majority of its clients' receivables allowing it to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's Canadian small business finance operations, AFCC, security deposits are usually obtained in respect of equipment leases or loans, while a majority of ASBF's working capital loans have the benefit of a strong financial guarantor guaranteeing up to 80% of the loan balance in the event of a loss.

As detailed in note 5 to the Statements, the Company had past due finance receivables and loans of $48,872 at December 31, 2022, of which $26,140 related to BondIt, the Company's media finance subsidiary, $12,948 related to AFCC and $7,599 to AEF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as production delays. Of the AFCC loans past due, $5,094 are considered to have had a SICR, while the balance is less than 30 days past due and not considered to have had a SICR.

At December 31, 2022, the Company had impaired finance receivables and loans of $18,969 which represented 4% of total funds employed. The impaired loans, most of which have been written down to net realizable value ("NRV") (being fair value less costs of realization), are mainly secured by receivables, inventory and equipment, the estimated NRV of which was $17,817 at December 31, 2022. As the vast majority of the Company's finance receivables and loans are secured, past due or impaired accounts do not necessarily lead to a significant expected credit loss ("ECL") based on the NRV of the security, which often results in a low or no loss given default ("LGD") in respect of these accounts.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. While these guarantees do not involve loans, as with the Company's lending businesses, all client and customer credit in excess of $2.5 million is approved by the Credit Committee of the Board on a case-by-case basis. Note 24(a) to the Statements provides details of the Company's credit exposure by industrial sector.

TABLE 3 – CREDIT QUALITY

(as a percentage)	**2022**	2021	2020
Reserves* / portfolio	**1.8**	1.1	1.7
Reserves* / net write-offs and impairment charges**	**149**	241	73
Net write-offs and impairment charges / revenue	**8.2**	3.5	18.1

**Reserves comprise the total of the allowance for expected credit losses on Loans and on the guarantee of managed receivables.*
***Net write-offs against Loans and impairment charges on assets held for sale.*

Table 3 highlights the credit quality of the Company's total portfolio, both Loans and managed receivables. In 2022 there was a net recovery of $41,000 on the Company's managed receivables compared to a net recovery of $15,000 in 2021. Net write-offs in the Company's lending businesses increased to $5,986,000 in 2022 compared to $953,000 last year. In addition, impairment charges against assets held for sale in 2022 totalled $148,000 (2021 – $873,000). Overall, the Company's total net write-offs and impairment charges in 2022, as set out in the Results of Operations section above, increased to $5,504,000 compared with $1,811,000 in 2021. After the customary detailed period-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 for expected credit losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover expected credit losses thereon.

The Company's allowance for expected credit losses on Loans, calculated under the ECL criteria of IFRS 9, totalled $8,188,873 at December 31, 2022 compared to $5,251,000 at December 31, 2021. This represents management's best estimate of expected credit losses based on information available at those dates. The economic impacts of Covid-19 continue to affect the Company's loan portfolio to varying degrees and the measurement of the allowance could fluctuate substantially in future periods. The allowance for expected credit losses on the guarantee of managed receivables totalled $31,000 at December 31, 2022 and December 31, 2021.

The activity in the allowance for expected credit losses in 2022 and 2021 is set out in note 5 to the Statements. The estimates of the allowances for expected credit losses involve judgement which management considers to be reasonable and supportable.

Assets held for sale, stated at their NRV, totalled $108,000 at December 31, 2022 (2021 – $160,000) and comprised certain assets securing defaulted finance receivables and loans from a number of clients and repossessed long-lived assets. The decrease compared to December 31, 2021 resulted from asset disposals totalling $1,334,000 and impairment charges of $148,000. Assets totalling $1,431,000 were repossessed and included in assets held for sale during 2022. These assets are currently being marketed for sale and will be disposed of as market conditions permit. See note 6 to the Statements.

Cash decreased to $11,630,000 at December 31, 2022 compared to $13,839,000 at December 31, 2021. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Restricted cash comprises cash held as security for non-recourse borrowings provided by a lender. Restricted cash totalling 5% of the outstanding loan balance from the lender is required to be held by it in a cash reserve account and is partly released as the loan balance is repaid. Further, cash receipts from the loan collateral securing the non-recourse borrowings are deposited in a cash collection account and can only be used to repay that debt. As at December 31, 2022, the restricted cash totalled $6,625,000 (2021 – $10,309,000). Please refer to note 4 to the Statements.

Intangible assets, net of accumulated amortization, totalled $3,201,000 at December 31, 2022 compared to $3,113,000 at December 31, 2021. Intangible assets totalling US$2,885,000 were acquired upon the acquisition of AEF on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the AFCC acquisition on January 31, 2014. These were being amortized over a period of 5 to 7 years and were fully amortized in 2022. Please refer to note 10 to the Statements.

Goodwill totalled $12,075,000 at December 31, 2022 compared to $13,140,000 at December 31, 2021. The decrease is related to a $1,883,000 impairment loss against goodwill at the Company's Canadian operations. The goodwill was acquired as part of the AFCC acquisition in 2014. The Company performs an annual goodwill impairment test by estimating the fair value of each CGU based primarily on a multiple of recent actual, and

expected future, earnings. The significant variability in earnings over the last three years combined with a significant increase in funding costs over the same period, makes the timeline to a return to pre-pandemic earnings difficult to predict. As a result, the Company took the prudent step to recognize an impairment loss and reduce goodwill to $0 at the Canadian CGU as of December 31, 2022. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and AEF on July 1, 2017, and October 27, 2017, respectively. BondIt and AEF goodwill is carried in the Company's U.S. operations, together with US$962,000 from a much earlier acquisition. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. The Company performed a goodwill impairment test for its U.S. CGU using the same methodology as that applied at the Canada CGU. The results of that test provides a clear basis for the value of goodwill recorded. Please refer to note 9 to the Statements for information regarding the Company's annual goodwill impairment reviews.

Other assets increased $3,203,000 to $5,057,000 compared to $1,854,000 at December 31, 2021. The increase is due to a higher balance of prepaid expenses, $2,723,000 (2021 – $1,366,000) and an increase in amounts due from Export Development Canada of $827,000. The balance at December 31, 2022 is $1,315,000 (2021 – $488,000). Income taxes receivable, and property and equipment at December 31, 2022 and 2021 were not significant.

Total liabilities decreased by 7.4% or $31,000,000 to $385,149,000 at December 31, 2022 compared to $416,149,000 at December 31, 2021. The decrease mainly resulted from lower loans payable.

Amounts due to clients decreased by $1,461,000 to $1,827,000 at December 30, 2022 compared to $3,288,000 at December 31, 2021. Amounts due to clients principally consist of collections of receivables not yet remitted to clients or security deposits held on account. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by $6,673,000 to $214,055,000 at December 31, 2022 compared to $207,382,000 at December 31, 2021. Bank indebtedness increased due to an increase in funds employed. The Company's revolving credit facility was amended in July to increase the commitment from $367 million to $436.5 million and extend the contractual maturity for three years to July 2025. Pricing for drawn amounts under the revolving credit facility are primarily based on bankers acceptances plus a margin for Canadian dollar borrowings or SOFR plus a margin for U.S. dollar borrowings. The margin is based on a measure of leverage at each quarter end. The Company was not in compliance with one covenant under its revolving credit facility at December 31, 2022 and has subsequently received a waiver thereof from its banking syndicate. Note 24(b) to the Statements which discusses liquidity risk presents the amount due of $214,055,000 under the revolving credit facility as current, despite a contractual maturity date of July 26, 2025, due to a requirement under IFRS 7, Financial Instruments: Disclosures. The Company has taken the necessary steps to be in compliance with all loan covenants at March 31, 2023. The Company was in compliance with all other loan covenants under its revolving credit facility during 2022 and was in compliance with all loan covenants in 2021. Subject to other debt borrowings, bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loans payable decreased by $40,398,000 to $109,039,000 at December 31, 2022 compared to $149,437,000 at December 31, 2021. In December 2021, ASBF entered into a non-recourse loan and security agreement with a life insurance company to finance a portion of its AccordExpress working capital loans. This non-recourse loan is collateralized by the majority of ASBF's assets and bears a fixed rate of interest of 3.55%. At December 31, 2022, the amount outstanding under this loan facility

totalled $44,368,000 (2021 – $89,388,000). ASBF experienced a trigger event as a result of the breached covenant under the Company's revolving credit facility, as noted above. The lender has provided a waiver subsequent to December 31, 2022. The Company expects to be in compliance with all covenants at March 31, 2023.

The revolving loan facility used to finance BondIt's media loans is secured by all of BondIt's assets and has a total commitment of US$47,000,000 ($63,704,000). Borrowings under the facility, which expires on May 31, 2024, rose to $64,671,000, inclusive of accrued interest at December 31, 2022 (2021 – $60,049,000). BondIt was in compliance with all loan covenants thereunder in 2022 and 2021. See note 12(a) to the Statements.

Accounts payable and other liabilities decreased by 5% or $639,000 to $11,224,000 at December 31, 2022 compared to $11,863,000 at December 31, 2021. The decrease since December 31, 2022 mainly resulted from lower short-term incentives and severances payable.

Notes payable increased by $2,613,000 to $18,605,000 at December 31, 2022 compared to $15,992,000 at December 31, 2021. The increase in notes payable resulted from an increase in demand notes from related parties. Please see Related Party Transactions section below and note 13(a) to the Statements.

Convertible debentures with a face value of $25,650,000 (25,650 convertible debentures of $1,000 each) were issued by the Company in 2018 and 2019. Of these, 20,650 debentures are listed for trading on the Toronto Stock Exchange ("TSX"), while 5,000 are unlisted. All convertible debentures are unsecured and carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of $13.50 per common share. Net of transaction costs and a $23,200 discount on the issue of certain debentures, a total of $23,781,000 was raised. Please see note 14 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At December 31, 2022, the debt component totalled $24,864,000 (December 31, 2021 – $24,153,000), while the equity component totalled $1,005,000 (December 31, 2021 – $1,005,000), net of deferred taxes.

Income taxes payable, lease liabilities, deferred income and net deferred tax liabilities at December 31, 2022 and 2021 were not material.

Capital stock totalled $9,448,000 at December 31, 2022 and 2021. There were 8,558,913 common shares outstanding at those dates. Please see the consolidated statements of changes in equity on page 40 of this report for details of changes in capital stock during 2022 and 2021.

Contributed surplus totalled $1,705,000 at December 31, 2022 (2021 – $1,088,000). The increase in 2022 relates to the increase of 1% in non-controlling interests on additional capital raised in Bondlt at a cost of $2,039,000 offset by the purchase of the remaining 8% of AEF's common units from non-controlling interests at a cost of $1,612,000. As noted above, included in contributed surplus at December 31, 2022 and 2021 is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax. Also included in contributed surplus at December 31, 2022 is the 2022 stock-based compensation expense relating to stock options granted of $189,000 (2021 – $88,000). Please see the consolidated statements of changes in equity on page 40 of this report for details of changes in contributed surplus during 2022 and 2021.

Retained earnings decreased by $1,141,000 to $82,159,000 at December 31, 2022 compared to $83,300,000 at December 31, 2021. The decrease in 2022 comprised shareholders' net earnings of $1,427,000 less dividends paid of $2,568,000 (30 cents per common share). Please see the consolidated statements of changes in equity on page 40 of this report for changes in retained earnings during 2022 and 2021.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance increased by $1,528,000 to $7,659,000 at December 31, 2022 compared to $6,131,000 at December 31, 2021. Please refer to the consolidated statements of changes in equity on page 40 of this report for details of changes in AOCI during 2022 and 2021. Please see also note 20 to the Statements.

Non-controlling interests in subsidiaries totalled $5,640,000 at December 31, 2022 compared with $3,992,000 at December 31, 2021. Please see the consolidated statements of changes in equity on page 40 of this report, and note 21 to the Statements, for details thereof.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to total equity and its total equity and tangible equity to total assets. These ratios are presented for the last three years in Table 2. As noted above, the ratios at December 31, 2022 indicate the Company's continued financial strength.

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

The Company had credit lines and loans payable totalling approximately $545 million at December 31, 2022 and had borrowed $323 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt or equity decrease the usage of, and dependence on, these lines. Note 24(b) details the Company's financial assets and liabilities at December 31, 2022 by their maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $11,630,000 at December 31, 2022 compared to $13,839,000 at December 31, 2021. At December 31, 2022, the Company also had restricted cash, which is held as collateral by a lender, totalling $6,625,000 compared to $10,309,000 at December 31, 2021 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, interest and dividend payments and will provide sufficient liquidity and capital resources for future growth over the next twelve months.
As components of capital mature over the next 12

months, the Company will make changes to its capital structure designed to accommodate requirements for future liquidity and growth, which may in turn impact the Company's cost of capital.

Fiscal 2022 cash flows

Year ended December 31, 2022 compared with the year ended December 31, 2021

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments decreased to $14,662,000 in 2022 compared to $15,799,000 last year. After changes in operating assets and liabilities and income tax paid there was a net cash inflow of $31,507,000 in 2022 compared to an outflow of $101,647,000 last year. The net cash inflow in 2022 largely resulted repayment of Loans of $36,481,000. In 2021, the net cash outflow in 2021 largely resulted from funding gross loans of $118,831,000. 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 41 of this report.

Cash outflows from investing activities in 2022 totalled $175,000 (2021 – $83,000) and comprised additions to property and equipment.

