ANNUAL REPORT 2016

Purpose. Values. Character.

Purpose. Values. Character.

We love helping companies reach their potential.

In fact, it's our core purpose – our very reason for being. Our clients may be in growth mode, or restructuring and rebuilding. Whatever phase they're in, we stand ready with a full range of working capital solutions to help them get wherever they want to go.

Our versatile finance programs allow our clients to transform their accounts receivable, inventory and equipment into valuable working capital. We've been doing it successfully for almost 40 years. How?

By living our values of Integrity (you can be confident we'll do what we say), Reliability (we'll be here when you need us) and Transparency (we're public, so you can see what we're made of).

And then there is our fundamental character. We are highly Accessible: you can talk to a decision maker any time you wish. We are Meticulous: we take our business seriously and approach every situation as such. And we are Passionate: we LOVE coming to work.

Purpose, values and character. As our clients attest, together they're the bedrock of our ability to deliver far more than just money.

Table of Contents

Inside front cover Purpose. Values. Character.
Inside front cover A Brief History of Accord
Inside front cover Complete Spectrum of Financing Solutions
1 Three Year Financial Highlight Summary
2 Letter To Our Shareholders
6 Management's Roundtable Discussion
10 Management's Discussion and Analysis
27 Accord's Key Credit Benchmarks
28 Ten Year Financial Summary 2007-2016
29 Management's Report to the Shareholders
29 Independent Auditors' Report to the Shareholders
30 Consolidated Statements of Financial Position
31 Consolidated Statements of Earnings
31 Consolidated Statements of Comprehensive Income
31 Consolidated Statements of Changes in Equity
32 Consolidated Statements of Cash Flows
33 Notes to Consolidated Financial Statements
Inside back cover Corporate Information

Just ask them.

"Accretive Solutions needed a financing arrangement that was easy to administer operationally. The Accord Financial team was interested in our challenges. They got to know us and the operational obstacles we were facing. Accord then came up with a great solution for us. The relationship is now in its third year. Not only do we appreciate the way our facility was structured from the start but, also, Accord is always responsive and interested in helping us to be successful. We truly value our excellent working relationship with Accord."

~ **JoAnn Lilek,** Chief Financial Officer
Consulting and Executive Search Firm

"Trident Labs, Inc. has been financing with Accord since Jan. 2012. Accord has acted as a true business partner, taking the time to understand our company and industry. The relationship has been straightforward and uncomplicated. Accord was flexible and reasonable, even when asked to make certain short-term allowances along the way. They were right by our side, helping us grow. I have worked with numerous banks and financing firms in my career and I can honestly say it is a pleasure to work with the very professional and knowledgeable staff at Accord. I am and we are pleased to highly recommend Accord."

~ **Scott Bowen,** President and Managing Director
SHB Consulting Group Acting as Chief Financial Officer of Trident Labs, Inc.

"Accord's flexibility and quick reaction to support our opportunities and initiatives has enabled Reliable to achieve record performance. Although we have more choices today with regard to our short-term financing, we remain with Accord for the simple reason that we can count on them."

~ **Roy D. Johnson,** President
Reliable Bookbinders Ltd.
Service provider for binding, finishing of books and mailing

"Twenty years ago we switched our business to another service provider. Our company was growing and we were enticed by a lower rate. Soon after leaving Accord, it was clear that the service level and attention to detail wasn't the same. We also came to appreciate that Accord's reporting was simple and easy to understand. After a short absence, we went back to Accord and we've been there ever since. I might also add that we've been dealing with the same management people at Accord over our 30-year association – a testament to their consistency and professionalism."

~ **Eric Grundy,** Chief Executive Officer
Jaytex Group
Fashion importer

"I truly enjoy working with the team at Accord. Your pragmatic approach to working with us is a wonderful change from the traditional banking relationships."

~ **Mario Ricci,** Chief Financial Officer
Pharmetics (2011) Inc.
Manufacturer of vitamins, supplements, cold products and over-the-counter medicines

A Brief History of Accord

1978 – 1983

- Accord commences operations in 1978 in Toronto and Montreal after raising $2 million in start up capital.
- The first full year of operations (1979) sees factoring volume reach $92 million.
- A rights issue in 1980 brings more capital into the Company to finance growth.
- In 1982 Accord earns $477,000. It would be the first of 35 consecutive years of profitability.

1984 – 1988

- Accord buys Kerlen Factors Ltd. in 1984, its first acquisition.
- All long-term debt is retired in 1985, well ahead of maturity.
- In 1986 the Canadian factoring business of Heller Financial is acquired.
- 1987 is a big year. Volume tops $612 million, bank debt, incurred in the Heller acquisition, is completely repaid. The Company initiates quarterly dividend payments.
- Accord joins Factors Chain International, the world's largest factoring network, in 1988. Earnings reach a new peak of $1.6 million.

1989 – 1993

- In 1990 the Company acquires U.F. Financial Services Inc.
- New records are set in volume, revenue and earnings in 1991. Shareholders' equity climbs to $8.6 million.
- Accord goes public in 1992 and begins trading at $1.95 per share. The Company acquires majority control of JTA Factoring in the U.S., and 100% of Montcap Financial Corp. in Canada, establishing a complete North American presence.
- Factoring volume reaches $1.1 billion in 1993.

1994 – 1998

- In 1996 Accord acquires the balance of Accord Financial, Inc. (formerly JTA Factoring). The Company also acquires Skyview International Finance Corp. which specializes in import finance.
- In 1998 the Company acquires the factoring portfolio of Richards Capital Corp., Dallas.
- In 1998 Accord celebrates its 20th anniversary with record earnings. Shareholders' equity reaches $27.8 million.

1999 – 2003

- In 1999 Accord forges an alliance with Export Development Canada to promote export factoring.
- Earnings reach a peak of $7.4 million on record revenue of $31 million in 2000.
- Tom Henderson is promoted to CEO of Accord Financial, Inc. in 2001.
- The Company celebrates its 25th anniversary in 2003 as volume hits a new high of $1.4 billion.

2004 – 2008

- Earnings reach a new peak of $7.6 million in 2004. A special one-time dividend of $1.50 is paid, putting $14.6 million back in the hands of shareholders.
- In 2005 the Company acquires iTrade Finance, a specialty company financing international transactions.
- In 2008 Accord marks its 30th anniversary, but the celebrations are muted by a sharp economic downturn. A strong U.S. dollar boosts shareholders' equity to $48.2 million.

2009 – 2013

- Accord sets record highs in 2010 in revenue ($31.4 million), net earnings ($8.2 million) and earnings per share (88 cents).
- In 2013 Accord marks its 35th year in business. The Company's dividend payout reaches 32 cents per share per annum.

2014 – 2016

- Completed the strategic acquisition of Varion Capital Corp., a Canadian equipment finance company on January 31, 2014.
- 2015 was a record-breaking year. Average funds employed rise to $149 million. Revenue reaches $31.6 million. Adjusted earnings per share rise to an all-time high $1.12. Equity tops $73 million.
- In 2015, AccordAccess, our unsecured working capital loan solution is introduced.
- The Company's dividend payout rises to 36 cents in 2016, the 30th year of continuous dividends to shareholders.
- In 2016, Accord opens its Chicago small ticket factoring office.

Complete Spectrum of Financing Solutions

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 more traditional funding. Nearly 40 years of superior service combined with exceptional financial strength makes us a most reliable finance partner for companies positioning for their next phase of growth.

Credit protection & receivables management

Accord is one of North America's most experienced firms providing complete receivables management services. For nearly 40 years we've served small- and medium-sized businesses with flexible, cost-effective, risk-free credit guarantees and collection services. With complete coverage of the U.S. and Canada, and strong alliances worldwide, we have the knowledge, expertise and connections to deliver superior results across all industries.

Equipment Financing

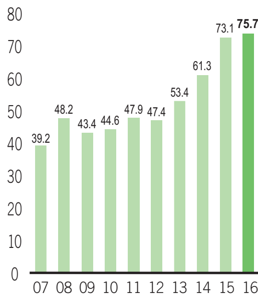
Accord finances equipment for small- and medium-sized business, serving a broad base of Canada's most dynamic industries, from forestry and energy, to construction and manufacturing. Our success has been built on our commitment to supporting SMEs directly and on our strong relationships with regional and national equipment vendors. Like all of our services, we're proud to provide a flexible approach to financing business that may be underserved by the major banks.