Net cash outflow from financing activities totalled $37,272,000 in 2022 compared to an inflow of $120,375,000 last year. The net cash outflow in 2022 largely resulted from repayment of loans payable of $44,756,000, dividend payments of $2,568,000, the purchase of the remaining 8% of AEF's common units from non-controlling interest of $537,000, lease liabilities payments of $479,000 and the distribution paid to non-controlling interests of $149,000. Partly offsetting this outflow was an increase in bank indebtedness of $6,683,000, notes payable issued of $2,365,000, the increase of 1% non-controlling interest on additional capital raised by Bondlt of $2,170,000. In 2021 the net cash inflow resulted from the increase in loans payable of $127,828,000. Partly offsetting this inflow was a decrease in bank indebtedness of $2,412,000, dividends payments totalling $1,712,000, notes payable redeemed, net, of $1,438,000, the purchase of an additional 10% in Bondlt from non-controlling interests for $1,369,000, lease liabilities payments of $464,000 and a distribution paid to non-controlling interests of $58,000.

The effect of exchange rate changes on cash comprised an increase of $47,000 in 2022 compared to a decrease of $42,000 in 2021.

Overall, there was a net cash outflow of $5,893,000 in 2022 compared to a net cash inflow of $18,602,000 in 2021.

RELATED PARTY TRANSACTIONS

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties.

Notes payable totalled $18,605,000 at December 31, 2022 compared to $15,992,000 at December 31, 2021. Notes payable comprise: (i) unsecured demand notes due on, or within a week of, demand of $4,717,000 (December 31, 2021 – $2,333,000); (ii) term notes totalling $13,888,000 (December 31, 2021 – $13,659,000), which are repayable on various dates the latest of which is July 31, 2025. Notes due on, or within a week of demand, bear interest at rates that vary with the bank prime rate, while the term notes bear interest at rates between 7.25% and 11%.

Of the notes payable, $16,411,000 (December 31, 2021 – $13,843,000) was owing to related parties and $2,194,000 (December 31, 2021 – $2,149,000) to third parties. Interest expense on these notes in 2022 totalled $1,318,000 (2021 – $1,177,000). Please refer to note 13(a) to the Statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT DECEMBER 31, 2022

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter	Total
Debt obligations	$ 266,429	$ 101,960	$ —	$ —	$ 368,389
Operating lease obligations	446	737	525	—	1,708
Purchase obligations	41	138	—	—	179
	$ 266,916	$ 102,835	$ 525	$ —	$ 370,276

The following related parties had notes payable with the Company at December 31, 2022:

Demand notes payable		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	$4,000,000
Hitzig Bros., Hargreaves & Co. LLC.*	Directors	US$1,000,000
Ken Hitzig	Director	$500,000
Term notes payable (due July 31, 2025)		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	$4,000,000
Oakwest Corporation Inc.	Director	$3,000,000
Ken Hitzig	Director	$2,500,000
Keewatin House inc.		$1,000,000

**a director(s) of Accord has an ownership interest in the company*

Accord pays a rate of interest related to Canadian prime (as of December 31 the rates paid range from 5.95% to 6.45%) on its Canadian dollar unsecured demand notes payable. This interest rate is typically below the interest rate the Company pays on its primary revolving credit facility, agented by The Bank of Nova Scotia ("BNS") resulting in interest savings to the Company.

Upon renewal of the BNS facility in July 2022 the Company renewed certain unsecured three-year term notes payable which had matured on July 31, 2022 for a further three-year term, expiring on July 31, 2025. These term notes, which pay a 7.25% rate of interest, are solely with related parties. The renewed revolving credit facility allows these notes to be treated as "quasi equity" and be included in the Company's tangible net worth (TNW) for the purposes of leveraging its bank line (up to 4.0 x TNW). This created additional borrowing capacity for the Company.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recorded at amortized cost, with the exception of derivative financial instruments, and the guarantee of managed receivables which are all recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our equipment and small business finance operations, term loan payable and lease liabilities, are short term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2022 and 2021, there were no outstanding foreign exchange contracts entered into by the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

i) the allowance for expected credit losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for expected credit losses on each of the above items at amounts which, in management's judgment, are sufficient to cover credit 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 (“FLI”). The key inputs in the measurement of ECL allowances for each loan 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. These key inputs associated with each loan are sensitized to future market and macro-economic conditions through the incorporation of FLI. 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, or may result from severe adverse economic conditions as we have and are seeing as a result of Covid-19.

The Company’s allowance for expected credit losses on its Loans and its guarantee of managed receivables are provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against accounts which have not experienced a significant increase in credit risk (“SICR”) and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve-month period after the reporting date. Stage 1 accounts are considered to be in good standing. The Company’s Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for expected credit losses when the Company judges that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net recoverable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for expected credit losses.

Management believes that its allowances for expected credit losses, which require a high degree of reasonable and supportable credit judgment, 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(d), 5 and 23(a) to the Statements.

(ii) Goodwill is tested for impairment annually or more frequently if impairment indicators arise. To determine if goodwill is impaired, the Company estimates the fair value (being the recoverable amount) of each of its CGUs and compares this to the carrying value of the CGU. In the Company’s case the estimated fair value of each CGU is determined to be a multiple of the expected earnings of the CGU, where expected earnings are an estimate of future years’ earnings. This provides a similar result to extrapolating and discounting budgeted earnings for the CGUs. The estimated fair value of each CGU is then compared to the carrying value of the CGU, including goodwill, to determine if the goodwill is impaired. The most sensitive assumptions used in the impairment testing is the multiple applied to the expected earnings of

each CGU in determining the fair value thereof, as well as the expected earnings estimates themselves.

Control Environment

There have been no changes to the Company's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") during 2022 that have materially affected, or are reasonably likely to materially affect, DC&P or 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.

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2022 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

The following report is provided by the Company's management, including its President and Chief Financial Officer, in respect of the Company's internal control over financial reporting (as defined in the rules of the CSA):

(i) the Company's management is responsible for establishing and maintaining adequate internal control over financial reporting within the Company. All 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;

(ii) the Company's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the design of the Company's internal control over financial reporting and test its effectiveness; and

(iii) The Company's management has designed and tested the effectiveness of its internal control over financial reporting as at December 31, 2022 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS and advises that there are no material weaknesses in the design of internal control over financial reporting that have been identified by management.

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 24 to the Statements, which discuss the Company's principal financial risk management practices.

Deterioration in economic and business uncertainties

The Company's operating results may be negatively affected by various economic factors and business

conditions, including the level of economic activity in Canada and the United States, in the markets in which it operates. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. Negative conditions and/or significant events can include the effects of public health emergencies including pandemics, geo-political or military conflicts, sanctions and other trade disruptions, and unexpected changes in inflation and borrowing costs. As the Company extends credit primarily to small- and medium-sized businesses, many of its customers are particularly susceptible to economic slowdowns or recessions and may be unable to make scheduled lease or loan payments during these periods. Unfavorable economic conditions may also make it more difficult for the Company to maintain new origination volumes and the credit quality of new loans at levels previously attained. Unfavorable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities and other capital markets funding sources or result in a decision by the Company's lenders not to extend further credit. Any of these events could have a material adverse impact on the Company's business, financial condition and results of operations.

Competition from alternative sources of financing

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects this level of competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current or future competitors. If the Company's competitors engage in aggressive pricing policies with respect to services that compete with those of the Company's, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, some of the Company's competitors may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share. Further, because there are fewer barriers to entry to the markets in which the Company operates, new competitors could enter these markets at any time. Because of all these competitive factors, the Company may be unable to sustain its operations at its current levels or generate growth in revenues or operating income, either of which could have a material adverse impact on the Company's business, financial condition and results of operations.

Credit risk, inability to underwrite finance receivables and loan applications

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financings, designed to serve small- and medium-sized businesses, which are often owner-operated and have limited access to traditional financing. There is a high degree of risk associated with providing financing to such parties as a result of their lower creditworthiness. Even with an appropriately diversified lending business, operating results can be adversely affected by large bankruptcies and/or insolvencies. Losses from client loans in excess of the Company's expectations could have a material adverse impact on the Company's business, financial condition and results of operations. In addition, since defaulted loans as well as certain delinquent loans cannot be used as collateral under the Company's credit facilities, higher than anticipated defaults and delinquencies could adversely affect the Company's liquidity by reducing the amount of funding available to the Company under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could cause the Company to be in breach of its financial covenants under its credit facilities and could also result in adverse changes to the terms of future financing arrangements available to the Company, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Interest rate risk

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

Foreign currency risk

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

External financing

The Company depends and will continue to depend on the availability of credit from external financing sources, to continue to, among other things, finance new and refinance existing loans and satisfy the Company's other working capital needs. The Company believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet its cash requirements with respect to investments in working capital, operating expenditures and dividend payments, and also provide sufficient liquidity and capital resources for future growth over the next twelve months. However, there is no guarantee that the Company will continue to have financing available to it or if the Company were to require additional financing that it would be able to obtain it on acceptable terms or at all. If any or all of the Company's funding sources become unavailable on terms acceptable to the Company or at all, or if any of the Company's credit facilities are not renewed or re-negotiated upon expiration of their terms, the Company may not have access to the financing necessary to conduct its businesses, which would limit the Company's ability to finance its operations and could have a material adverse impact on it's business, financial condition and results of operations. Please also see comments regarding business conditions on page 23.

Dependence on key personnel

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

Income tax matters

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

Recent and future acquisitions and investments

In recent years, the Company has acquired or invested in businesses and may seek to acquire or invest in additional businesses in the future that expand or

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

Fraud by borrowers, lessees, vendors or brokers

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

Technology and cyber security

The Company remains focused on the confidentiality, integrity and availability of the information and cyber security controls that protect its network, data and infrastructure. The cyber security risk landscape includes numerous cyber threats such as hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated, complex, and potentially damaging. Third party service providers that the Company uses may also be subject to these risks which can increase our risk of potential attack. The Company establishes the requirements and sets out the overall framework for managing cyber and information security related risks. These include developing and implementing the appropriate activities to detect, respond to and contain the impact of cyber security threats, along with implementing the appropriate safeguards to ensure the delivery of critical infrastructure services.

The Company is continuously improving the strength of its practices and capabilities. It works closely with our critical cyber security and software suppliers to ensure that its technology capabilities remain cyber resilient and effective in the event of any unforeseen cyber attack. The Company has not experienced any material cyber security breaches and has not incurred any material expenses with respect to the remediation of such cyber events. Security risks continue to be actively monitored and reviewed, leveraging the expertise of the Company's service providers and vendors, reviewing industry best practices and regularly re-assessing controls in place to

acknowledge, address and mitigate the risks identified. The Company's maintains a cyber security insurance policy to provide coverage in the event of cyber security incidents.

Data management and privacy risk

Data management and its governance are becoming increasingly important as the Company continues to invest in digital solutions and innovation and the ongoing expansion of business activities. Furthermore, there are regulatory compliance risks associated with data management and privacy. The Company establishes the requirements and sets out the overall framework for data management and managing privacy related risks.

Risk of future legal proceedings

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

OUTLOOK

The economic environment is beginning to provide the ingredients for increasing growth and earnings for Accord Financial. While 2022 presented significant headwinds for growth in several of our operating companies, continuing stress in the business sector is likely to drive more companies to non-bank lenders, providing Accord opportunities to refill the new business pipeline. This is consistent with previous business cycles when commercial banks tighten lending standards in response to economic uncertainty.

Inflation and rising interest rates have created headwinds for small- and medium-sized businesses and Accord's operating companies are facing related challenges, including a generally conservative approach by many of our clients (and prospective clients) to incurring incremental debt to buy equipment, expand operations, or make acquisitions. In keeping with this backdrop Accord continues to maintain a conservative approach to adding new business. The Company's funds employed declined to $453 million at December 31, 2022, with modest declines experienced at AFCC, AFIU and AEF; AFIC and BondIt held relatively steady.

AFCC, the Company's Canadian small business finance division, experienced a decline in originations primarily due to the end of a pandemic-era small business loan program ("AccordExpress"), developed in partnership with Export Development Canada ("EDC"). AFCC continues to work with EDC to develop new AccordExpress products and expects growth to resume in mid-2023 as a result of this and other new product initiatives. BondIt Media Capital faced a more competitive landscape in 2022 as it adjusted pricing in the face of higher interest rates, which could create pressure on growth and profit margins in the coming year.

The economic conditions for the Company's two ABL/factoring units, AFIC and AFIU, are becoming more conducive to growth. Notably, rapid inflation, supply

chain problems, and rising interest rates tend to make banks more conservative in their lending, which provides opportunities for Accord as our lending expertise, and reliance on strong collateral, allows us to finance companies that may no longer meet the banks' criteria. As the new business pipelines in these two divisions builds, we anticipate growth in funds employed, with revenue and earnings to follow.

More moderate growth is expected to come from AEF, the Company's U.S. equipment finance division. For the middle market companies AEF typically finances, ramping up investment in equipment is most comfortable when the economic forecast is more certain. For now, the economic environment continues to shift, though 2023 could see a turning point in market sentiment. Supporting modest growth, AEF continues to see deal flow from its capital markets desk and is developing several promising new channel partnerships.

AFL continues to generate steady revenue providing non-lending services to its network of reliable foreign banks seeking credit guarantees for shipments to North American buyers. In recent years, AFL's contribution has not been financially significant to the Accord group overall.

As reported in our financial statements, the challenging economic environment is likely to weaken the payment performance of some of the Company's existing clients, in particular in the small business portfolio. While this quarter's allowance for expected loan losses fully reflects our expert credit judgement and third-party economic forecasts, it is possible that the economy underperforms expectations. And finally, in the current environment, the Company is favoring financially stronger clients, which has the effect of lowering average yields.

Overall, the Company anticipates a return to growth of funds employed in 2023 and beyond, and while there are economic challenges to navigate, revenue and earnings growth is expected to follow as the portfolio grows. To support the anticipated growth in funds employed, in July 2022 the Company increased its primary bank facility to $437 million and extended the maturity date to July 2025, which should provide adequate growth capital for the Company in 2023 and beyond. The Company also maintains non-bank loan facilities for BondIt (US$47 million) and AFCC ($44 million) as noted above.

The Company is evaluating a range of options to increase available capital from both private and public capital providers, as the Company plans for future growth and its convertible debentures reach maturity in 2023. This is consistent with other similar companies, whereby funds are raised publicly, privately, through forward-flow and/or asset management structures, or a combination of these and other strategies.

With its substantial capital and borrowing capacity, Accord is positioned to capitalize on market conditions as they evolve. For more than four decades the Company has successfully navigated through multiple economic cycles, giving us valuable perspective as the current environment unfolds. The Company also knows from experience that economic uncertainty creates growth opportunities, as capital providers become more selective, some competitors weaken, and the major banks become even more risk averse.

Irene Eddy
Senior Vice President, Chief Financial Officer
March 22, 2023

Appendix to MD&A: Non-IFRS Measures and Ratios

($000s, except percentages, earnings per share and book value per share)

Fiscal Year Non-IFRS Calculations

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Return on Equity					
Net earnings attributable to common shareholders	**1,427**	11,887	417	6,444	10,356
Weighted average shareholders' equity (note)	**101,981**	94,432	90,339	91,358	80,723
Return on equity	**1.4%**	12.6%	0.5%	7.1%	12.8%

Note: weighted average shareholders' equity is the average shareholder's equity calculated for each month of the fiscal year, then totalled up and divided by 12

	2022	2021	2020	2019	2018
Adjusted net earnings					
Net earnings attributable to shareholders	**1,427**	11,887	417	6,444	10,356
Adjustments, net of tax:					
Stock-based compensation expense	**174**	88	—	(124)	233
Restructuring expenses	**397**	920	1,395	—	—
Business acquisition expenses (recovery)	**81**	173	220	(1,381)	251
Adjusted net earnings attributable to shareholders	**2,079**	13,068	2,032	4,939	10,840

	2022	2021	2020	2019	2018
Adjusted earnings per share					
Adjusted net earnings	**2,079**	13,068	2,032	4,939	10,840
Weighted average number of common shares outstanding in the year	**8,559**	8,559	8,563	8,467	8,329
Adjusted earnings per share	**0.24**	1.53	0.24	0.58	1.30

	2022	2021	2020	2019	2018
Adjusted return on equity					
Adjusted net earnings	**2,079**	13,068	2,032	4,939	10,840
Weighted average shareholders' equity	**101,981**	94,432	90,339	91,358	80,723
Adjusted return on equity	**2.04%**	13.8%	2.2%	5.4%	13.4%

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Book value per share					
Shareholders' equity	**100,972**	99,967	89,850	92,515	89,818
Common shares outstanding	**8,559**	8,559	8,559	8,589	8,429
Book value per share	**11.80**	11.68	10.50	10.77	10.66

	2022	2021	2020	2019	2018
Average funds employed (note)					
Fiscal year	**449,830**	402,015	347,493	378,243	270,900
Quarter 1	**457,395**	358,091	362,300	346,834	228,778
Quarter 2	**454,011**	375,593	340,740	387,875	254,765
Quarter 3	**444,603**	414,199	326,854	383,480	283,216
Quarter 4	**443,310**	460,179	360,078	394,783	316,842

Note: average funds employed is average finance receivable and loans calculated for each month of the year or quarter and divided by the number of months in the period.

	2022	2021	2020	2019	2018
Return on average assets					
Net earnings attributable to shareholders	**1,427**	11,887	417	6,444	10,356
Average assets (note)	**492,386**	431,523	383,908	408,708	298,492
Return on average assets	**0.3%**	2.8%	0.1%	1.6%	3.5%

Note: average assets is calculated as the average of the opening and closing assets for the fiscal year as taken from the Company's Consolidated Balance Sheets.

	2022	2021	2020	2019	2018
Net revenue / average assets					
Net revenue (note)	**43,404**	47,594	33,906	39,086	37,520
Average assets	**492,386**	431,523	383,908	408,708	298,492
Net revenue / average assets	**8.8%**	11.0%	8.8%	9.6%	12.6%

Note: net revenue is revenue less interest expense as taken from the Company's Statements of Earnings for the year.

	2022	2021	2020	2019	2018
Operating expenses / average assets					
Operating expenses	**30,301**	32,151	27,226	26,878	23,803
Average assets	**492,386**	431,523	383,908	408,708	298,492
Operating expenses / average assets	**6.2%**	7.5%	7.1%	6.6%	8.0%

Note: operating expenses is the total of general & administrative expenses and depreciation as taken from the Company's Statement of Earnings for the year.

	2022	2021	2020	2019	2018
Operating expenses / revenue					
Operating expenses	**30,301**	32,151	27,226	26,878	23,803
Revenue	**67,491**	63,480	48,501	56,175	46,927
Operating expenses / revenue	**44.9%**	50.6%	56.1%	47.8%	50.7%

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Equity / assets					
Total equity	**106,612**	103,960	93,759	96,368	95,185
Assets	**491,761**	520,109	384,913	406,214	373,783
Equity / assets	**0.22%**	20%	24%	24%	25%

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Tangible equity					
Equity	**106,612**	103,960	93,759	96,368	95,185
Less: Intangible assets	**3,201**	3,113	3,278	3,639	4,116
Less: goodwill	**12,075**	13,140	13,219	13,455	14,031
Less: deferred tax assets	**6,265**	3,416	2,002	976	1,208
Add: deferred tax liabilities	**141**	277	603	2,251	515
Tangible equity	**85,213**	84,567	75,863	80,549	76,345

	2022	2021	2020	2019	2018
Tangible equity / assets					
Assets	**491,761**	520,109	384,913	406,214	373,783
Tangible equity	**85,213**	84,567	75,863	80,549	76,345
Tangible equity / assets	**17%**	16%	20%	20%	20%

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Debt / equity					
Debt (note)	**366,562**	396,964	273,260	295,875	262,591
Equity	**106,612**	103,960	93,759	96,368	95,185
Debt / equity	**3.44x**	3.82x	2.91x	3.07x	2.76x

Note: debt comprises the total of bank indebtedness, loans payable, convertible debentures and notes payable as taken from the Company's Consolidated Balance Sheets.

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Reserves					
Allowance for expected losses on loans	**8,189**	5,251	5,853	4,520	3,450
Allowance for expected losses on managed receivables	**31**	31	555	44	74
Reserves	**8,220**	5,282	6,408	4,564	3,524

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Portfolio					
Finance receivables and loans	**452,678**	478,150	360,337	373,157	339,102
Managed receivables (note)	**5,309**	11,441	18,523	27,338	40,145
Portfolio	**457,987**	489,591	378,860	400,495	379,247

Note: managed receivables represent those off-balance sheet receivables on which the Company has assumed the credit risk and/or collection responsibilities (see note 5(b) to the Statements).

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Reserves / portfolio					
Reserves	**8,220**	5,282	6,408	4,564	3,524
Portfolio	**457,987**	489,591	378,860	400,495	379,247
Reserves / portfolio	**1.8%**	1.1%	1.7%	1.1%	0.9%

	2022	2021	2020	2019	2018
Net write-offs & impairment of assets held for sale					
Net write-offs (note)	**5,355**	938	6,872	5,952	818
Impairment of assets held for sale ("impairment charges")	**148**	1,253	1,890	—	25
Net write-offs and impairment charges	**5,503**	2,191	8,762	5,952	843

Note: net write-offs are write-offs less recoveries of finance receivables and loans and the guarantee of managed receivables.

	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Reserves / net write-offs and impairment charges					
Reserves	**8,220**	5,282	6,408	4,564	3,524
Net write-offs and impairment charges	**5,503**	2,191	8,762	5,952	843
Reserves / net write-offs and impairment charges	**149%**	241%	73%	77%	418%

	2022	2021	2020	2019	2018
Net write-offs and impairment charges / revenue					
Net write-offs and impairment charges	**5,503**	2,191	8,762	5,952	843
Revenue	**67,491**	63,480	48,501	56,175	46,927
Net write-offs and impairment charges / revenue	**8.2%**	3.5%	18.1%	10.6%	1.8%

Quarterly Non-IFRS Calculations

Quarters ending	**Dec. 31, 2022**	**Sept. 30, 2022**	**June 30, 2022**	**Mar. 31, 2022**	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	Mar. 31, 2021
Adjusted net earnings								
Net earnings (loss) attributable to shareholders	**(3,664)**	**1,831**	**122**	**3,138**	3,573	2,643	3,085	2,585
Adjustments, net of tax:								
Stock-based compensation expense	**47**	**73**	**28**	**26**	75	13	—	—
Restructuring expenses	**387**	**—**	**—**	**10**	735	138	—	47
Business acquisition expenses	**17**	**22**	**21**	**21**	40	6	76	51
Adjusted net (loss) earnings attributable to shareholders	**(3,213)**	**1,926**	**171**	**3,195**	4,423	2,800	3,161	2,683

Quarters ending	**Dec. 31, 2022**	**Sept. 30, 2022**	**June 30, 2022**	**Mar. 31, 2022**	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	Mar. 31, 2021
Adjusted earnings per share								
Adjusted net (loss) earnings	**(3,213)**	**1,926**	**171**	**3,195**	4,423	2,800	3,161	2,683
Weighted average number of common shares outstanding in the quarter	**8,559**	**8,559**	**8,559**	**8,559**	8,559	8,559	8,559	8,559
Adjusted (loss) earnings per share	**(0.37)**	**0.22**	**0.02**	**0.37**	0.52	0.33	0.37	0.31

Ten Year Financial Summary 2013-2022

All figures are in thousands of dollars except earnings per common share, dividends per common share, book value per share, share price history and return on average equity.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Revenue	$ 26,074	30,235	31,577	28,523	31,409	46,927	56,175	48,501	63,481	**67,491**
Interest	1,913	2,523	2,258	2,281	3,847	9,407	17,089	14,596	15,887	**24,087**
General and administrative	13,845	16,154	17,484	17,427	16,945	23,524	26,151	26,458	31,456	**29,599**
Provision for credit and loan losses	438	639	374	964	2,898	2,025	7,105	9,403	(614)	**8,293**
Impairment of goodwill	—	—	—	—	—	—	—	—	—	**1,883**
Impairment of assets held for sale	—	—	51	44	24	25	—	1,087	873	**148**
Depreciation	112	125	136	154	161	279	727	721	695	**702**
Business acquisition expenses	—	570	575	510	932	336	(1,818)	298	235	**132**
Total expenses	16,308	20,011	20,878	21,379	24,807	35,596	49,254	52,563	48,532	**64,844**
Earnings (loss) before income tax	9,766	10,224	10,699	7,144	6,602	11,331	6,921	(4,062)	14,949	**2,646**
Income tax expense (recovery)	3,228	3,345	1,940	578	391	104	1,579	(4,670)	1,727	**1,001**
Net earnings	6,538	6,879	8,759	6,566	6,211	11,227	5,342	608	13,222	**1,645**
Non-controlling interests	—	—	—	—	201	871	(1,102)	191	1,355	**218**
Net earnings attributable to shareholders	$ 6,538	6,879	8,759	6,566	6,010	10,356	6,444	417	11,887	**1,427**
Earnings per common share: Basic and diluted	0.80	0.83	1.05	0.79	0.72	1.24	0.76	0.05	1.39	**0.17**
Dividends per common share	$ 0.32	0.33	0.35	0.36	0.36	0.36	0.36	0.24	0.20	**0.30**
Finance receivables and loans, net	$ 109,775	136,346	134,259	138,115	217,975	335,652	368,637	354,023	472,899	**444,458**
Other assets	11,034	18,278	20,301	20,450	33,045	38,131	37,577	30,890	47,210	**47,303**
Total assets	$ 120,809	154,624	154,560	158,566	251,020	373,783	406,214	384,913	520,109	**491,761**
Bank indebtedness	$ 43,368	63,995	54,094	62,483	138,140	222,862	242,781	210,940	207,382	**214,055**
Loans payable	—	—	—	—	—	5,696	11,227	21,376	149,437	**109,039**
Notes payable	14,809	16,808	13,201	11,370	15,862	18,079	18,939	17,434	15,992	**18,605**
Convertible debentures	—	—	—	—	—	15,955	22,928	23,510	24,153	**24,864**
Other liabilities	9,201	12,489	14,199	9,031	16,885	16,006	13,971	17,894	19,185	**18,587**
Total liabilities	67,378	93,292	81,494	82,884	170,887	278,598	309,846	291,154	416,149	**385,149**
Shareholders' equity	53,431	61,332	73,066	75,682	76,449	89,818	92,515	89,850	99,967	**100,972**
Non-controlling interests in subsidiaries	—	—	—	—	3,684	5,367	3,853	3,909	3,992	**5,640**
Total equity	53,431	61,332	73,066	75,682	80,133	95,185	96,368	93,759	103,960	**106,612**
Total liabilities and equity	$ 120,809	154,624	154,560	158,566	251,020	373,783	406,214	384,913	520,109	**491,761**
Shares outstanding at Dec. 31	# 8,221	8,308	8,308	8,308	8,308	8,429	8,589	8,559	8,559	**8,559**
Share price - high	$ 9.25	10.75	12.05	9.95	9.55	10.45	10.42	10.15	9.20	**9.50**
- low	6.84	7.85	9.00	8.70	8.40	8.22	8.37	3.51	6.23	**7.50**
- close at Dec. 31	7.86	9.35	9.60	8.99	9.20	9.09	10.07	6.70	8.40	**7.70**

Management's Report to the Shareholders

The management of Accord Financial Corp. is responsible for the preparation, fair presentation and integrity of the audited consolidated financial statements, financial information and MD&A contained in this annual report. This responsibility includes the selection of the Company's accounting policies in addition to judgments and estimates in accordance with International Financial Reporting Standards (IFRS). The accounting principles which form the basis of the consolidated financial statements and the more significant policies applied are described in note 3 to the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of the CSA's National Instrument 51-102.

In order to meet its responsibility for the reliability and timeliness of financial information, management maintains systems of accounting and administrative controls that assure, on a reasonable basis, the reliability of financial information and the orderly and efficient conduct of the Company's business. A report on the design and effectiveness of the Company's disclosure controls and procedures and the design and operating effectiveness of it internal control over financial reporting is set out in the MD&A as required by CSA's National Instrument 52-109.