Small Business Finance

AccordAccess is a flexible working capital solution aimed at financing growth for qualified small- and medium-sized businesses. AccordAccess provides unsecured loans of up to $75,000, to be repaid in 18 months or sooner with simple, fixed weekly payments. This innovative program is designed to help small businesses take advantage of growth opportunities or manage through challenging times. AccordAccess is an ideal supplement to the owners' equity investment and to long-term financing, like leasing and bank credit.

Supply Chain Finance

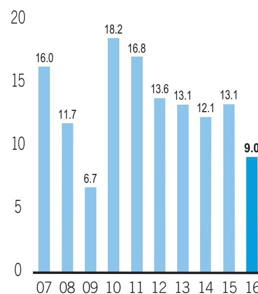
Since 1978, Accord has been a leader in cross-border trade, simplifying supply chain finance for importers and exporters. Our unique AccordOctet program provides trade financing for North American companies sourcing goods anywhere in the world, while our alliance with Factors Chain International facilitates seamless credit and collection services through a network of more than 265 banks and trade finance firms in 75 countries worldwide.



Equity

(in millions of dollars)

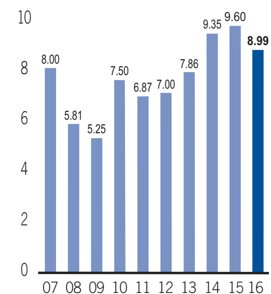
Equity increased to a record $75.7 million at December 31, 2016. Book value per share of $9.11 was also a record high.



Return on Average Equity

(as a percent per annum of average equity)

Return on average equity ("ROE") decreased to 9.0% in 2016 on lower earnings and higher equity. Adjusted ROE was 10.5%.



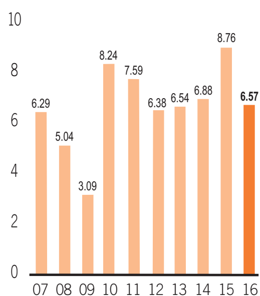
Share Price

(at close on December 31)

Accord's share price closed 2016 at $8.99.

Three Year Financial Highlight Summary

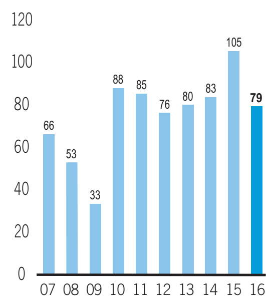
	2016	2015	2014
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Revenue	**$ 28,522**	$ 31,577	$ 30,235
Net earnings	**6,566**	8,759	6,879
Adjusted net earnings	**7,675**	9,281	8,113
Return on average equity	**9.0%**	13.1%	12.1%
Adjusted return on average equity	**10.5%**	13.8%	14.3%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	**$ 150,318**	$ 149,368	$ 142,706
Total assets	**154,869**	154,560	154,624
Equity	**75,682**	73,066	61,332
Common Share Data (per common share)			
Earnings per share - basic and diluted	**$ 0.79**	$ 1.05	$ 0.83
Adjusted earnings per share - basic and diluted	**0.92**	1.12	0.98
Dividends paid	**0.36**	0.35	0.33
Share price - high	**9.95**	12.05	10.75
- low	**8.70**	9.00	7.85
- close at December 31	**8.99**	9.60	9.35
Book value at December 31	**9.11**	8.79	7.38



Net Earnings

(in millions of dollars)

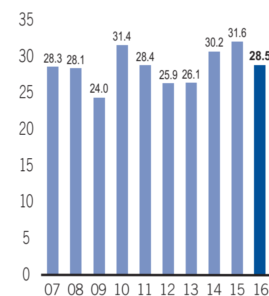
Net earnings totalled $6.57 million in 2016. Adjusted net earnings were $7.68 million.



Diluted Earnings per Share

(in cents)

Diluted earnings per share were 79 cents in 2016, while adjusted EPS were 92 cents.



Revenue

(in millions of dollars)

Revenue declined to $28.5 million in 2016.

Letter to Our Shareholders

From Our Chairman,

Climate change has been much on the minds of people these days. We are concerned about its effect on our icefields in the north, our great lakes, our forests, our fisheries . . . all with good reason. Here, at Accord, we are concerned – again with good reason – about a different kind of climate change, one that proved difficult to predict. Its nature is economic, and its intensity and growth have been swift and dramatic.

It can be described very simply: an abundance of money searching for better yields, plus a shortage of outlets for this flood of cash.

The result: many companies in the field of commercial finance, in their zealous efforts to deal with this climate change, have slashed rates and lowered their credit standards.

I regard this approach as merely coping with the challenges. At Accord we have set our sights on conquering, not coping, while at the same time adhering to our traditional emphasis on credit quality, and our refusal to cut corners in our methods of operation. We are profoundly cognizant of the winds blowing from all directions in this second decade of the 21st Century. As our President and Chief Executive Officer outlines in his Letter to you, well-thought-out and concrete measures have been planned and are being implemented in order that Accord's longstanding profitability, dedication of service to its clients, responsibility to its shareholders, and embrace of sound innovation, will carry on uninterrupted as the future unfolds.

The results for 2016 reflect the business climate we operated in. Here are some of the highlights for Accord in 2016:

- Average funds employed was virtually unchanged from the previous year, at $150 million.
- Total revenue was $28.5 million compared with $31.6 million in 2015.
- Pre-tax earnings were $7.1 million in 2016 compared with $10.7 million in 2015.
- Net earnings were $6.6 million in the latest year versus $8.8 million in 2015.
- Adjusted net earnings fell to $7.7 million in 2016 from $9.3 million in 2015.
- Earnings per share were 79 cents, down from $1.05 in 2015.
- Adjusted earnings per share were 92 cents compared with $1.12 the previous year.
- Equity was a record high $75.7 million at year-end versus $73.1 million one year ago. Book value was also a record high $9.11 per share at Dec. 31, 2016. It was $8.79 per share at Dec. 31, 2015.
- At Dec. 31, 2016, 57% of our assets were in Canada and 43% were in the U.S.
- Net earnings from the Company's U.S. operations were $3.9 million accounting for 59% of our total

Ken Hitzig

Tom Henderson

earnings; $2.7 million was earned in Canada.

- General and administrative expenses at $17.4 million were about the same as the previous year. This year's figure included restructuring expenses of $756,000.

- Our underwriting couldn't quite match the superb results of the previous two years, but we did have an acceptable credit and loan loss level of 3.4% of revenue in 2016. It was 1.2% in 2015.

- EBITDA (earnings before interest, taxes, depreciation and amortization) fell to $10.1 million in 2016 from $13.7 million in 2015.

Unlike 2015, when the U.S. dollar rose from $1.16 to $1.38 Canadian and produced an increase in the Canadian valuation of our U.S. assets, the market swung the other way in 2016 as the greenback slipped to $1.34. Partly as a result of this, Accord's book value per share did not rise 19% as it did in 2015. It did rise modestly however, from $8.79 at Dec. 31, 2015 to $9.11 at Dec. 31, 2016. Accord's shares closed the year on the Toronto Stock Exchange at $8.99. This was less than the closing price of $9.60 a year ago, and a shade less than book value per share.

Four quarterly dividends of nine cents per share were paid in 2016, continuing Accord's unbroken record of dividends dating back to 1987.

From Our President & C.E.O.

The numbers that reflect our financial results for the year 2016 do not adequately reflect our non-financial progress toward increasing the value of your company. That progress is indeed inspiring and is what accounts for the enthusiasm I have when pondering 2017 and the years that will follow. Let me explain.

For too many years now we have faced wave after wave of new entrants in our space which is defined as the Canadian and U.S. commercial finance industry. As a result, the markets in which we compete have become hugely overpopulated. Why did this happen and is it coming to a close?

The answer to the first part of the above question has to do with the search for yield by global financial investors. The course chosen since 2008 by the central bankers and governments of the world has been to stimulate their economies by various means including drastically reducing the cost of borrowed money. Since recovery from the great recession has been inadequate in historic terms, the thinking was that the effect of reduced interest rates would encourage investment, economic growth and stimulate the return of modest inflation expectations. This stimulus was only modestly successful in creating global GDP growth. At the same time though, it brought interest rates for some government securities and very highly rated corporate debt into negative territory. Commercial interest rates declined as well. Investors were thus encouraged to search for yield anywhere it was to be found and the Canadian and U.S. commercial finance industry attracted, and is still attracting, enormous amounts of capital. The lion's share of this capital went into funding new commercial finance entrants. For over six years now we have been witnessing far more supply than demand for commercial debt. The result for all industry participants, including your company, has been declining yields. The jury is out on whether too much

risk has been taken on by the lenders. If there is a downturn in global economies we will have an answer soon enough.