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through its Audit Committee, which is composed of three independent directors. The Committee meets at least quarterly with management and periodically with the Company's auditors to satisfy itself that management's responsibilities are properly discharged, to review the Company's financial reports, including consolidated financial statements and MD&A, and to recommend approval of the consolidated financial statements and MD&A to the Board.

KPMG LLP, independent auditors appointed by the shareholders, expresses an opinion on the fair presentation of the consolidated financial statements. They have full and unrestricted access to the Audit Committee and management to discuss matters arising from their audit, which includes a review of the Company's accounting records and consideration of its internal controls.

Irene Eddy
Chief Financial Officer
March 22, 2023
Toronto, Canada

Independent Auditor's Report to the Shareholders

TO THE SHAREHOLDERS OF ACCORD FINANCIAL CORP.

OPINION

We have audited the consolidated financial statements of Accord Financial Corp. (the Entity), which comprise:

- *the consolidated statements of financial position as at December 31, 2022 and December 31, 2021*
- *the consolidated statements of earnings for the years then ended*
- *the consolidated statements of comprehensive income for the years then ended*
- *the consolidated statements of changes in equity for the years then ended*
- *the consolidated statements of cash flows for the years then ended*
- *and notes to the consolidated financial statements, including a summary of significant accounting policies*

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

ASSESSMENT OF ALLOWANCE FOR LOSSES

Description of the matter

We draw attention to Notes 2, 3(d), 5, and 24(a) of the financial statements. The Entity has recorded an allowance against its finance receivables and loans and its guarantee of managed receivables for an amount of $8,219,873 (finance receivables and loans $8,188,873, and managed receivables $31,000).

The Entity maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, expected credit losses ("ECL") framework. The key inputs in the measurement of ECL allowances are the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD") associated with each loan, sensitized to future market and macroeconomic conditions through the incorporation of forward-looking information ("FLI"). The Entity's ECL allowances are measured at amounts equal to either:

(i) an allowance for financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition, which represents an allowance for expected credit losses that result from default events that are possible within 12 months; or

(ii) an allowance for financial instruments which have experienced a SICR since initial recognition, which represents a lifetime ECL.

In addition, for those financial instruments that the Entity has classified as impaired, these are written down to its estimated net realizable value ("NRV"), or for managed receivables, expected payment under its guarantee.

Significant assumptions and sources of estimation uncertainty in determining the allowance for credit losses include:

- High degree of measurement uncertainty in the key inputs (PD, LGD, EAD) and judgments (SICR), and their resulting impact on the allowance; and

- Selecting relevant forward-looking information.

Significant assumptions and sources of estimation uncertainty in determining the valuation for impaired loans include:

- High degree of measurement uncertainty in key inputs in the valuation of NRV.

WHY THE MATTER IS A KEY AUDIT MATTER

We identified the assessment of allowance for losses as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the impact of the provision on net earnings and the related high degree of estimation uncertainty in determining the amounts recorded. Significant auditor judgment was required due to the high degree of measurement uncertainty in the key inputs (PD, LGD, EAD) and judgments (SICR) and their resulting impact on the allowance. Assessing the allowance also required significant auditor attention and complex auditor judgment to evaluate the results of our audit procedures. Further, specialized skills and knowledge, including experience in the industry, were required to apply audit procedures and evaluate the results of such procedures.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness, of certain internal controls over the Entity's process for calculating the allowance, as follows:

- the qualitative and quantitative factors used to identify whether there has been SICR;

- management's review of the ECL which includes their review of forward-looking information and the application of expert credit judgment; and

- management's control to determine the NRV for impaired loans.

We involved credit risk professionals with specialized skills and industry knowledge who assisted in assessing:

- the PD and LGD by comparing to industry data; and

- the appropriateness of FLI applied by comparing to external macroeconomic data.

For a selection of impaired loans, we evaluated the appropriateness of the value ascribed to the underlying collateral used by management to determine the ultimate NRV.

EVALUATION OF THE IMPAIRMENT ASSESSMENT FOR GOODWILL

Description of the matter

We draw attention to notes 3(f) and 9 to the financial statements. The Entity has goodwill of $12,074,869 recorded in its consolidated statement of financial position. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit ("CGU"). The estimated fair value of each CGU is determined to be a multiple of the expected earnings of the CGU, where expected earnings are an estimate of future years' earnings. The most sensitive assumption used in the impairment testing was the multiple applied to the expected earnings of each CGU in determining the fair value.

Why the matter is a key audit matter

We identified the evaluation of the impairment assessment of goodwill as a key audit matter. This matter represented an area of significant risk of misstatement given the high degree of subjectivity in determining the fair value. Minor changes to the multiple applied to the expected earnings had a significant effect on the estimated fair value. As a result, significant auditor judgment requiring specialized skills and knowledge was required in evaluating the results of our procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the key inputs used to develop the recoverable amount of the CGU, including the following:

- compared the Entity's prior year expected earnings to actual results to assess the Entity's budgeting process; and

- compared expected earnings to past performance, and performed stress analysis over the assumptions made in arriving at the future expected earnings.

We involved valuations professionals with specialized skills and knowledge to assist in evaluating the appropriateness of the multiple applied to develop the fair value of the CGU. They compared the multiple applied to the expected earnings against an implied multiple that was independently developed using publicly available information for comparable entities.

OTHER INFORMATION

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor’s report is Paula Foster.

Toronto, Canada
March 22, 2023

Consolidated Statements of Financial Position

	December 31, 2022	December 31, 2021
Assets		
Cash	$ 11,630,331	$ 13,839,291
Restricted cash (note 4)	6,624,848	10,309,097
Finance receivables and loans, net (note 5)	444,457,886	472,898,716
Income taxes receivable	597,031	104,860
Other assets (note 6)	5,056,561	1,853,864
Assets held for sale (note 7)	107,750	160,274
Deferred tax assets, net (note 17)	6,264,534	3,415,590
Property and equipment (note 8)	1,746,160	1,273,381
Intangible assets (note 10)	3,201,260	3,113,196
Goodwill (note 9)	12,074,869	13,140,447
	$ 491,761,230	$ 520,108,716
Liabilities		
Due to clients	$ 1,827,151	$ 3,287,532
Bank indebtedness (note 11)	214,054,518	207,382,279
Loans payable (note 12)	109,038,957	149,436,971
Accounts payable and other liabilities	11,223,791	11,863,049
Income taxes payable	2,615,829	2,285,055
Notes payable (note 13(a))	18,605,161	15,992,357
Convertible debentures (note 14)	24,863,761	24,152,681
Lease liabilities (note 15)	1,496,491	979,416
Deferred income	1,282,260	493,007
Deferred tax liabilities, net (note 17)	141,171	276,720
	385,149,090	416,149,067
Equity		
Capital stock (note 16)	9,448,264	9,448,264
Contributed surplus (note 16(c))	1,705,205	1,088,263
Retained earnings	82,158,850	83,299,791
Accumulated other comprehensive income (note 20)	7,659,438	6,131,180
Shareholders' equity	100,971,757	99,967,498
Non-controlling interests in subsidiaries (note 21)	5,640,383	3,992,151
Total equity	106,612,140	103,959,649
	$ 491,761,230	$ 520,108,716

Contingent liabilities (note 19)

See accompanying notes to consolidated financial statements.

On behalf of the Board

David Beutel
Chairman of the Board

Simon Hitzig
President and Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2022	2021
Revenue		
Interest (note 5)	$ 60,212,488	$ 51,897,688
Other income (note 5)	7,278,186	11,582,754
	67,490,674	63,480,442
Operating expenses		
Interest	24,087,047	15,886,687
General and administrative	29,599,303	31,455,505
Provision for (recovery of) credit and loan losses (note 5)	8,292,656	(614,359)
Impairment of goodwill (note 9)	1,882,507	—
Impairment of assets held for sale (note 7)	148,481	872,948
Depreciation	702,088	695,385
Business acquisition expenses:		
Transaction costs	—	93,958
Amortization of intangible assets	132,386	140,955
	64,844,468	48,531,079
Earnings before income tax	2,646,206	14,949,363
Income tax expense (note 17)	1,001,318	1,727,000
Net earnings	1,644,888	13,222,363
Net earnings attributable to non-controlling interests in subsidiaries	218,014	1,335,448
Net earnings attributable to shareholders	$ 1,426,874	$ 11,886,915
Basic and diluted earnings per common share (note 18)	$ 0.17	$ 1.39

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2022	2021
Net earnings attributable to shareholders	$ 1,426,874	$ 11,886,915
Other comprehensive income:		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	1,528,258	55,515
Comprehensive income	$ 2,955,132	$ 11,942,430

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 21)	Total equity
Balance at January 1, 2021	8,558,913	$ 9,448,264	$ 1,201,785	$ 73,124,659	$ 6,075,665	$ 3,908,751	$ 93,759,124
Comprehensive income	—	—	—	11,886,915	55,515	—	11,942,430
Dividends paid (note 16(d))	—	—	—	(1,711,783)	—	—	(1,711,783)
Stock-based compensation expense related to stock option grants (note 16(e))	—	—	87,884	—	—	—	87,884
Distribution to non-controlling interests	—	—	—	—	—	(58,518)	(58,518)
Purchase of additional 10% of Bondlt from non-controlling interests (note 21)	—	—	(201,406)	—	—	(1,167,825)	(1,369,231)
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	1,335,448	1,335,448
Translation adjustments on non-controlling interests	—	—	—	—	—	(25,705)	(25,705)
Balance at December 31, 2021	**8,558,913**	**$ 9,448,264**	**$ 1,088,263**	**$83,299,791**	**$ 6,131,180**	**$ 3,992,151**	**$103,959,649**
Comprehensive income	—	—	—	**1,426,874**	**1,528,258**	—	**2,955,132**
Dividends paid (note 16(d))	—	—	—	**(2,567,815)**	—	—	**(2,567,815)**
Stock-based compensation expense related to stock option grants and DSUs (note 16(e))	—	—	**189,760**	—	—	—	**189,760**
Distribution to non-controlling interests	—	—	—	—	—	**(149,358)**	**(149,358)**
Purchase of additional 8% of Accord CapX LLC from non-controlling interests (note 21)	—	—	**(1,612,273)**	—	—	**1,075,200**	**(537,073)**
Increase of 1% in non-controlling interest on additional capital raised in Bondlt (note 21)	—	—	**2,039,455**	—	—	**130,270**	**2,169,725**
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	**218,014**	**218,014**
Translation adjustments on non-controlling interests	—	—	—	—	—	**374,106**	**374,106**
Balance at December 31, 2022	**8,558,913**	**$ 9,448,264**	**$ 1,705,205**	**$82,158,850**	**$ 7,659,438**	**$ 5,640,383**	**$106,612,140**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2022	2021
Cash provided by (used in):		
Operating activities		
Net earnings	$ 1,644,888	$ 13,222,363
Items not affecting cash:		
Provision for (recovery of) credit and loan losses (note 5)	8,292,656	(1,552,666)
Deferred income	(36,000)	(42,435)
Amortization of intangible assets (note 10)	132,386	140,955
Depreciation of property and equipment (note 8)	702,088	695,385
Loss on disposal of property and equipment	1,373	4,041
Gain on disposal of right to use assets	(8,121)	—
Impairment of goodwill (note 9)	1,882,507	—
Impairment of assets held for sale (note 7)	148,481	872,948
Accretion of convertible debentures (note 14)	711,080	643,108
Stock-based compensation expense related to stock option grants (note 16(e))	189,760	87,884
Deferred tax recovery (note 17)	(2,901,180)	(1,702,726)
Current income tax expense (note 17)	3,902,498	3,429,726
	14,662,416	15,798,583
Changes in operating assets and liabilities:		
Finance receivables and loans, gross (note 5)	36,480,914	(118,831,391)
Due to clients	(1,705,917)	373,103
Other assets	(3,164,381)	22,006
Accounts payable and other liabilities	(12,072,925)	1,354,700
Disposal of assets held for sale (note 7)	1,342,288	623,433
Income tax paid, net	(4,035,138)	(987,168)
	31,507,257	(101,646,734)
Investing activities		
Additions to property and equipment, net	(175,222)	(83,249)
Financing activities		
Bank indebtedness (note 11)	6,682,698	(2,412,331)
Loans payable (note 12)	(44,755,479)	127,827,900
Notes payable redeemed, net (13 (a))	2,364,825	(1,437,503)
Dividends paid (note 16(d))	(2,567,815)	(1,711,783)
Purchase of 10% of BondIt from non-controlling interests (note 21)	—	(1,369,231)
Increase of 1% non-controlling interest on additional capital raised by Bondlt (note 21)	2,169,725	—
Purchase of 8% of Accord CapX LLC from a non-controlling interest	(537,073)	—
Lease liabilities paid (note 15)	(479,287)	(464,013)
Distribution paid to non-controlling interests in subsidiaries	(149,358)	(58,518)
	(37,271,764)	120,374,521
Effect of exchange rate changes on cash	46,520	(42,101)
Increase (decrease) in cash	(5,893,209)	18,602,437
Cash and restricted cash at January 1	24,148,388	5,545,951
Cash and restricted cash at December 31	$ 18,255,179	$ 24,148,388
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 22,884,116	$ 10,246,819

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2022 and 2021

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 financing, including factoring, working capital, equipment and inventory financing, leasing, media financing, 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 consolidated financial statements are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of the 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 expected credit losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(d) and 5), the carrying value of assets held for sale (note 7), the determination of goodwill on acquisition and the value of intangible assets (notes 9 and 10), as well as the net realizable value of deferred tax assets and liabilities (note 17).

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as Covid-19. The rapid evolution of this pandemic combined with the restrictions on the movement of people and goods led to a significant contraction in economic activity. While Covid-19 is no longer considered a pandemic, several follow-on effects have emerged, including supply chain disruptions, high inflation, and rapidly increasing interest rates. As a result, significant economic uncertainty still persists, the expected impact of which requires increased judgment for many of the Company's estimates and assumptions and carry a higher degree of measurement uncertainty, variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future. Examples of significant estimates include the allowances for expected credit losses, the determination of triggering events for the impairment of non-financial assets, such as goodwill and intangible assets, and fair value measurements, including those related to financial instruments. Management believes that its estimates are reasonable, supportable and appropriate.

The audited consolidated financial statements of the Company have been prepared on a historical cost basis except for the following items which are recorded at fair value:

- Stock option grants (a component of contributed surplus); and
- Guarantee of managed receivables (a component of accounts payable and other liabilities).

These consolidated financial statements were approved for issue by the Company's Board of Directors ("Board") on March 22, 2023.

3. Significant accounting policies

(a) 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 Accord Financial Canada Corp. ("AFCC") (formerly known as Varion Capital Corp.) 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.

(b) Revenue recognition

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

(c) Finance receivables and loans

The Company finances its clients principally by providing asset-based loans, including factoring receivables and financing equipment leases, as well as providing guarantee backed working capital loans. Finance receivables and loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Finance receivables and loans are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method. The Company's finance receivables and

loans are financial assets that are measured at amortized cost as the following conditions are met:

i) the asset is held within a business model whose objective is to hold assets 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.

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.

(d) Allowances for expected credit losses

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

The Company's allowances for ECL are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve-month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company has established quantitative as well as qualitative criteria to determine SICR. The Company recognizes lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1.

The calculation of ECL is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls. 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. These key inputs associated with each loan are sensitized to future market and macroeconomic conditions through the incorporation of FLI. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. For Stage 3 finance receivables and loans, either an allowance for ECL is provided thereon or, where the Company intends to or has actively taken possession of its collateral with a view to realizing on same as a means of recovering some or all of the outstanding account balance, the financial instrument is written down to its estimated net recoverable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment to client(s) under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied.

Financial instruments are written-off, either partially or in full, against the related allowance for expected credit losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for expected credit losses.

(e) Property and equipment

Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets using the following bases and annual rates:

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Automobiles	Declining balance	30%
Leasehold improvements	Straight line	Over remaining lease term
Right-of-use assets	Straight line	Over lease term

Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in income or expense. The Company reviews property and equipment on a regular basis to determine that its carrying value has not been impaired.

(f) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit ("CGU"). Goodwill is also tested for impairment between annual assessments when facts and other circumstances indicate that impairment may have occurred. If the carrying value of the goodwill exceeds its recoverable amount, the

excess is charged against earnings in the year in which the impairment is determined.

(g) Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing and small business finance operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

(h) Income taxes

The Company follows the balance sheet liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized based on temporary differences between the tax and accounting bases of assets and liabilities, as well as losses available to be carried forward to future years for income tax purposes.

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized through the statement of earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting dates, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, as well as the available losses carried forward to future years for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized in respect of taxes payable in the future based on taxable temporary differences.

Income taxes receivable and payable, and deferred tax assets and liabilities, are offset if there is a legally enforceable right of set off, they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

(i) 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 and presented in the accumulated other comprehensive income component of equity.

(j) Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at each reporting date. Any non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses are translated into Canadian dollars at the prevailing average monthly exchange rate. Translation gains and losses are credited or charged to earnings.

(k) Earning per common share

The Company presents basic and diluted earnings per share ("EPS") for its common shares. Basic EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net earnings attributable to common shareholders by the diluted weighted average number of common shares outstanding in the year, which comprises the weighted average number of common shares outstanding plus the effects of all dilutive common share equivalents.

(l) Stock-based compensation

The Company accounts for stock options and deferred share units (DSUs) issued to directors and/or employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the stock options on the grant date. The fair value of the stock options is recorded in general and administrative expenses over the awards vesting period. DSUs vest at the award date and the fair value thereof is recorded as an expense. Subsequent adjustments are recorded in general and administrative expense, based on the difference between the fair value of the DSUs at the end of a reporting period and the fair value at the grant date.

The Company's LTIP (note 16) originally contemplated that grants thereunder may be settled in common shares and/or cash. However, this was subsequently amended so that settlement will be in the form of cash only. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the Company's adjusted return on average equity over the three-year vesting period of an award. The fair value of the LTIP awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

(m) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of derivative financial instruments, and the guarantee of managed receivables which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date. The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated

statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

(n) Convertible debentures

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

(o) 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").

(p) Government grants

Government grants are recognized in the consolidated statement of operations as a reduction in the related expense, namely a reduction in general and administrative expenses ("G&A").

4. Restricted cash

Restricted cash represents cash held as security for non-recourse borrowings provided by a lender. A cash reserve account held by the lender is required to be maintained at an amount equal to 5% of the loan principal outstanding. Additionally, cash collections related to certain financial assets securing the non-recourse borrowing can only be used to repay that debt on certain specified dates. As at December 31, 2022, the restricted cash totalled $6,624,848 (2021 – $10,309,097) against an amount due to the lender of $44,367,587 (2021– $89,387,586).

5. Finance receivables and loans and managed receivables

(a) Finance receivables and loans

As detailed in note 2, there is a high degree of uncertainty relating to the adverse economic impact caused by the current geo-political environment on the Company's portfolio of finance receivables and loans, and managed receivables, and the requirement to build FLI into our expected credit loss models. Since the beginning of Covid-19 in the first quarter of 2020, this economic uncertainty resulted in downgrades in internal risk ratings for some clients, and an increase in delinquencies. This, together with a weaker economic environment reflected in the FLI, led to significant increases in the Company's provision for credit and loan losses and allowances for expected credit losses, as discussed below.

Finance receivables and loans at December 31 were as follows:

(in thousands)	2022	2021
Working capital loans	$ 121,979	$ 109,518
Receivable loans	86,788	105,550
Other loans*	90,970	101,811
Media loans	87,770	81,497
Lease receivables	65,171	79,774
Finance receivables and loans, gross	452,678	478,150
Less allowance for expected losses	8,189	5,251
Finance receivables and loans, net	$ 444,489	$ 472,899

**Other loans primarily comprise inventory and equipment loans.*

The Company's finance receivables and loans are generally either: (i) collateralized by a charge on substantially all the borrowers' assets; or (ii) leased assets or factored receivables which the Company owns; or (iii) guaranteed by a credit worthy party. Collateral securing the Company's finance receivables and loans is primarily comprised of receivables, inventory and equipment, as well as other assets such as real estate and guarantees.

Lease receivables comprise the net investment in leases by AFCC and AEF as described in note 3(c). Lease receivables at December 31, 2022 are expected to be collected over a period of up to five years. Interest income earned on finance receivables and loans in 2022 totalled $60,212,488 (2021 – $51,897,688).

In certain cases where a borrower has experienced financial difficulty due to the economic impact of Covid-19, the Company has granted certain modifications to the terms and conditions of a lease or loan. Such modifications may include temporary over advances, payment deferrals, minor extensions of amortization periods, and other modifications intended to minimize credit and loan losses where it is expected the lifetime risk of default of a client is not significant. The outstanding balance of finance receivables and loans that were modified in 2020 as a direct result of Covid-19 was $nil at December 31, 2022 (2021 – $5.3 million).

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

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Less than 1 year	$ 217,844	$ 259,737
1 to 2 years	117,623	99,209
2 to 3 years	65,879	81,500
3 to 4 years	33,279	33,234
4 to 5 years	18,053	4,470
	$ 452,678	$ 478,150

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

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Current	$ 403,807	$ 452,575
Past due but not impaired:		
Past due less than 90 days	23,302	15,214
Past due 90 to 180 days	1,755	1,942
Past due 180 days or more	4,845	6,723
Impaired loans	18,969	1,696
	$ 452,678	$ 478,150

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on changes in the lifetime risk of default of an account since initial recognition, or an impairment, which may be rebutted where payments are delayed for non-credit related reasons, such as specific industry related reasons or practices as we often see across certain of the Company's lines of business. Of the past due finance receivables at December 31, 2022, $26,140,000 (2021 – $13,815,000) related to BondIt Media Capital ("BondIt"), AFIU's 60% controlled media finance subsidiary, where media productions and the sale thereof are often delayed resulting in payment delays, while $12,948,000 (2021 – $9,962,000) related to AFCC (of which $8,071,000 benefits from a guarantee from Export Development Canada ("EDC") of up to 80% of the loan balance), and $7,599,000 (2021 – $102,000) to AEF.

As the Company's finance receivables and loans are generally collateralized, past due or impaired accounts do not necessarily lead to a significant ECL allowance based on the net realizable value of the collateral security which may result in a low or no LGD.

At December 31, 2022, the estimated net realizable value of the collateral securing the impaired loans totalled $17,817,000 (December 31, 2021 – $1,639,000). During 2022, lease receivables totalling $1,430,000 (2021 – $160,000) were transferred to assets held for sale upon default of the leases and repossession of the Company's assets.

The Company uses a credit risk rating system for assessing obligor and transaction risk for finance receivables and loan exposures. Risk rating models use internal and external data to assess and assign credit ratings to borrowers, predict future performance and manage limits for existing loans and collection activities. The credit rating of the borrower is used to assess the predicted credit risk for each initial credit approval or significant account management action. Credit ratings improve credit decision quality, adjudication time frames and consistency in the credit decision process and facilitate risk-based pricing.

As detailed in note 3(d), the Company assigns credit ratings to its finance receivables and loans. The credit ratings, along with other factors, are used for the determination of Staging based on a SICR (Significant Increase in Credit Risk) analysis. The Staging segmentation influences estimated allowances as described below:

- Stage 1 - for leases and loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected to result from defaults occurring in the next 12 months;
- Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected over the remaining life of the lease or loan; and
- Stage 3 - for leases or loans that are considered credit-impaired, a loss allowance is recognized equal to full lifetime expected net credit losses.

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

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Stage 1	$ 370,463	$ 436,592
Stage 2 (SICR)	63,246	39,862
Stage 3 (Impaired)	18,969	1,696
	$ 452,678	$ 478,150

The activity in the allowance for expected losses on finance receivables and loans during 2022 and 2021 was as follows:

	2022	2021
Allowance for expected losses at January 1	$ 5,251,000	$ 6,314,000
Provision for (recovery of) provision for loan losses	8,333,256	(53,132)
Write-offs	(5,986,425)	(1,057,071)
Recoveries	423,126	81,536
Foreign exchange adjustment	167,916	(34,333)
Allowance for expected losses at December 31	$ 8,188,873	$ 5,251,000

The activity in the allowance for expected losses on finance receivables and loans during 2022 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected losses at January 1, 2022	$ 3,319,022	$ 1,872,584	$ 59,394	$ 5,251,000
Transfer between stages	(327,315)	163,146	164,169	—
Reserves expense (recovery)* related to change in allowance for expected losses	(191,432)	729,526	2,231,863	2,769,957
Foreign exchange adjustment	102,675	37,790	27,451	167,916
Allowance for expected losses at December 31, 2022	$ 2,902,950	$ 2,803,046	$ 2,482,877	$ 8,188,873

** a component of the provision for loan losses*

The activity in the allowance for expected losses on finance receivables and loans during 2021 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected losses at January 1, 2021	$ 3,527,040	$ 2,786,960	$ —	$ 6,314,000
Transfer between stages	179,435	(180,202)	767	—
Reserves expense (recovery)* related to change in allowance for expected losses	(352,663)	(736,583)	60,581	(1,028,665)
Foreign exchange adjustment	(33,902)	1,521	(1,954)	(34,335)
Allowance for expected losses at December 31, 2021	$ 3,319,910	$ 1,871,696	$ 59,394	$ 5,251,000

** a component of the provision for loan losses*

The allowance for expected losses for some Stage 3 accounts can be minimal, as the impaired finance receivables and loans are in respect of accounts where the Company intends to or has actively taken possession of its collateral and is currently or will be liquidating the same as a means of recovering some or all of the outstanding account balance. In such cases, the finance receivables and loans have been written down to the present value of their estimated net recoverable amounts and any prior allowance for expected losses thereon reversed.

The Company's allowance for expected losses on finance receivables and loans is estimated using statistical models that involve a number of inputs and assumptions. The key drivers of changes in the allowance for expected losses include the following:

- Increase or decrease in the amount of finance receivables and loans;
- Transfers between stages due to significant changes in credit risk, as reflected by changes in PD and LGD; and
- Changes in forward-looking macroeconomic variables, used in the expected losses models.

The Company incorporates the impact of FLI into its allowance for expected losses. The Company sources data from Moody's Analytics, a third-party service provider, for the purpose of computing forward-looking credit risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences.

The Company employs macroeconomic indicator data derived from multiple macroeconomic scenarios to mitigate volatility in the estimation of its allowance for expected losses, and to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. The macroeconomic indicator data utilized by the Company for the purpose of sensitizing PD and LGD to forward-looking economic conditions includes, but are not limited to monetary policy, fiscal

policy, energy prices, public health emergencies, including an epidemic or pandemic, business investment, housing, employment, and supply chain amongst others.

Currently, the Company assigns discrete weights to several macroeconomic forecast scenarios for use in the estimation of its allowance for expected losses. The Company also applies experienced credit judgment in circumstances where the assumptions or models may not capture all the relevant risk factors. The Company has applied experienced credit judgement to consider uncertainty in the U.S. and Canadian macroeconomic environment attributable to rising interest rates, supply chain disruption, energy prices and labor/supply costs. The Company tracks forward estimates of the following indices in order to sensitize allowances for expected losses: Producer Price Index (PPI); WTI Crude; Global Supply Chain Stress Index (GSCP); and U.S. and Canadian Prime Rates, as these factors have a pronounced impact on the Company's portfolio.