How has Accord responded to the dilemma of too much money chasing too few borrowers? Like everyone else our yields have declined but only moderately and I haven't concerned myself too much with that. Nor have I concerned myself that we have increased our risk appetite because that is sacred, so we haven't done that. So what has been the impact of these phenomena? As competition increased, client turnover has risen. However, the Company has been able to replace lost business with new clients resulting in funds employed largely remaining unchanged.

Our challenge is to start growing again. Is this era of too much capital entering our industry coming to a close? If it is, growth will be no big challenge for Accord. After all we have a great name, numerous attractive financial products, seasoned staff and plenty of capital.

The unfortunate answer is the too much capital problem is not coming to a close anytime soon. Nothing is going to change in that regard. There is no need to go into the details of why this is so. It's a fact we have accepted at Accord. The forces that have impeded our growth are not going to change. Therefore, we have to change because being stagnant is anathema to us.

What must we change in order to grow our business? Your management and Board of Directors have given this plenty of thought and are now moving forward with several initiatives.

First, we are accelerating our plan of continuing to invest in the Accord brand. The name "Accord" is increasingly familiar to Canadian and U.S. referral sources including investment bankers, private equity sponsors, turnaround management consultants, attorneys and accountants. With the help of a well-known brand consultant we have completed work on our "brand foundation" and plan to roll it out in the second quarter. The Accord Brand Foundation encapsulates why we do what we do, how we do it and what it means for our various constituencies including our shareholders, employees, directors, clients and referral sources. We firmly believe that popularizing the Accord name will pay dividends that increase the value of your company.

Second, we are planning to bring more products and businesses under the Accord banner. As the brand becomes more widely known it behooves us to broaden the products and services we can offer to each client in the belief that the more a client is dependent on us for various products, the longer our relationship will survive and not be threatened by a lower-rate competitor. This also has the advantage of creating many more new client relationships than possible with a more limited array of products. There are two ways to bring more products and services under the Accord banner. One is to start up a new platform such as we did in the second half of 2016 when we opened an office in suburban Chicago to offer recourse factoring nationwide to businesses smaller than those served by our existing U.S. business. The other is to buy an existing business just as we did three years ago with our purchase of a Vancouver-based small ticket leasing business. That unit, now branded with the Accord name, is progressing nicely.

Searching for an appropriate acquisition target is time consuming and closing an acquisition is hard work. To make it easier we moved Simon Hitzig to a new position at the parent company. He is now responsible for all corporate development activities. This primarily means he is now devoting much of his energy to locating and analyzing appropriate acquisition candidates. There has been a lot of activity in this regard lately as we have discovered that many firms are quite interested in considering their future as part of the Accord family.

Third, we are determined to improve the way we attempt to access the markets we serve. We are currently evaluating our marketing and servicing systems for prospective clients, and the manner in which each unit responds to these clients' requirements. This important exercise is particularly relevant to our Canadian business and the first focus will be on the huge Ontario market. In spite of being founded in Ontario, which remains our corporate headquarters, we don't have a significant share of the market there. This is probably due to our never having had an operating unit in the Greater Toronto Area that makes loans to businesses. We have units in Montreal and Vancouver that do, but it is obviously important to show the local business community that we have full service operations in their locality.

Fourth, we have not been as quick as we should be to recognize that some prospective clients do not seek financing in the traditional manner by seeking a referral from a trusted source. Many now prefer to search the internet on their own for the financial products they think are appropriate for their business. Until now we have not structured our portal to capture the attention of those people. So, we now have a project underway to remedy that and, accordingly, a new totally refreshed website is about to be launched. The result should be to capture more inquiries than ever before.

In summary, since the external impediments to growing our business are not going to change we must change and I trust the foregoing explanation of how we will change is satisfying to you. I will be addressing this subject at our Annual General Meeting of Shareholders on May 3rd at 4:15 PM at the Toronto Board of Trade, 77 Adelaide Street West, Toronto. Ken Hitzig, our Chairman and founder, and I invite you to join us there and you will have the opportunity to learn much more about your company and to meet the members of our Board of Directors and our executive team.

Ken Hitzig
Chairman of the Board

Tom Henderson
President & Chief Executive Officer

Toronto, Ontario
February 22, 2017

Purpose. Values. Character.

Management's Roundtable Discussion

*Excerpts from a recent management meeting in preparation for the Annual Report. Present were: **Ken Hitzig**, Chairman of the Board of Directors; **Tom Henderson,** President and Chief Executive Officer of Accord Financial Corp.; **Terry Keating**, Executive Vice President of the U.S. business unit; **Fred Moss**, Head of asset-based lending (ABL) for Canada; **James Jang**, Head of Accord Small Business Finance (Canada); **Jim Bates**, Head of Accord's receivables management unit; **Simon Hitzig**, Head of Corporate Development for Accord Financial Corp.; and **Stuart Adair**, Senior Vice President, Chief Financial Officer.*

Ken Hitzig acted as moderator.

Ken: Let's start with the big picture. Tom, you mentioned the Accord "brand foundation" in your letter to shareholders. Can you tell us more?

Tom: Accord has been successful for nearly forty years, during that time we've developed a distinct vision and a unique culture and way of doing business. We felt it was time to document that "brand foundation" and make sure key stakeholders, like referral sources and their client companies, fully appreciate the terrific value we deliver.

Ken: Why the recent emphasis on the brand?

Tom: There is a tidal wave of new money in the alternative lending industry, all chasing the same markets we operate in. To the uninitiated, the money all looks the same. But savvy finance professionals know that Accord delivers far more than just money. The brand foundation describes how Accord delivers more value than our competitors and explains why we're worth it.

Ken: What differentiates Accord?

Tom: The core of our brand is incredible client service. We spend more time in the early stages of each client relationship so we develop a deep understanding of the client's business and financing needs. This allows us to provide an optimal financing solution on day one and continue to adapt our financing programs as clients evolve. And we're a public company with a very strong balance sheet, so clients know we'll be here as long as they need us.

Ken: Every company talks about service. What makes Accord better?

Tom: Accord has the most experience in the industry, period. We've seen many economic cycles and dealt with every possible financing challenge; we draw on that experience to act quickly. We also stick to our guns, when we offer a term sheet our clients know we won't change the deal later because we failed to understand a key issue. And there's no "broken telephone" between clients and senior management; our decision-makers always work with clients directly.

Ken: How does culture fit in?

Tom: The Accord culture is built around integrity. Being honest, open and doing the right thing are principles we all share. This inspires terrific confidence among the finance professionals we work with and their client companies we finance. We love helping companies reach their potential.

Ken: Let's move on to discuss the U.S. operations. Last year you talked about re-entering the U.S. small business finance market. Did that go ahead?

Ken Hitzig

Tom Henderson

Stuart Adair

Terry Keating

Tom: Yes it did, we opened an office in Chicago. Actually, it's more than an office, Accord Business Finance (ABF) is a growth initiative dedicated to small business finance. ABF is aimed at financing smaller companies than in our core U.S. business, typically companies that need between $100,000 and $1 million.

Ken: Terry, you led the ABF launch effort. Why this new focus on small business finance?

Terry: Competition for larger asset-based lending deals has become fierce, with competitors either dropping rates or relaxing credit standards. We've become more flexible on terms and rates but we'll never waver on credit standards. In contrast, pricing in the small business finance market remains more rational. And receivables financing still has a pricing advantage over online lending and merchant cash advance, which have sky-high rates to cover gigantic loan losses.

Ken: Does Accord have the expertise to manage a large volume of small financing deals?

Terry: Certainly our core expertise over the last decade is with larger deals, which are very labor-intensive, and each one unique. Small-ticket invoice financing requires a more standardized, efficient approach. But don't forget, this is where Accord began when it acquired JTA Factoring in 1992. In a way, we're returning to our roots. And ABF is in good hands, run by Sue Duckett, a very savvy veteran who had terrific success as an executive with one of our competitors.

Ken: Tom, you're from Chicago. Any coincidence there?

Tom: I love Chicago, but that's not why we expanded to that region. Chicago is the economic center of the Upper Midwest and also the main hub for commercial banking and finance. It's a terrific base from which to serve small businesses in the middle of the country, and not hard to serve both coasts as well. And of course they have the Cubs.

Ken: And the Blackhawks.

Tom: That too.

Ken: Fred, tell us how the Canadian asset-based lending division performed in 2016.

Fred: Well our balance sheet tells the story; we finished the year almost exactly where we started. The commercial finance market in Canada continues to be very competitive. Revenue declined because our average loan portfolio was slightly smaller compared to the previous year.

Ken: So growth was challenging?

Fred: For sure. A few of our stronger clients graduated to bank financing between late 2015 and mid-2016, and we've had a hard time replacing the business. We continue to see tough competition from other commercial finance companies as well as the banks. But the portfolio was pretty steady over the year. And the pipeline looks good right now.

Ken: Tell us about the Canadian loan portfolio.

Fred: The loan portfolio performed very well, with average gross yield staying very strong throughout the year. And as always we maintained our high credit standards, clocking in with no loan losses for the year.

Ken: What's in store for 2017?

Fred: In recent years we've become very skilled in areas like inventory finance, debtor-in-possession financing, and lending to other lenders, or rediscounting as it's sometimes called. Not every finance company can do these things; our exceptionally broad expertise makes us more valuable to referral sources. We continue to gain ground in these areas, and look forward to building on that momentum in 2017.

Ken: Our Canadian small business financing unit is headed up by James. 2015 was a tough year. Did the headwinds subside in 2016?

James: Good question. The last few years sure were tough. The collapse in the price of oil in late 2014 sent shockwaves through the economy, especially in Western Canada. This had long been the heart of our market. We're now seeing signs of life again in our core industries: construction, mining, energy and forestry. The green sapling taking root on this year's annual report cover rings true to me.

Ken: But your business division managed to grow last year. How did you do that?

James: We adapted. Accord has some key advantages over other equipment finance lenders. First of all, we don't sell off our loans to securitizers, which means we can be far more flexible on terms, structure and size. And second, we're more innovative. AccordAccess, our small business loan product, hasn't been matched by any other leasing company yet.

Ken: So where did your growth come from?

James: We made inroads in our core products; our equipment lease and loan portfolio grew nearly 25%. Our AccordAccess portfolio remained steady, and its high yields boosted our overall portfolio performance. Revenue grew by more than 50% and our profits marked an all-time high. As we reach the three-year mark under the Accord umbrella, we're very proud to contribute to Accord's growth.

Ken: Our receivables management division is run by Jim Bates. Jim, did your business grow in 2016?

Jim: Coming off a pretty strong year in 2015, we struggled to keep up the momentum. A few large accounts departed at the end of 2015, so, while our client base was stable most of the year, we felt the effects of those departures last year. Volume and revenue were down about 18%.

Ken: Is the retail landscape improving?

Jim: Retail in North America continues to be very tough. The global multinationals continue to chip away at the market share of independents and smaller regional chains. And online shopping is wreaking havoc on slow-moving retailers. The massive aggregators like Amazon and eBay have kept shoppers out of the stores and pushed margins down.

Ken: How does this affect your division?

Jim: First of all, as sales momentum shifts online and to the multinationals our target market shrinks. And the competitive environment also eroded volume from a number of our key clients. Our revenue depends on our clients' success; when their revenue declines so does ours.

Ken: How is your division positioned for the future?

Fred Moss

James Jang

Simon Hitzig

Jim Bates

Jim: At the end of the third quarter we made some significant changes to our overhead, bringing our staffing and other operating expenses into better alignment with our current book of business. The cost savings will start to show up in our numbers this year, so we expect a much stronger bottom line in 2017.

Ken: Tom, let's talk about Accord's acquisition strategy. Is this a new focus?

Tom: Accord has always been open to growth by acquisition. Twenty-five years ago we entered the U.S. market by acquisition. And of course that same year our acquisition of Montcap Financial put us on a growth path in the ABL/factoring business in Canada. Most recently, we entered the equipment finance business by acquiring Varion Capital in 2014.

Ken: Simon, in his letter to shareholders Tom described your new focus on acquisitions.

Simon: The non-bank commercial finance industry is very fragmented and, as Tom described, gets more competitive every day. We believe there are now some terrific opportunities for consolidation. My transition to corporate development is aimed at making sure we are proactive players as opportunities arise.

Ken: What kinds of acquisitions are you looking for?

Simon: We're always on the lookout for unique businesses that bring special value to an under-served market. We are particularly drawn to companies with management depth in areas we can understand but don't have existing expertise. And our ideal acquisition targets are positioned to maintain their competitive edge over the long term. Our acquisition of Varion is a good example; we easily understood equipment finance but gained special expertise through its leader James Jang.

Ken: Which markets are you looking to expand in?

Simon: As a North American company, we'd like to enhance our geographic coverage, especially in the U.S. A well-run commercial finance company on the west coast would be a nice fit. And we're always on the lookout to buy loan portfolios, which can add to our scale in one of our core businesses.

Ken: Anything on the table right now?

Simon: No comment. We have a lot of conversations, but we always promise to be discreet.

Ken: Stuart, we've discussed ambitious plans here, including potential acquisitions. Do we have access to funding to make it all happen?

Stuart: Yes indeed. Our equity base grew to more than $75 million at year-end, which underpinned bank borrowings and notes payable of $70 million. This conservative debt-to-equity ratio gives us plenty of room to grow organically or by acquisition. And we stay in touch with various investment bankers in Toronto and New York; by all indications we can easily raise significant term debt if the right acquisition opportunity comes up.

Ken: Our investors now have a better understanding of where Accord is and where it's going. Thank you, gentlemen, and good luck in 2017.

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

Year ended December 31, 2016 compared with year ended December 31, 2015

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, 2016 compared with the year ended December 31, 2015 and, where presented, the year ended December 31, 2014. 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 February 22, 2017, should be read in conjunction with the Company's 2016 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 28) and the Letter to Our Shareholders (see page 2) all of which form part of this 2016 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.

Non-IFRS Financial Measures

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

i) Adjusted net earnings, adjusted earnings per common share and adjusted ROE – adjusted net earnings presents annual net earnings before stock-based compensation, the amortization of intangible assets and restructuring expenses. The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of ongoing operating performance than net earnings as it

Stuart Adair

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 year, while adjusted ROE, a profitability measure, is adjusted net earnings for the year expressed as a percentage of average equity employed in the year;

ii) Return on average equity ("ROE") – this is a profitability measure that presents annual net earnings available to common shareholders as a percentage of the average equity employed in the year to earn the income. The Company includes all components of equity to calculate the average thereof;

iii) Book value per share – book value is the net asset value of the Company calculated as total assets minus total liabilities and, by definition, is the same as total equity. Book value per share is the net asset value 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 over a particular period.

v) Profitability, yield and efficiency ratios – Table 1 on page 14 presents certain profitability measures. In addition to ROE and adjusted ROE, the return on average assets is also presented. This is the Company's net earnings expressed as a percentage of average assets in the year. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and operating expenses expressed as a percentage of average assets. 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 17 presents the following year-end percentages: (i) tangible equity (equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; (ii) equity expressed as a percentage of total assets; and (iii) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages, presented over the last three years, provide information on trends in the Company's financial condition and leverage; and

vii) Credit quality – Table 3 on page 19 presents information on the quality of the Company's total portfolio, namely, its finance receivables and loans (collectively, "Loans" or "funds employed") and managed receivables. It presents the Company's year-end allowances for losses as a percentage of its total portfolio and its annual net charge-offs. It also presents net charge-offs as a percentage of revenue. The percentage of managed receivables past due more than 60 days is also presented in Table 3.