The Company uses experienced credit judgment to review and analyze the various forecast scenarios and assign probability weightings. If management were to assign a 100% probability to the most pessimistic downside scenario forecast considered, the allowance for expected losses would have been $1.46 million higher than the reported estimate of the allowance for expected losses as at December 31, 2022. Alternatively, the assignment of a 100% probability to the most optimistic upside scenario forecast considered would have resulted in the allowance for expected losses being $2.37 million lower than that reported.

The nature of the Company's business involves funding or assuming the credit risk on the receivables of its clients, and the financing of other assets, such as inventory and equipment. The Company controls the credit risk associated with its finance receivables and loans, and managed receivables in a variety of ways, as discussed below. For details of the Company's policies and procedures in this regard, please refer to note 24(a).

At December 31, 2022, the Company held cash collateral of $3,533,000 (2021 – $3,591,000) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

(b) Managed receivables

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the clients' receivables. At December 31, 2022, the gross amount of these managed receivables was $5,309,289 (2021 – $11,440,848). Fees from the Company's receivables management and credit protection business during 2022 totalled $359,424 (2021 – $535,345). These fees are included in other income.

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

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Current	$ 5,309	$ 11,066
Past due but not impaired:		
Past due less than 90 days	—	375
Past due more than 90 days	—	—
	$ 5,309	$ 11,441

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

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Stage 1	$ 5,309	$ 11,441
Stage 2 (SICR)	—	—
Stage 3 (Impaired)	—	—
	$ 5,309	$ 11,441

Outstanding client claims in respect of impaired managed receivables are an actual liability that is accrued for and included in accounts payable and other liabilities.

Management provides an allowance for expected losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance

is included in the allowance for losses at December 2022, whereas at December 2021 this balance was included in accounts payable and other liabilities. The Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for expected losses on the guarantee of managed receivables account during 2022 and 2021 was as follows:

	2022	2021
Allowance for expected losses at January 1	**$ 31,000**	$ 555,000
Provision for (recovery of) credit losses	**(40,600)**	(561,227)
Write-offs	**—**	(853)
Recoveries	**40,600**	38,080
Allowance for expected losses at December 31	**$ 31,000**	$ 31,000

The activity in the allowance for expected losses on the guarantee of managed receivables during 2022 by stage of allowance was as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for expected losses at January 1, 2022	**$ 31,000**	**$ —**	**$ —**	**$ 31,000**
Reserves recovery* related to decrease in allowance for expected losses	**—**	**—**	**—**	**—**
Allowance for expected losses at December 31, 2022	**$ 31,000**	**$ —**	**$ —**	**$ 31,000**

** a component of the provision for loan losses*

There were no transfers between the three stages of the allowance for expected losses on the guarantee of managed receivables during 2022.

The activity in the allowance for expected losses on the guarantee of managed receivables during 2021 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected losses at January 1, 2021	$ 267,400	$ 287,600	$ —	$ 555,000
Reserves expense (recovery)* related to change in allowance for expected losses	(236,400)	(287,600)	—	(524,000)
Allowance for expected losses at December 31, 2021	$ 31,000	$ —	$ —	$ 31,000

** a component of the provision for loan losses*

There were no transfers between the three stages of the allowance for expected losses on the guarantee of managed receivables during 2021.

6. Other Assets

Other Assets at December 31, 2022 were $5,057,000 (2021 – $1,854,000) and were primarily comprised of prepaid expenses of $2,723,000 (2021 – $1,366,000) and amounts due from EDC of $1,315,000 (2021 – $488,000) pursuant to guarantees provided on AccordExpress loans.

7. Assets held for sale

Assets held for sale and movements therein during 2022 and 2021 were as follows:

	2022	2021
Assets held for sale at January 1	**$ 160,274**	$ 1,513,567
Additions	**1,430,124**	160,274
Disposals	**(1,334,167)**	(623,433)
Impairment charge	**(148,481)**	(872,948)
Foreign exchange adjustment	**—**	(17,186)
Assets held for sale at December 31	**$ 107,750**	$ 160,274

During 2022 and 2021, the Company obtained title to or repossessed certain long-lived assets securing defaulted finance receivables and loans from one or more clients. These assets have been sold or are being actively marketed for sale and will be disposed of as market conditions permit. Additions to the assets held for sale during 2022 were $1,430,124 (2021 – $160,274) while assets disposed of produced net proceeds of $1,334,167 (2021 – $623,433) for a gain of $8,527. An impairment charge of $148,481 (2021 – $872,948) was recorded to write the assets down to the net realizable value ("NRV"). The estimated NRV of the assets at the above dates was based upon external appraisals.

8. Property and equipment

(in thousands)	Dec. 31, 2022	Dec. 31, 2021
Cost	$ 4,619	$ 4,732
Accumulated depreciation	(2,873)	(3,459)
Net book value	$ 1,746	$ 1,273

Property and equipment includes the Company's right-of-use assets, comprising five office leases at December 31, 2022. The Company's right-of-use assets and movements therein during 2022 and 2021 were as follows:

(in thousands)	2022	2021
Right-of-use assets at January 1	$ 875	$ 1,103
Additions	1,052	242
Modifications / completions	(82)	—
Depreciation	(522)	(466)
Foreign exchange adjustment	19	(4)
Right-of-use assets at December 31	$ 1,342	$ 875

9. Goodwill

	2022	2021
Goodwill at January 1	$ 13,140,447	$ 13,218,843
Impairment	(1,882,507)	—
Foreign exchange translation	816,929	(78,396)
Goodwill at December 31	$ 12,074,869	$ 13,140,447

Goodwill totalled $12,074,869 at December 31, 2022 compared to $13,140,447 at December 31, 2021. The decrease is related to a $1,882,507 impairment loss against goodwill at the Company's Canadian CGU.

At December 31, 2022 and 2021, goodwill of US$8,908,713 was carried in AFIU, the Company's U.S. subsidiary. A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period-end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at December 31, 2022 and 2021:

	2022	2021
U.S. operations	$ 12,074,869	$ 11,257,940
Canadian operations	—	1,882,507
Goodwill at December 31	$ 12,074,869	$ 13,140,447

Goodwill is tested for impairment annually. During 2022, the Company conducted an annual impairment review on each CGU and determined that there was an impairment to the carrying value of goodwill of the Canadian CGU, while there was no impairment to the carrying value of goodwill of the U.S. CGU. During 2021 the annual impairment review on each CGU determined that there was no impairment to the carrying value of goodwill. The Company estimates the fair value (being the recoverable amount) of each of its CGUs and compares this to the carrying value of the CGU to determine if there has been an impairment of goodwill. In the Company's case the estimated fair value of each CGU is determined to be a multiple of the expected earnings of the CGU, where expected earnings are an estimate of future years' earnings. This provides a similar result to extrapolating and discounting budgeted earnings for the CGUs. The estimated fair value of each CGU is then compared to the carrying value of the CGU, including goodwill, to determine if the goodwill is impaired.

The most sensitive assumption used in the impairment testing was the multiple applied to the expected earnings of each CGU in determining the fair value thereof. In 2022 a multiple of 9.8 (2021 – 9.8) was used. Management believes a reasonable decrease in the multiple would not cause an impairment in the goodwill of its CGUs.

10. Intangible assets

Intangible assets and movements therein during 2022 and 2021 were as follows:

2022	**Customer and referral relationships**	**Broker relationships**	**Brand name**	**Total**
Cost				
January 1, 2022	$ 1,924,616	$ 1,343,938	$ 1,721,159	$ 4,989,713
Foreign exchange adjustment	139,659	97,522	124,896	362,077
December 31, 2022	$ 2,064,275	$ 1,441,460	$ 1,846,055	$ 5,351,790
Accumulated amortization				
January 1, 2022	$ (532,579)	$ (1,343,938)	$ —	$ (1,876,517)
Amortization expense	(132,386)	—	—	(132,386)
Foreign exchange adjustment	(44,105)	(97,522)	—	(141,627)
December 31, 2022	$ (709,070)	$ (1,441,460)	$ —	$ (2,150,530)
Book value				
January 1, 2022	$ 1,392,037	$ —	$ 1,721,159	$ 3,113,196
December 31, 2022	$ 1,355,205	$ —	$ 1,846,055	$ 3,201,260

2021	Customer and referral relationships	Broker relationships	Brand name	Total
Cost				
January 1, 2021	$ 1,938,018	$ 1,343,938	$ 1,733,145	$ 5,015,101
Foreign exchange adjustment	(13,402)	—	(11,986)	(25,388)
December 31, 2021	$ 1,924,616	$ 1,343,938	$ 1,721,159	$ 4,989,713
Accumulated amortization				
January 1, 2021	$ (406,875)	$ (1,330,482)	$ —	$ (1,737,357)
Amortization expense	(127,499)	(13,456)	—	(140,955)
Foreign exchange adjustment	1,795	—	—	1,795
December 31, 2021	$ (532,579)	$ (1,343,938)	$ —	$ (1,876,517)
Book value				
January 1, 2021	$ 1,531,143	$ 13,456	$ 1,733,145	$ 3,277,744
December 31, 2021	$ 1,392,037	$ —	$ 1,721,159	$ 3,113,196

11. Bank indebtedness

A revolving credit facility with total commitments of approximately $367 million provided by a syndicate of six banks which matured on July 26, 2022 was amended and extended for a three-year period to a maturity date of July 26, 2025. Pursuant to the amendment the total commitments increased to $436.5 million and the secured overnight financing rate (SOFR) replaced LIBOR as the floating rate index. The index for the interest rate is either SOFR or the bank prime rate. The credit facility is secured by the Company's finance receivables and loans, except for finance receivables and loans that secure the BondIt loan and the ASBF loan. At December 31, 2022, the amount outstanding under the credit facility totalled $214,055,000 (December 31, 2021 – ($207,382,000)). The Company did not meet its interest coverage ratio covenant under its revolving credit facility at December 31, 2022, but has received a waiver from the lender subsequent to December 31, 2022. The Company was in compliance with all other loan covenants under its revolving credit facility during 2022 and 2021.

12. Loans payable

(a) BondIt loan

A revolving line of credit has been established by BondIt with a non-bank lender, which bears interest varying with a base rate, generally the higher of the U.S. Prime Rate or the effective Federal Funds Rate.

This revolving line, which is secured by all of BondIt's assets, has a total commitment of US$47,000,000 ($63,704,000) and a maturity date of May 31, 2024. At December 31, 2022, the amount outstanding under this line of credit totalled $64,671,000 inclusive of accrued interest and fees (2021 – $60,049,000). BondIt was in compliance with all loan covenants under this facility during 2022 and 2021.

(b) ASBF loan

During the fourth quarter of 2021, ASBF, a subsidiary of AFCC, entered into a non-recourse loan and security agreement with a life insurance company. This loan is secured by the majority of ASBF's assets and bears a fixed rate of interest of 3.55%. The amount outstanding under this loan facility at December 31, 2022 was $44,368,000 (December 31, 2021 – $89,388,000) of which $16,824,000 is expected to be paid within one year and $27,544,000 thereafter. ASBF experienced a trigger event as of December 31, 2022 as a result of the breached covenant under the Company's revolving credit line. The lender has provided a waiver subsequent to December 31, 2022.

13. Related parties

(a) Notes payable

Notes payable comprise: (i) unsecured demand notes due on, or within a week of demand and (ii) term notes which are repayable on various dates the latest of which is July 31, 2025. Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable at December 31 were as follows:

	2022	2021
Demand and term notes (due within one year):		
Related parties	$ 5,910,996	$ 13,843,707
Third parties	2,194,165	1,516,800
	8,105,161	15,360,507
Term notes due after one year:		
Related parties	10,500,000	—
Third parties	—	631,850
	$ 18,605,161	$ 15,992,357

Notes due on, or within a week of, demand bear interest at rates that vary with the bank prime rate, while the term notes bear interest at rates between 7.25% and 11%.

Interest expense on the notes payable was as follows:

	2022	2021
Related parties	$ 1,076,270	$ 957,806
Third parties	241,876	219,151
	$ 1,318,146	$ 1,176,957

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[1] during 2022 and 2021 was as follows:

	2022	2021
Salaries and directors' fees	$ 4,793,253	$ 5,672,276
Stock-based compensation [2]	186,955	87,884
Termination payments	524,398	765,012
	$ 5,504,606	$ 6,525,172

(1) Key management personnel comprise the President and CEO of the Company, the Presidents of its six operating businesses, and the Company's Senior Vice Presidents, including its Chief Financial Officer.
(2) Stock-based compensation comprises the expense related to the Company's stock option grants and DSUs. Please see note 16.

(c) BondIt participations

BondIt utilizes loan participations to provide capital for and reduce the risk of loss on certain client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt client loans. At December 31, 2022, participations in BondIt client loans totalled US$28,132,000 (December 31, 2021 – US$40,704,000), of which US$ 11,844,000 (December 31, 2021 – US$1,562,000) was provided by related parties. These participations are not included in the Company's Consolidated Statements of Financial Position.

14. Convertible debentures

Convertible debentures with a face value of $25,650,000 (25,650 convertible debentures) carrying a 7% coupon rate were issued by the Company in 2018 and 2019. Of these, 20,650 debentures are listed for trading on the Toronto Stock Exchange ("TSX"), while 5,000 are unlisted. Interest on all the convertible debentures is payable semi-annually on June 30 and December 31 each year. The debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of $13.50 per common share.

The debentures were not redeemable by the Company prior to December 31, 2022. On or after December 31, 2022 and at any time prior to the maturity date, the debentures may be redeemed at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon.