Results of Operations

Years ended December 31 (in thousands unless otherwise stated)	2016 Actual	2016 % of Revenue	2015 Actual	2015 % of Revenue	% change from 2015 to 2016
Average funds employed (millions)	$ 150		$ 149		1%
Revenue					
Interest and other income	$ 28,522	100.0%	$ 31,577	100.0%	-10%
Expenses					
Interest	2,281	8.0%	2,258	7.1%	1%
General and administrative	17,427	61.1%	17,484	55.4%	—%
Provision for credit and loan losses	963	3.4%	375	1.2%	157%
Impairment of assets held for sale	44	0.2%	50	0.2%	-12%
Depreciation	154	0.5%	136	0.4%	13%
Amortization of intangible assets	509	1.8%	575	1.8%	-11%
	21,378	75.0%	20,878	66.1%	2%
Earnings before income tax expense	7,144	25.0%	10,699	33.9%	-33%
Income tax expense	578	2.0%	1,940	6.1%	-70%
Net earnings	$ 6,566	23.0%	$ 8,759	27.8%	-25%
Adjusted net earnings	$ 7,675	26.9%	$ 9,281	29.4%	-17%
Earnings per common share*	$ 0.79		$ 1.05		-25%
Adjusted earnings per common share*	$ 0.92		$ 1.12		-18%

* *basic and diluted*

Accord's Business

Accord is a leading North American provider of asset-based financial services to businesses, namely, asset-based lending ("ABL") (including factoring), lease and equipment financing, working capital financing, credit protection and receivables management, and supply chain financing for importers. The Company's financial services are discussed earlier in this Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 19(a) to the Statements.

The Company founded in 1978 operates four finance companies in North America, namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion Capital Corp. ("Varion") (now doing business as Accord Small Business Finance ("ASBF")) in Canada, and Accord Financial, Inc. ("AFIU") in the United States.

The Company's business principally involves: (i) asset-based lending by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as financing other tangible assets, such as inventory and equipment; (ii) equipment financing and working capital lending by ASBF; and (iii) 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)

	2016	2015	2014
Revenue	$ 28,522	$ 31,577	$ 30,235
Net earnings	6,566	8,759	6,879
Basic and diluted earnings per share	0.79	1.05	0.83
Dividends per share	0.36	0.35	0.33
Total assets	$154,869	$154,560	$154,624

Results of Operations

Year ended December 31, 2016 compared with year ended December 31, 2015

Net earnings in 2016 decreased by $2,193,000 or 25% to $6,566,000 compared to the record $8,759,000 earned in 2015 and were $313,000 or 5% below the $6,879,000 earned in 2014. Net earnings compared to 2015 and 2014 mainly declined on lower revenue and a higher provision for credit and loan losses. Basic and diluted earnings per common share ("EPS") also declined by 25% to 79 cents compared to the record $1.05 earned last year and were 5% below the 83 cents earned in 2014. The Company's ROE decreased to 9.0% in 2016 compared to 13.1% last year and 12.1% in 2014.

Adjusted net earnings in 2016 were $7,675,000, 17% below last year's record of $9,281,000 and 5% below 2014's $8,113,000. Adjusted EPS were 92 cents in 2016, 18% below the record high $1.12 earned in 2015 and 6% below the 98 cents earned in 2014. Adjusted ROE was 10.5% in 2016 compared to 13.9% in 2015 and 14.3% in 2014. The following table provides a reconciliation of net earnings to adjusted net earnings:

Years ended Dec. 31 (in thousands)	2016	2015	2014
Net earnings	$ 6,566	$ 8,759	$ 6,879
Adjustments, net of tax:			
Stock-based compensation expense	189	99	256
Amortization of intangible assets	375	423	419
Restructuring expenses	545	—	—
Withholding tax expense	—	—	559
Adjusted net earnings	$ 7,675	$ 9,281	$ 8,113

Revenue declined by $3,055,000 or 10% to $28,522,000 in 2016 compared to $31,577,000 in 2015 and was $1,713,000 or 6% lower than the $30,235,000 in 2014. Revenue decreased compared to 2015 and 2014 mainly as a result of reduced receivable management fees, as well as lower average yields on funds employed.

Average funds employed in 2016 increased slightly to $150 million compared to $149 million last year and $143 million in 2014.

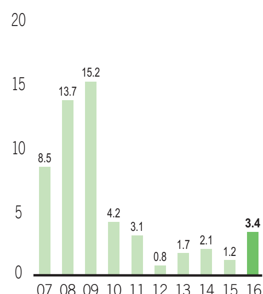
Total expenses increased by $500,000 or 2% to $21,378,000 compared to $20,878,000 in 2015. The provision for credit and loan losses, interest and depreciation increased by $588,000, $23,000 and $18,000, respectively. Amortization of intangible assets, general and administrative expenses ("G&A") and impairment of assets held for sale declined by $66,000, $57,000 and $6,000, respectively.

Interest expense rose slightly to $2,281,000 in 2016 from $2,258,000 last year on somewhat higher interest rates.

G&A comprise personnel costs, which represent the majority of the Company's expenses, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A also included restructuring expenses of $756,000 in 2016. G&A decreased by $57,000 to $17,427,000 in 2016 compared to $17,484,000 last year on lower personnel costs and management fees, despite incurring restructuring expenses related to staff and office space reductions in the Company's Canadian operations, as well as $399,000 to start up AFIU's new Chicago-based factoring division. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by $588,000 to $963,000 compared to $375,000 last year. The provision comprised:

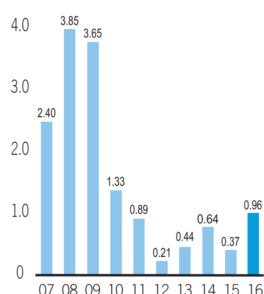
Years ended Dec. 31 (in thousands)	2016	2015
Net charge-offs	$ 1,121	$ 586
Reserves recovery related to decrease in total allowances for losses	(158)	(211)
	$ 963	$ 375



Provision for Credit and Loan Losses

(as a percentage of revenue)

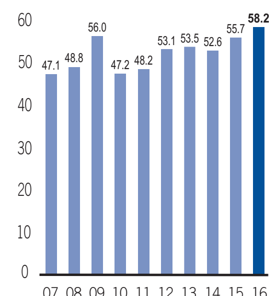
The provision rose to 3.4% of revenue in 2016 from 1.2% last year.



Provision for Credit and Loan Losses

(in millions)

The provision rose to $0.96 million in 2016 from $0.37 million in 2015.



Operating Expenses

Operating expenses rose to 58.2% of revenue in 2016 from 55.7% last year.

The provision for credit and loan losses as a percentage of revenue rose to 3.4% in 2016 from 1.2% in 2015. Net charge-offs rose by $535,000 to $1,121,000 compared to 2015, while there was reserves recovery of $158,000. Net charge-offs included one charge-off totalling $830,000. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

An impairment charge of $44,000 (2015 – $50,000) was taken in 2016 against certain assets held for sale where the net realizable value had declined below book value (see note 5 to the Statements).

Amortization of intangible assets totalled $509,000 in 2016 compared to $576,000 last year. The Company's intangible assets were acquired as part of the Varion acquisition on January 31, 2014.

Income tax expense declined by $1,362,000 or 70% to $578,000 compared to $1,940,000 in 2015 mainly as a result of a 33% decline in pre-tax earnings and the reversal of certain prior year tax accruals no longer required. The Company's effective income tax rate decreased to 8.1% in 2016 compared to 18.1% last year.

Table 1 – Profitability, Yield and Efficiency Ratios

(as a percentage)	**2016**	2015	2014
Return on average assets	**4.0**	5.2	4.3
Return on average equity	**9.0**	13.1	12.1
Adjusted return on average equity	**10.5**	13.9	14.3
Net revenue/average assets	**15.8**	17.6	17.5
Operating expenses/ average assets	**10.0**	10.5	10.0

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2016, the return on average assets, ROE and adjusted ROE expressed as percentages, declined to 4.0%, 9.0% and 10.5%, respectively, as earnings decreased.

Net revenue as a percentage of average assets declined to 15.8% compared to 17.6% in 2015. The ratio of operating expenses to average assets decreased to 10.0% in 2016 compared with 10.5% last year.

Canadian operations reported a 25% decline in net earnings in 2016 compared to 2015 (see note 22 to the Statements) mainly as a result of lower revenue. Net earnings declined by $898,000 to $2,731,000 compared to $3,629,000 last year. Revenue decreased by $2,613,000 or 13% to $18,125,000. Expenses declined by $1,417,000 to $14,331,000. G&A was $1,061,000 lower at $11,327,000 despite incurring the above noted restructuring expenses. The provision for credit and loan losses was $302,000 lower at $122,000. Amortization of intangible assets and impairment of assets held for sale were $66,000 and $6,000 lower, respectively. Depreciation was $13,000 higher, while interest expense rose by $5,000 to $2,222,000. Income tax expense declined by $298,000 or 22% to $1,063,000 in 2016 on a 24% decline in pre-tax earnings.

U.S. operations also reported a 25% decrease in net earnings compared to 2015 (see note 22 to the Statements). Net earnings declined by $1,295,000 to $3,835,000 compared to $5,130,000 last year. Revenue decreased by $478,000 or 4% to $10,397,000. Expenses rose by $1,881,000 or 36% to $7,047,000. G&A increased by $1,004,000 to $6,100,000, while the provision for credit and loan losses increased by $890,000 to $841,000. Depreciation was $5,000 higher. Interest expense declined by $18,000 to $59,000. Income tax decreased by $1,064,000 to an income tax recovery of $485,000. In U.S. dollars, net earnings were 27% lower at US$2,908,000 compared to 2015.

Fourth Quarter 2016: *Quarter ended December 31, 2016 compared with quarter ended December 31, 2015*

Net earnings for the quarter ended December 31, 2016 decreased by $584,000 or 21% to $2,210,000 compared with $2,794,000 last year. Net earnings declined on higher expenses and, to a lesser extent, lower revenue. EPS declined by 21% to 27 cents compared to the 34 cents earned last year.

Adjusted net earnings for the fourth quarter of 2016 totalled $2,362,000, 21% below last year's $2,980,000. Adjusted EPS were 28 cents compared to 36 cents in 2015. The following table provides a reconciliation of net earnings to adjusted net earnings:

Quarters ended Dec. 31 (in thousands)	**2016**	2015
Net earnings	**$ 2,210**	$ 2,794
Adjustments, net of tax:		
Stock-based compensation expenses	**43**	81
Restructuring expenses	**15**	—
Amortization of intangible assets	**94**	105
Adjusted net earnings	**$ 2,362**	$ 2,980

Revenue declined by $117,000 to $7,722,000 in the current quarter compared with $7,839,000 last year.

Total expenses increased by $812,000 or 18% to $5,217,000 compared to $4,405,000 in 2015. The provision for credit and loan losses, G&A, interest and depreciation increased by $541,000, $186,000, $141,000 and $11,000, respectively. Impairment of assets held for sale and amortization of intangible assets declined by $50,000 and $17,000, respectively.

Interest expense rose by $141,000 or 28% to $655,000 in the fourth quarter of 2016 compared to $514,000 last year on higher interest rates and average borrowings.

G&A increased by $186,000 or 4% to $4,612,000 in the current quarter compared to $4,426,000 last year on certain increased costs in our U.S. operation.

There was a $222,000 recovery of credit and loan losses in the fourth quarter compared to a recovery of $763,000 last year. The recovery comprised:

Quarters ended Dec. 31 (in thousands)	**2016**	2015
Net charge-offs (recovery)	**$ 72**	$ (438)
Reserves recovery related to decrease in total allowances for losses	**(294)**	(325)
	$ (222)	$ (763)

Summary of Quarterly Financial Results*

(in thousands of dollars unless otherwise stated)	2016				2015			
Quarters ended	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
Average funds employed (millions)	**$ 157**	**$ 151**	**$ 152**	**$ 142**	$ 145	$ 156	$ 155	$ 142
Revenue								
Interest and other income	**$ 7,722**	**$ 7,032**	**$ 6,897**	**$ 6,871**	$ 7,840	$ 8,521	$ 7,657	$ 7,559
Expenses								
Interest	**655**	**550**	**574**	**501**	515	599	633	511
General and administrative	**4,612**	**4,719**	**3,992**	**4,104**	4,426	4,456	4,240	4,363
Provision for credit and loan losses	**(222)**	**339**	**312**	**535**	(763)	128	529	479
Impairment of assets held for sale	**—**	**44**	**—**	**—**	50	—	—	—
Depreciation	**44**	**42**	**34**	**34**	33	34	35	34
Amortization of intangible assets	**127**	**127**	**127**	**127**	144	144	144	144
	5,216	**5,821**	**5,039**	**5,301**	4,405	5,361	5,581	5,531
Earnings before income tax expense	**2,506**	**1,211**	**1,858**	**1,570**	3,435	3,160	2,076	2,028
Income tax expense	**296**	**(54)**	**231**	**105**	641	636	340	323
Net earnings	**$ 2,210**	**$ 1,265**	**$ 1,627**	**$ 1,465**	$ 2,794	$ 2,524	$ 1,736	$ 1,705
Adjusted net earnings	**$ 2,362**	**$ 1,923**	**$ 1,800**	**$ 1,591**	$ 2,980	$ 2,551	$ 1,885	$ 1,865
Earnings per common share ** (cents)	**27**	**15**	**20**	**18**	34	30	21	21
Adjusted earnings per common share (cents)**	**28**	**23**	**22**	**19**	36	31	23	22

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

There was no impairment charge taken against assets held for sale in the fourth quarter of 2016 (2015 – $50,000).

Amortization of intangible assets totalled $127,000 (2015 – $144,000) in the current quarter.

Income tax expense declined by $345,000 or 54% to $296,000 in the current quarter compared to $641,000 in the fourth quarter of 2015 on a 27% decrease in pre-tax earnings and a reduced effective tax rate. The Company's effective income tax rate declined to 11.8% in the current quarter compared to 18.7% last year.

Review of Financial Position

Equity at December 31, 2016 rose by $2,616,000 to a record high $75,682,000 compared to $73,066,000 at December 31, 2015. Book value per share was also a record high $9.11 at December 31, 2016 compared to $8.79 a year earlier. The increase in equity mainly resulted from a rise in retained earnings. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 31 of this Annual Report.

Total assets were $154,869,000 at December 31, 2016 compared to $154,560,000 at December 31, 2015.

Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 43% of total assets at December 31, 2016 compared to 50% in 2015 (see note 22 to the Statements).

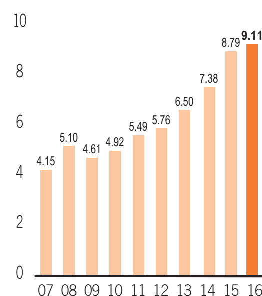
Table 2 – Financial Condition and Leverage

(as a percentage)	2016	2015	2014
Tangible equity/assets	46	44	37
Equity/assets	49	47	40
Debt (bank indebtedness & notes payable)/equity	93	92	132
(in thousands)			
Receivables and Loans			
Loans	$ 139,631	$ 135,907	$ 138,109
Managed receivables	55,682	70,148	80,016
Total Portfolio	$ 195,313	$ 206,055	$ 218,125

Table 2 highlights the Company's financial condition. The first two ratios in the table (46% and 49%), detailing equity as a percentage of assets, rose slightly in 2016 on a proportionally larger rise in equity. Meanwhile, the debt to equity ratio was a low 93% in 2016. These ratios indicate the Company's continued financial strength and relatively low degree of leverage.

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, rose by $3,724,000 or 3% to $139,631,000 at December 31, 2016 compared to $135,907,000 last year-end. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2016	Dec. 31, 2015
Factored receivables	$ 74,333	$ 77,249
Loans to clients	57,342	52,524
Lease receivables	7,956	6,134
Finance receivables and loans, gross	139,631	135,907
Less allowance for losses	1,516	1,648
Finance receivables and loans, net	$ 138,115	$ 134,259



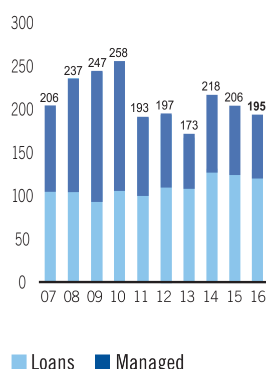
Book Value per Share
(in dollars)

Book value per share rose to a record high $9.11 at December 31, 2016. It was 4% higher than the $8.79 last year-end.

The Company's factored receivables declined by 4% to $74,333,000 at December 31, 2016 compared to $77,249,000 at December 31, 2015. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, as well as unsecured working capital loans, rose by 9% to $57,342,000 at December 31, 2016 compared to a year earlier. Lease receivables, representing ASBF's net investment in equipment leases, rose by 30% to $7,956,000 at December 31, 2016. Net of the allowance for losses thereon, Loans increased by 3% to $138,115,000 at December 31, 2016 compared to $134,259,000 at December 31, 2015. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 80 clients in a wide variety of industries, as well as ASBF's lease receivables and equipment and related loans to over 450 clients. The largest client comprised 7% of gross Loans at December 31, 2016, while four clients each comprised over 5%.