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

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at December 31, 2022 were as follows:

	Liability component of debentures	**Equity component of debentures**	**Total**
Debentures issued	**$ 24,152,897**	**$ 1,473,903**	**$ 25,626,800**
Transaction costs	**(1,739,323)**	**(106,414)**	**(1,845,737)**
Net proceeds	**22,413,574**	**1,367,489**	**23,781,063**
Deferred taxes	**—**	**(362,384)**	**(362,384)**
Accretion in carrying value of debenture liability	**2,450,187**	**—**	**2,450,187**
	$ 24,863,761	**$ 1,005,105**	**$ 25,868,866**

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at December 31, 2021 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	$ 24,152,897	$ 1,473,903	$ 25,626,800
Transaction costs	(1,739,323)	(106,414)	(1,845,737)
Net proceeds	22,413,574	1,367,489	23,781,063
Deferred taxes	—	(362,384)	(362,384)
Accretion in carrying value of debenture liability	1,739,107	—	1,739,107
	$ 24,152,681	$ 1,005,105	$ 25,157,786

At December 31, 2022 all debentures remained outstanding.

15. Lease liabilities

The following table presents the contractual undiscounted cash flows for lease obligations at December 31:

(in thousands)	**2022**	2021
Less than one year	**$ 443**	$ 525
One to five years	**1,245**	538
Thereafter	**—**	23
Total undiscounted lease obligations	**1,688**	1,086
Less: short-term lease commitments elected for exemption under IFRS 16	**—**	(7)
Less: future interest	**(192)**	(100)
Lease liabilities at December 31	**$ 1,496**	$ 979

During 2022, principal and interest payments for the five office leases recognized as right-of-use assets under IFRS 16 totalled $479,287 (2021 – $464,013) and $62,333 (2021 – $67,393) respectively, for total lease payments of $541,620 (2021 – $531,406). No variable lease payments are included in the measurement of the Company's lease liabilities.

16. Capital stock, share repurchase program, contributed surplus, dividends, stock option plans, senior executive long-term incentive plan, and stock-based compensation

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2022 and 2021, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2022 and 2021 are set out in the consolidated statements of changes in equity.

(c) Contributed surplus

The Company's contributed surplus and movements therein during 2022 and 2021 are set out in the consolidated statements of changes in equity.

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2022, dividends totalling $2,567,815 (2021 – $1,711,783), or $0.30 (2021 – $0.20) per common share, were declared and paid. On March 1, 2023, the Company paid a quarterly dividend of $0.075 per common share to shareholders for a total dividend payment of $641,918.

(e) Stock option plans

The Company has a stock option plan (the "2021 SOP") for employees and directors. Under the terms of the plan, an aggregate of 850,000 common shares, representing 9.9% of the Company's issued and outstanding common shares, have been reserved for issuance upon the exercise of stock options granted. The options granted vest one-third on the date of the grant, and one-third on each of the first two anniversaries of the date of grant. The options shall be exercisable for a period of seven years after the date of grant. The exercise price of all options granted under the 2021 SOP is not lower than the volume-adjusted average trading price of the Company's common shares on the Toronto Stock Exchange during the ten days immediately preceding the date of grant. The Board reserves the right to change the terms of the options.

Details of the stock options granted and outstanding are shown in the table below. On September 19, 2022, the Company granted stock options to its President and senior employees. In 2021, the Company granted stock options to senior employees on August 4, 2021, while 12,000 stock options were granted to its President on October 12, 2021.

Grant date	Number of options granted	Exercise price	Expiry date	Outstanding Options as of: Dec. 31, 2022	Dec. 31, 2021
Aug. 4, 2021	80,100	$8.83	Aug. 3, 2028	54,000	80,100
Oct. 12, 2021	12,000	$8.83	Aug. 3, 2028	12,000	12,000
Sep. 19, 2022	72,000	$8.34	Sep. 18, 2029	72,000	—
	164,100			138,000	92,100

Of the outstanding options 67,000 were vested at December 31, 2022. The decrease in outstanding options issued in 2021 relates to the cancellation of options granted to certain employees that left the Company.

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

Option Grant Date	Sep. 19, 2022	Oct. 12, 2021	Aug. 12, 2021
Risk free interest rate	3.17%	1.35%	0.92%
Expected dividend yield	3.29%	2.48%	2.24%
Expected share price volatility	27.51%	29.53%	29.36%
Expected life of option (years)	7.0	6.8	7.0
Fair value per option	$1.87	$1.67	$1.97

Deferred share unit ("DSU") plan:

The Company introduced a DSU plan effective January 1, 2022 for its board of directors. DSUs are issued quarterly at fair market value at the date of grant and vest immediately. During 2022, the Company granted 7,944 DSUs (2021 – nil).

Stock-based compensation:

During 2022, the Company recorded stock-based compensation expense of $189,760 (2021 – $87,884), of which $129, 398 (2021 – $87,884) related to stock option grants and $60,362 (2021 – nil) related to DSUs.

Senior executive long-term incentive plan:

The Company's Board terminated the LTIP on March 10, 2021. Any payouts in respect of the outstanding LTIP awards after that date will be settled in cash. The payout value of outstanding vested and unvested LTIP awards at December 31, 2022 and December 31, 2021 was $nil.

17. Income taxes

The Company's income tax expense comprises:

	2022	2021
Current income tax expense	$ 3,902,498	$ 3,429,726
Deferred tax recovery	(2,901,180)	(1,702,726)
Income tax expense	$ 1,001,318	$ 1,727,000

During 2022 and 2021, the Company's statutory income tax rate was 26.5%. The Company's income

tax expense varies from the amount that would be computed using the Canadian statutory income tax rate due to the following:

	2022	%
Income tax expense computed at statutory rates	$ 701,245	26.5
Increase (decrease) resulting from:		
Higher effective tax rate on income of subsidiaries	312,067	11.8
Non-controlling interests in subsidiaries	(11,991)	(0.5)
Other	(3)	—
Income tax expense	$ 1,001,318	37.8

	2021	%
Income tax expense computed at statutory rates	$ 3,961,581	26.5
Increase (decrease) resulting from:		
Lower effective tax rate on income of subsidiaries	(2,037,126)	(13.6)
Non-controlling interests in subsidiaries	(285,457)	(1.9)
Other	88,002	0.6
Income tax recovery	$ 1,727,000	11.6

The tax effects that give rise to the net deferred tax assets at December 31 were as follows:

	2022	2021
Deferred tax assets:		
Unused tax losses	$ 12,684,180	$ 11,659,373
Allowances for expected credit losses	1,782,689	613,096
Property and equipment	2,805,607	—
Leasing timing difference	11,581,573	22,000
Other	322,081	31,802
	$ 29,176,130	$ 12,326,271
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	(22,871,596)	(8,246,906)
Acquired intangibles	—	(231,257)
Leasing timing difference	(40,000)	(396,000)
Property and equipment	—	(7,000)
Other	—	(29,518)
	(22,911,596)	(8,910,681)
	$ 6,264,534	$ 3,415,590

The tax effects that give rise to the net deferred tax liabilities at December 31 were as follows:

	2022	2021
Deferred tax liabilities:		
Convertible debentures accretion	187,493	276,720
Accrued Expenses	(46,322)	—
	141,171	276,720

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Management's estimate of future taxable profits and the recognition of deferred tax assets are reviewed at each reporting date and deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

At December 31, 2022 and 2021, deferred tax liabilities for temporary differences associated with investments in domestic and foreign subsidiaries were not recognized as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

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

The following is a reconciliation of common shares used in the calculation for the 12 months ended December 31, 2022 and 2021:

	2022	2021
Basic weighted average number of common shares outstanding	8,558,913	8,558,913
Effect of dilutive stock options	949	—
Dilutive weighted average number of common shares outstanding	8,559,862	8,558,913

Certain outstanding options were excluded from the calculation of diluted shares outstanding in the twelve months ended December 31, 2022 because they were considered to be anti-dilutive for earnings per common share purposes, while for the twelve months ended December 31, 2021 all outstanding options were excluded for the same reason. Details of outstanding options are set out in note 16(e).

Basic earnings per share have been calculated based on the weighted average number of common shares outstanding in the year, specifically 8,558,913, without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding in the year, which in the Company's case consist of stock options and convertible debentures.

19. 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 December 31, 2022 and 2021, 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 December 31, 2022 and 2021, the Company was contingently liable with respect to letters of guarantee issued on behalf of a client in the amount of $759,024 (2021 – $644,487). There were no letters of credit issued on behalf of clients for which the Company was contingently liable at those dates. These amounts were considered in determining the allowance for expected losses on finance receivables and loans.

20. 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 2022 and 2021 are set out in the consolidated statements of changes in equity.

21. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at December 31, 2022, comprised an effective 40% (December 31, 2021 – 39%) interest in BondIt's common member units and a nil % (December 31, 2021 – 8%) interest in AEF's common units. On January 1, 2022, the Company acquired the remaining 8% of AEF's common units from non-controlling interests at a cost of $537,073 (US$425,000) which brought its ownership in AEF up to 100%. On September 16, 2022, BondIt raised additional capital and as a result the Company reduced its ownership of the common member units by 1% which amounted to a reduction in non-controlling interests of $130,270 (US$98,213). On August 1, 2021, the Company acquired an additional 10% of the common member units in BondIt from a non-controlling interest at a cost of $1,369,231 (US$1,098,725) increasing its share of common member units to 61%. Please see the consolidated statements of changes in equity for movements in non-controlling interests during 2022 and 2021.

22. Fair values of financial assets and liabilities

Financial assets or liabilities, other than lease receivables and loans to clients in our equipment and small business finance operations, lease liabilities, term loan payable, and convertible debentures are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company's financial instruments resulting in a favorable or unfavorable variance compared to carrying value. For the Company's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes.

23. 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. An operating segment is a component in the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Company's other subsidiaries, whose operating results are regularly reviewed by the Company's Chief Operating Decision Makers ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment results that are reported to the CODM include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. There were no significant changes to property and equipment during the periods under review.

2022 (in thousands)	**Canada**	**United States**	**Intercompany**	**Consolidated**
Identifiable assets	**$ 258,840**	**$ 234,980**	**$ (2,059)**	**$ 491,761**
Revenue				
Interest income	**$ 36,817**	**$ $24,101**	**$ (706)**	**$ 60,212**
Other income	**2,221**	**5,058**	**—**	**7,279**
	$ 39,038	**$ 29,159**	**$ (706)**	**$ 67,491**
Expenses				
Interest	**16,759**	**8,034**	**(706)**	**24,087**
General and administrative	**17,420**	**12,179**	**—**	**29,599**
Provision for credit and loan losses	**6,481**	**1,812**	**—**	**8,293**
Impairment of goodwill	**1,883**	**—**	**—**	**1,883**
Impairment of assets held for sale	**148**	**—**	**—**	**148**
Depreciation	**283**	**419**	**—**	**702**
Business acquisition expenses	**132**	**—**	**—**	**132**
	43,107	**22,444**	**(706)**	**64,845**
(Loss) earnings before income tax expense	**(4,069)**	**6,715**	**—**	**2,646**
Income tax expense (recovery)	**(995)**	**1,996**	**—**	**1,001**
(Loss) earnings	**$ (3,074)**	**$ 4,719**	**$ —**	**$ 1,645**
Net earnings attributable to non-controlling interest in subsidiaries	**—**	**$ 218**	**—**	**218**
Net (loss) earnings attributable to shareholders	**$ (3,074)**	**$ 4,501**	**$ —**	**$ 1,427**

2021 (in thousands)	Canada	United States	Intercompany	Consolidated
Identifiable assets	$ 266,426	$ 256,393	$ (2,710)	$ 520,109
Revenue				
Interest income	$ 28,153	$ 24,206	$ (462)	$ 51,897
Other income	4,857	6,726	—	11,583
	$ 33,010	$ 30,932	$ (462)	$ 63,480
Expenses				
Interest	10,371	5,978	(462)	15,887
General and administrative	17,032	14,423	—	31,455
Provision for credit and loan losses	234	(848)	—	(614)
Impairment of goodwill	—	—	—	—
Impairment of assets held for sale	141	732	—	873
Depreciation	322	373	—	695
Business acquisition expenses	14	221	—	235
	28,114	20,879	(462)	48,531
Earnings before income tax	4,896	10,053	—	14,949
Income tax expense	1,219	508	—	1,727
Net earnings	$ 3,677	$ 9,545	$ —	$ 13,222
Net earnings attributable to non-controlling interests in subsidiaries	—	1,335	—	1,335
Net earnings attributable to shareholders	$ 3,677	$ 8,210	$ —	$ 11,887

24. 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. Credit risk arises with respect to loans to and other financial transactions with clients, the guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The gross amount of loans ($453 million) and managed receivables ($5 million) represents the Company's maximum credit exposure as of the reporting dates and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company often owns the factored receivables that it finances. The Company does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending business, the Company makes loans that are secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate, or a guarantee from a counterparty. The Company provides an expected loss allowance on its finance receivables and loans based on the estimated credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during 2022 and 2021.

At December 31, 2022, the Company had impaired loans of $18,969,000 (2021 – $1,696,000), while at that date, it held collateral for these loans with an estimated net realizable value of $17,817,000 (2021 – $1,639,000). These impaired loans were mainly secured by receivables, inventory, and/or equipment. There were no Stage 3 (impaired) managed receivables at December 31, 2022 and 2021.

Credit approval for transactions supported by management in the Company's six operating businesses is delegated to a staff of senior credit officers within each business. Transactions in excess of $1.0 million (US$1.0 million U.S. Group companies), are approved by the Company's SVP, Underwriting and Portfolio Risk in consultation with the Corporate Credit Committee. Transactions in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) are approved by the Credit Committee of the Board of Directors which comprises three members of its Board. 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 risk is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. For its factoring products, the Company's primary focus continues to be on the creditworthiness 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. 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 older receivables. Asset-based lending products additionally require focus on the performance of other collateral types (inventory, equipment and in certain cases real estate) as well as the underlying cash flows of the borrower. AFCC's and AEF's lease receivables and equipment and working capital loans are usually structured as term loans with payments spread out evenly over the term of the lease or loan, with terms up to 60 months. AFCC also has a revolving equipment loan product which has no fixed repayment terms and can be repaid at any time.