In its credit protection and receivables management business, the Company contracts with clients to assume

the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $56 million at December 31, 2016 compared to $70 million at December 31, 2015. Managed receivables comprise the receivables of approximately 100 clients at December 31, 2016. The 25 largest clients comprised 79% of non-recourse factoring volume in 2016. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At December 31, 2016, the 25 largest customers accounted for 66% of total managed receivables, of which the largest five comprised 31%. All customer balances were below $5 million at that date. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.



Total Portfolio
Loans and managed receivables
(in millions of dollars)

The Company's total portfolio declined by 5% to $195 million at December 31, 2016 from $206 million a year earlier on lower managed receivables.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, decreased by 5% to $195 million at December 31, 2016 compared to $206 million at December 31, 2015.

As described in note 19(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's asset-based lending, including leasing, and credit protection business is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1,000,000, the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 4.1% were past due more than 60 days at December 31, 2016. In the Company's asset-based lending business, receivables become "ineligible" for lending

purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. The financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

The Company also minimizes credit risk by limiting the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's leasing operations, security deposits are obtained in respect of each equipment lease or loan. In its credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. Note 19(a) to the Statements provides details of the Company's credit exposure by industrial sector.

Table 3 – Credit Quality

(as a percentage)	**2016**	2015	2014
Managed receivables past due more than 60 days	**4.1**	3.9	2.9
Reserves*/portfolio	**0.8**	0.9	0.9
Reserves*/net charge-offs	**147**	310	415
Net charge-offs/revenue	**3.9**	1.9	1.6

*Reserves comprise the total of the allowance for losses on Loans and on the guarantee of managed receivables.

Table 3 highlights the credit quality of the Company's total portfolio, both Loans and managed receivables. Net charge-offs of our managed receivables decreased to $126,000 in 2016 compared to $168,000 last year. Net charge-offs of managed receivables were 3 basis points of volume in 2016 and 2015. Net charge-offs in the Company's asset-based lending business increased to $994,000 in 2016 compared to $418,000 last year, of which $830,000 related to one loan. Overall, the Company's total net charge-offs in 2016, as set out in the Results of Operations section above, rose by 91% to $1,121,000 compared with $586,000 in 2015. After the customary detailed year-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 losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans decreased by $132,000 or 8% to $1,516,000 at December 31, 2016 compared to $1,648,000 at December 31, 2015. The allowance for losses on the guarantee of managed receivables decreased by 21% to $131,000 at December 31, 2016 compared to $166,000

at December 31, 2015 on a similar decrease in managed receivables. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in both allowance for losses accounts for 2016 and 2015 is set out in note 4 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased to $9,076,000 at December 31, 2016 compared with $12,440,000 at December 31, 2015. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Assets held for sale, which comprise certain assets securing defaulted loans that the Company obtained title to or repossessed, are stated at the lower of cost or estimated net realizable value and totalled $1,216,000 at December 31, 2016 compared to $1,544,000 at December 31, 2015. Please refer to note 5 to the Statements for details of changes in the assets held for sale balance during 2016 and 2015. The estimated net realizable value of the assets at December 31, 2016 and 2015 was estimated based upon appraisals thereof.

Intangible assets were acquired as part of the Varion acquisition on January 31, 2014 and comprise existing customer contracts and broker relationships. These are being amortized over a period of 5 to 7 years. Intangible assets, net of accumulated amortization, totalled $987,000 at December 31, 2016 compared with $1,496,000 last year-end. Amortization of $509,000 was expensed in 2016 (2015 – $575,000). Please refer to note 7 to the Statements.

Goodwill totalled $3,174,000 at December 31, 2016 compared to $3,213,000 at December 31, 2015. Goodwill of $1,883,000 was acquired as part of the Varion acquisition on January 31, 2014, while goodwill of US$962,000 is also carried in the Company's U.S. operations and is translated into Canadian dollars at the prevailing year-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 8 to the Statements.

Other assets, income taxes receivable, deferred tax assets and capital assets at December 31, 2016 and 2015 were not significant.

Total liabilities decreased by $2,307,000 to $79,187,000 at December 31, 2016 compared to $81,494,000 at December 31, 2015. The decrease mainly resulted from lower amounts due to clients.

Amounts due to clients decreased by $5,320,000 to $4,082,000 at December 31, 2016 compared to $9,402,000 at December 31, 2015. Last year-end a number of borrowing clients were in a credit position resulting in a higher due to clients balance at that time. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by $4,692,000 to $58,786,000 at December 31, 2016 compared with $54,094,000 at December 31, 2015. The Company had approved credit lines with a number of banks totalling approximately $155 million at December 31, 2016 and was in compliance with all loan covenants thereunder during 2016 and 2015. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness principally fluctuates with the quantum of Loans

outstanding. The Company had no term debt outstanding in 2016 and 2015.

Notes payable decreased by $1,831,000 to $11,370,000 at December 31, 2016 compared to $13,201,000 at December 31, 2015. The decrease in notes payable resulted from note redemptions, net of new notes issued. Please see Related Party Transactions section below and note 10(a) to the Statements.

Accounts payable and other liabilities, income taxes payable, deferred income and deferred tax liabilities at December 31, 2016 and 2015 were not significant.

Capital stock remained unchanged at $6,896,000 at December 31, 2016 and 2015. There were 8,307,713 common shares outstanding at December 31, 2016 and 2015. At the date of this MD&A, February 22, 2017, 8,307,713 common shares remained outstanding.

Retained earnings totalled $60,642,000 at December 31, 2016 compared to $57,066,000 at December 31, 2015. During 2016, retained earnings increased by $3,576,000, which comprised net earnings of $6,566,000 less dividends paid of $2,990,000 (36 cents per common share). Please see the consolidated statements of changes in equity on page 31 of this report for details of changes in retained earnings during 2016 and 2015.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled $7,948,000 at December 31, 2016 compared to $9,043,000 at December 31, 2015. Please refer to note 18 to the Statements and the consolidated statements of changes in equity on page 31 of this report, which details movements in the AOCI account during 2016 and 2015. The $1,095,000 decrease in AOCI balance during 2016 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.3840 at December 31, 2015 to $1.3427 at December 31, 2016. This reduced the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$26 million by $1,095,000.

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to equity and its equity to total assets. These ratios are presented for the last three years as percentages in Table 2. As noted above, the ratios at December 31, 2016 indicate the Company's continued financial strength and overall relatively low degree of leverage.

Contractual Obligations and Commitments at December 31, 2016

	Payments due in				
(in thousands of dollars)	Less than one year	One to three years	Four to five years	Thereafter	**Total**
Operating lease obligations	$ 277	$ 224	$ 162	$ 479	**$ 1,142**
Purchase obligations	57	87	—	—	**144**
	$ 334	$ 311	$ 162	$ 479	**$ 1,286**

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

The Company had bank credit lines totalling approximately $155 million at December 31, 2016 and had borrowed $59 million against these facilities. Funds generated through operating activities and the issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $9,076,000 at December 31, 2016 compared to $12,440,000 at December 31, 2015. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Fiscal 2016 cash flows: *Year ended December 31, 2016 compared with year ended December 31, 2015*

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $7,908,000 in 2016 compared to $11,090,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash outflow from operating activities of $3,497,000 in 2016 compared to an inflow of $25,994,000 last year. The net cash outflow in 2016 largely resulted from paying down amounts due to clients and financing gross Loans. In 2015, the net cash inflow largely resulted from the repayment of gross Loans of $11,328,000 and net earnings. 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 32 of this report.

Cash outflows from investing activities totalled $160,000 in 2016 compared to $98,000 last year and comprised capital asset additions.

Net cash inflow from financing activities totalled $976,000 in 2016 compared to a net cash outflow of $22,390,000 last year. The net cash inflow this year resulted from an increase in bank indebtedness of $5,796,000, which was largely offset by dividend payments totalling $2,990,000 and the redemption of notes payable, net, of $1,830,000. In 2015, the net cash outflow resulted from repayments of bank indebtedness of $15,873,000,

redemption of notes payable, net, of $3,610,000 and dividend payments totalling $2,907,000.

The effect of exchange rate changes on cash comprised a reduction of $683,000 in 2016 compared to an increase of $1,831,000 in 2015.

Overall, there was a net cash outflow of $3,364,000 in 2016 compared to an inflow of $5,337,000 in 2015.