The Company uses an internal credit risk rating system for assessing obligor and transaction risk for finance receivables and loan exposures. Risk rating models use internal and external data to assess and assign credit ratings to borrowers, predict future performance and manage limits for existing loans and collection activities. In its credit protection and receivables management business, the Company employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 5 which presents the Company's finance receivables and loans and managed receivables by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending and equipment finance operations, the Company assesses the financial strength of its clients and its clients' customers and the industries in which they operate on an ongoing basis. Cash flows from a client's ongoing business operations represent the primary source of repayment.

The Company also manages credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it finances. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables allowing it to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. Regular field examinations are conducted to verify collateral such as inventory and equipment. In the Company's Canadian small business finance operations, AFCC, security deposits are usually obtained in respect of equipment leases or loans, while a majority of ASBF's working capital loans have the benefit of a strong financial guarantor guaranteeing up to 80% of the loan balance in the event of a loss.

In the Company's credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables.
All customer credit in excess of $2.5 million is approved by the Credit Committee of the Board on a case-by-case basis. At December 31, 2022, the Company had guaranteed one customer's accounts receivable in excess of $5 million.

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

Industrial sector (in thousands)	December 31, 2022 Gross finance receivables and loans	% of total
Media	$ 93,622	20.68
Manufacturing	76,995	17.01
Wholesale trade	48,938	10.81
Finance and insurance	40,282	8.90
Waste management and remediation services	33,356	7.37
Transportation and warehousing	30,570	6.75
Construction	29,193	6.45
Mining	28,134	6.21
Retail Trade	19,947	4.41
Professional, scientific, and technical services	10,049	2.22
Real estate rental and leasing	8,351	1.84
Agriculture, forestry, fishing and hunting	8,283	1.83
Accommodation and food services	8,050	1.78
Health care and social assistance	6,822	1.51
Other services (except public administration)	6,343	1.40
Educational services	1,970	0.44
Arts, entertainment, and recreation	986	0.22
Management of companies and enterprises	471	0.10
Utilities	206	0.05
Public administration	110	0.02
	$ 452,678	100.00

Industrial sector (in thousands)	December 31, 2021 Gross finance receivables and loans	% of total
Media	$ 80,754	16.89
Manufacturing	92,434	19.33
Wholesale trade	45,414	9.50
Finance and insurance	49,441	10.34
Waste management and remediation services	24,025	5.02
Transportation and warehousing	36,074	7.54
Construction	25,327	5.30
Mining	30,137	6.30
Retail Trade	14,915	3.12
Professional, scientific, and technical services	19,943	4.17
Real estate rental and leasing	13,172	2.75
Agriculture, forestry, fishing and hunting	15,329	3.21
Accommodation and food services	7,074	1.48
Health care and social assistance	17,455	3.65
Other services (except public administration)	1,761	0.37
Educational services	1,178	0.25
Arts, entertainment, and recreation	1,610	0.34
Management of companies and enterprises	1,064	0.22
Utilities	1,041	0.22
Public administration	—	0.00
	$ 478,150	100.00

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

Industrial sector (in thousands)	December 31, 2022 Managed receivables	% of total
Wholesale and distribution	$ 5,309	100%
	$ 5,309	100%

Industrial sector (in thousands)	December 31, 2021 Managed receivables	% of total
Wholesale and distribution	$ 9,768	85
Retail	1,673	15
	$ 11,441	100

As set out in notes 3(d) and 5, the Company maintains separate allowances for expected losses on both Loans and loans and its guarantee of managed receivables in accordance with IFRS 9. The allowances for expected losses are based on

statistical models, including the impact of FLI based on several macroeconomic forecast scenarios. The allowances for expected losses is deemed sufficient based on the results of the expected loss modeling and experienced credit judgment.

(b) Liquidity risk

The Company's financial assets and liabilities at December 31, 2022 by contractual maturity date were as follows:

(in thousands)	0 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash and restricted cash	**$ 16,879**	**$ 931**	**$ 445**	**$ —**	**$ —**	**$ —**	**$ 18,255**
Finance receivables and loans	**217,844**	**117,623**	**65,879**	**33,279**	**18,053**	**—**	**452,678**
All other assets	**7,122**	**1,007**	**497**	**—**	**—**	**—**	**8,626**
	$ 241,845	**$ 119,561**	**$ 66,821**	**$ 33,279**	**$ 18,053**	**$ —**	**$ 479,559**
Financial liabilities							
Due to clients	**$ 1,827**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,827**
Bank indebtedness [(1)]	**214,055**	**—**	**—**	**—**	**—**	**—**	**214,055**
Loans payable [(2)]	**17,579**	**82,536**	**8,924**	**—**	**—**	**—**	**109,039**
Notes payable	**8,105**	**—**	**10,500**	**—**	**—**	**—**	**18,605**
Convertible debentures	**24,864**	**—**	**—**	**—**	**—**	**—**	**24,864**
All other liabilities	**14,606**	**50**	**33**	**—**	**—**	**141**	**14,830**
	$ 281,036	**$ 82,586**	**$ 19,457**	**$ —**	**$ —**	**$ 141**	**$ 383,220**

(1) Included in Bank indebtedness maturing within 12 months is $214,055,000 of debt which has been classified as current as the Company was in breach of one of its debt covenants at December 31, 2022. The Company has obtained a waiver from the lender subsequent to December 31, 2022.

(2) Loans payable of $16,824 maturing within 12 months, of $18,620 maturing in 1 to 2 years, and of $8,924 maturing in 2 to 3 years are estimated amounts, as the loans do not have a contractual maturity date.

The Company's financial assets and liabilities at December 31, 2021 by contractual maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash and restricted cash	$ 21,062	$ 1,091	$ 1,273	$ 722	$ —	$ —	$ 24,148
Finance receivables and loans	234,602	105,332	89,868	43,419	4,928	—	478,149
All other assets	1,377	—	—	—	—	—	1,377
	$ 257,041	$ 106,423	$ 91,141	$ 44,141	$ 4,928	$ —	$ 503,674
Financial liabilities							
Due to clients	$ 3,287	$ —	$ —	$ —	$ —	$ —	$ 3,287
Bank indebtedness	207,382	—	—	—	—	—	207,382
Loans payable [(1)]	87,726	21,809	25,468	14,434	—	—	149,437
Notes payable	15,360	632	—	—	—	—	15,992
Convertible debentures	—	—	24,153	—	—	—	24,153
All other liabilities	14,594	242	124	88	87	23	15,158
	$ 328,349	$ 22,683	$ 49,745	$ 14,522	$ 87	$ 23	$ 415,409

(1) Loans payable of $27,677 maturing in 0 to 12 months, $21,809 maturing in 1 to 2 years, $25,468 maturing in 2 to 3 years and $14,434 maturing in 4 to 5 years are estimated amounts, as there is no contractual maturity date.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and support business growth. The Company's approach to managing liquidity risk is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when they come 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, loans payable, notes payable, convertible debentures, due to clients, accounts payable and other liabilities. At December 31, 2022, revolving credit lines and a term facility totalling approximately $545 million (December 31, 2021 – $526 million) had been established with a syndicate of banks, as well as non-bank lenders. The revolving facilities bear interest varying with the Canadian or U.S. prime rate or SOFR while the term loan carries a fixed interest rate of 3.55%. At December 31, 2022, the Company had borrowed $323,093,475 (December 31, 2021 – $356,819,250) against these facilities. These facilities are collateralized primarily by finance receivables and loans to clients. As detailed in note 11, the Company was in compliance with all loan covenants under its revolving credit line during 2022 and 2021, except for an interest ratio covenant at December 31, 2022, for which the lender provided a waiver subsequent to December 31, 2022. IFRS 7, *Financial Instruments: Disclosures* requires the bank indebtedness under the revolving credit line of $214,054,518 to be categorized as current because the lender has the right to call the loan due to the breached covenant. The lender has provided a waiver subsequent to December 31, 2022. BondIt was compliant with all covenants under its line of credit (see note 12(a)) with its non-bank lender. ASBF experienced a trigger event under its non-recourse loan agreement as a result of the breached covenant under the Company's revolving credit line. The lender has provided a waiver subsequent to December 31, 2022.

Notes payable of $8,105,161 are due on, or within a week of demand, while term notes totalling $10,500,000 are repayable at various dates the latest of which is July 31, 2025 (see note 13(a)). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At December 31, 2022, 88% (2021 – 87%) of these notes were due to related parties and 12% (2021 – 13%) to third parties. The Company's convertible debenture liability at December 31, 2022 was $24,863,761. These debentures mature on December 31, 2023. Due to clients principally consists 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 December 31, 2022, the Company had gross finance receivables and loans totalling $452,677,759 (December 31, 2021 – $478,149,717) which substantially exceeded its total liabilities of $385,149,090 at that date (December 31, 2021 – $416,149,067). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

(c) Market risk

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

(i) Currency risk

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually

economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At December 31, 2022, the Company's unhedged foreign currency positions in its Canadian operations totalled $12,000 (2021 – $558,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the Company's foreign currency holdings 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 include both fixed rates and floating rates. The Company manages its interest rate exposure where possible, through the use of securitization or other match funding strategies. If the Company's floating rate borrowings exceed its floating rate finance receivables and loans, the Company could be exposed to fluctuations in interest rates, such that an increase in floating interest rates could increase the Company's interest expense beyond its ability to pass the increase on to its clients.

The following table shows the interest rate sensitivity gap at December 31, 2022:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	3 to 5 years	Thereafter	Non-rate sensitive	**Total**
Assets							
Cash and restricted cash	$ 17,209	$ —	$ —	$ —	$ —	$ 1,046	**$ 18,255**
Finance receivables and loans, net	156,055	116,033	137,669	42,921	—	(8,220)	**444,458**
All other assets	40	3,579	—	—	—	25,429	**29,048**
	173,304	119,612	137,669	42,921	—	18,255	**491,761**
Liabilities							
Due to clients	—	—	—	—	—	1,827	**1,827**
Bank indebtedness	13,244	200,811	—	—	—	—	**214,055**
Loans payable	64,672	16,823	27,544	—	—	—	**109,039**
Notes payable	4,716	3,389	10,500	—	—	—	**18,605**
Convertible debentures	—	24,864	—	—	—	—	**24,864**
All other liabilities	—	4,552	144	144	—	11,919	**16,759**
Shareholders' equity	—	—	—	—	—	106,612	**106,612**
	82,632	250,438	38,188	144	—	120,358	**491,761**
Total interest rate sensitivity gap	$ 90,672	$(130,826)	$ 99,481	$ 42,777	$ —	$(102,103)	**$ —**

At December 31, 2022, the Company's floating rate and short-term liabilities (primarily bank indebtedness), net of unrestricted cash, exceed the Company's floating rate assets by $97 million. Additional assets maturing in less than twelve months, if not redeployed in new loans, would be used to pay down bank indebtedness, thus narrowing the sensitivity gap over the year. Furthermore, a portion of BondIt's interest rate exposure is attributable to its minority shareholders. Based on the Company's interest rate positions at December 31, a 100 basis point rise in interest rates would decrease pre-tax earnings by approximately $909,000 over a twelve month period. A 100 basis point decrease in interest rates would add a similar amount to pre-tax earnings.

25. Capital disclosure

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. To manage 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 a normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. At December 31, 2022, these ratios were 3.44x (2021 – 3.82x) and 0.22 (2021 – 0.20), respectively. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. At December 31, 2022, the Company is required to maintain a senior debt to TNW ratio of less than 4.0 on its syndicated bank facility. BondIt, which has entered into a loan facility with a non-bank lender, is required to maintain a TNW of at least US$5,000,000. There were no changes in the Company's approach to capital management from previous periods.

26. Government grants

During 2022, the Company did not receive any government grants. During 2021, the Company received $249,481 under the Canadian Emergency Wage Subsidy program and $75,474 under the Canadian Emergency Rent Subsidy program. These grants were credited against their respective payroll and rent expenses in G&A.

27. Subsequent events

At March 22, 2023, there were no subsequent events occurring after December 31, 2022 that required disclosure or adjustments to the financial statements.

Corporate Information

Board of Directors

David Beutel, Toronto, Ontario [1,3,4]

Burt Feinberg, New York, New York [3]

Simon Hitzig, Toronto, Ontario

Jean Holley, Alpharetta, Georgia [2]

Gary Prager, Wake Forest, North Carolina [1,3]

David Spivak, Vancouver, British Columbia [1]

Stephen D. Warden, Oakville, Ontario [1,2]

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Credit Committee
(4) Chairman of the Board

Officers

Simon Hitzig, President & CEO

Irene Eddy, Senior Vice President, Chief Financial Officer

Cathy Osborne, Senior Vice President, Human Resources

Todd Eubanks, Senior Vice President, Underwriting and Portfolio Risk

Subsidiaries

Accord Financial Ltd.
Simon Hitzig, President

Accord Financial Inc.
Jason Rosenfeld, President

Accord Financial, Inc.
Jim Hogan, President

Accord Small Business Finance
James Jang, President

Accord Equipment Finance
Jim Hogan, President

BondIt Media Capital
Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Stock Exchange Listings

Toronto Stock Exchange Symbols:
Common Shares: ACD
Convertible Debentures: ACD.DB

Bankers

Bank of Montreal

The Bank of Nova Scotia

Canadian Imperial Bank of Commerce

HSBC Bank Canada

Regions Bank

M&T Bank

The Toronto-Dominion Bank

Registrar & Transfer Agent

Computershare Trust Company of Canada

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Annual Meeting

The Annual Meeting of Shareholders will be held at Toronto Board of Trade, 3rd Floor, First Canadian Place, Toronto, Ontario on **Thursday, May 25, 2023** at 4:15 pm

www.accordfinancial.com | **Canada** (800) 967-0015 | **United States** (800) 231-2757