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand or, in the case of one note, a week after demand and bear interest at rates that vary with bank prime or Libor. Notes payable at December 31, 2016 totalled $11,370,000 compared with $13,201,000 at December 31, 2015. Of these notes payable, $10,309,000 (2015 – $11,788,000) was owing to related parties and $1,061,000 (2015 – $1,413,000) to third parties. Interest expense on these notes in 2016 totalled $296,000 (2015 – $428,000).

Note 10(b) to the Statements details the remuneration of directors and key management personnel during 2016 and 2015.

Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables and the Company's SARs liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our leasing business, are short-term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2016, the Company had entered into forward foreign exchange contracts with a financial institution that must be exercised between January 1, 2017 and February 28, 2017 and which oblige the Company to sell Canadian dollars and buy US$1,173,000 at exchange rates ranging from 1.2880 to 1.3790. These contracts were entered into by the Company on behalf of clients and similar forward foreign exchange contracts were entered into between the Company and the clients, whereby the Company will buy Canadian dollars from and sell US$1,173,000 to the clients. These contracts are discussed further in note 17 to the Statements.

Critical Accounting Policies and Estimates

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

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

   The Company's allowances on its Loans and its guarantee of managed receivables may comprise

specific and general components. A specific allowance may be established against Loans that are identified as impaired, or non-performing, when the Company determines, based on its review, identification and evaluation of problem Loans, that the timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where a clients' customer becomes insolvent and the Company's guarantee is called upon. In such cases, the Company will estimate the fair value of the required payments to clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate.

A general or collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its collective allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are based upon historic credit and loan loss experience and are reviewed for adequacy on an ongoing basis. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d) and 4 to the Statements.

ii) the extent of any provisions required for outstanding claims. In the normal course of business there is outstanding litigation, the results of which are not normally expected to have a material effect upon the Company. However, the adverse resolution of a particular claim could have a material impact on the Company's financial results. The Company is not aware of any claims currently outstanding upon which significant damages could be payable.

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 2016 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")) at December 31, 2016 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 at December 31, 2016 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 19 to the Statements, which discuss the Company's principal financial risk management practices.

Competition

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, operating results and financial condition. The Company will not, however, compromise its credit standards.

Economic slowdown

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

Credit risk

The Company is in the business of financing its clients' receivables and making asset-based loans, including lease financing. The Company's portfolio totalled $195 million at December 31, 2016. Operating results

can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 19(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its floating rate borrowings, the Company is exposed to some degree to interest rate fluctuations. This is partially mitigated in its leasing business, where lease receivables and term loans to clients tend to be at fixed effective interest rates, while related bank borrowings tend to be floating rate. Please refer to note 19(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources is held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. This has also impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the AOCI component of equity to a loss position, although this has now recovered to a sizable gain position at December 31, 2016. Please see notes 18 and 19(c)(i) to the Statements.

Potential acquisitions and investments

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

Personnel significance

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

Outlook

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

In 2016, the Company fell short of the record levels of business activity seen in 2015. Receivables management revenue decreased and, in our lending businesses, yields declined in large part due to aggressive competition. In response, the Company downsized its Canadian operations and took a restructuring charge. However, the Company's pipeline of prospects has remained strong and it closed the year with funds employed of $140 million up from $136 million at the end of 2015.

It is anticipated that the Company's asset-based financing units will be able to continue to build their

funds employed despite operating in very competitive markets. We opened a new office in Chicago for our U.S. business at the end of September 2016. Named "Accord Business Finance" this new division will provide factoring facilities for smaller businesses than those served by our South Carolina office. We expect this unit to grow and become an ever-increasing contributor to our earnings. The Company's equipment financing and leasing business, ASBF, is experiencing growth, continues to expand its product offerings and is quite profitable. ASBF launched an internet-based working capital loan product at the end of 2015 that it hopes will accelerate its growth over the next few years and it is now doing larger equipment finance deals, which is expected to grow its funds employed. However, our credit protection and receivables management business continues to face intense competition from multinational credit insurers and it is expected this will continue. We will remain vigilant in maintaining portfolio quality in the face of an increasingly uncertain global economy. The Company continues to actively seek opportunities to acquire companies or portfolios to grow its business. Overall, the Company is cautiously optimistic about its prospects for 2017.

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

Stuart Adair
Senior Vice President, Chief Financial Officer
February 22, 2017

Accord's Key Credit Benchmarks

One of our primary functions at Accord is to manage risk and to assess credit quality. As detailed in Table 3, there are four key benchmarks which tell us how well we are doing.

Past due managed receivables

We try to keep our past managed due receivables as low as possible. Over the past three years, the percentage of managed receivables past due more than 60 days has ranged from 2.9% to 4.1%. At December 31, 2016, the percentage was 4.1%.

Reserves to portfolio

In an effort to minimize financial risk, we try to maximize this measure. Over the past three years, it has ranged between 0.8% and 0.9%. It was 0.8% at December 31, 2016.

Reserves to net charge-offs

Ideally, this percentage should be greater than 50%, which is to say that the year-end reserves would absorb about six months of charge-offs. As a result of the continued low level of charge-offs in 2016, this percentage was 147% at December 31, 2016.

Net charge-offs to revenue

This is an important benchmark in our business. The Company considers charge-offs of less than 5% of revenue to be acceptable. It has ranged between 1.6% and 3.9% over the last three years and was 3.9% in 2016 as the Company continued to manage its portfolio very well.

Ten Year Financial Summary 2007-2016

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

	Canadian GAAP			IFRS*						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**
Revenue	$ 28,346	28,060	24,045	31,406	28,408	25,891	26,074	30,235	31,577	**28,522**
Interest	2,992	2,871	1,180	1,730	2,047	1,911	1,913	2,523	2,258	**2,281**
General and administrative	13,143	13,491	13,290	14,679	13,558	13,615	13,845	16,154	17,484	**17,427**
Provision for credit and loan losses	2,402	3,849	3,648	1,325	886	213	438	639	375	**963**
Impairment of assets held for sale	—	—	1,265	1,237	462	—	—	—	50	**44**
Depreciation	209	195	181	159	130	126	112	125	136	**154**
Business acquisition expenses	—	—	—	—	—	—	—	570	575	**509**
Total expenses	18,746	20,406	19,564	19,130	17,083	15,865	16,308	20,011	20,878	**21,378**
Earnings before income tax expense	9,600	7,654	4,481	12,276	11,325	10,026	9,766	10,224	10,699	**7,144**
Income tax expense	3,313	2,613	1,392	4,033	3,740	3,649	3,228	3,345	1,940	**578**
Net earnings	$ 6,287	5,041	3,089	8,243	7,585	6,377	6,538	6,879	8,759	**6,566**
Earnings per common share:										
Basic	$ 0.66	0.53	0.33	0.88	0.85	0.76	0.80	0.83	1.05	**0.79**
Diluted	0.66	0.53	0.33	0.88	0.85	0.76	0.80	0.83	1.05	**0.79**
Dividends per common share	$ 0.22	0.24	0.26	0.28	0.30	0.31	0.32	0.33	0.35	**0.36**
Finance receivables and loans	$103,940	99,990	89,907	102,313	89,124	108,477	109,775	136,346	134,259	**138,115**
Other assets	3,193	3,508	8,030	10,811	9,368	16,115	11,034	18,278	20,301	**16,754**
Total assets	$107,133	103,498	97,937	113,124	98,492	124,592	120,809	154,624	154,560	**154,869**
Due to clients	$ 4,897	4,588	4,517	5,113	3,519	3,874	5,115	6,639	9,402	**4,082**
Bank indebtedness	48,207	35,877	36,798	44,596	27,222	54,572	43,368	63,995	54,094	**58,787**
Notes payable	9,567	10,944	9,254	10,142	14,611	14,492	14,809	16,808	13,201	**11,370**
Other liabilities	5,265	3,910	4,013	8,713	5,285	4,258	4,086	5,850	4,797	**4,948**
Total liabilities	67,936	55,319	54,582	68,564	50,637	77,196	67,378	93,292	81,494	**79,187**
Equity	39,197	48,179	43,355	44,560	47,855	47,396	53,431	61,332	73,066	**75,682**
Total liabilities and equity	$107,133	103,498	97,937	113,124	98,492	124,592	120,809	154,624	154,560	**154,869**
Shares outstanding at Dec. 31	# 9,454	9,438	9,409	9,066	8,719	8,221	8,221	8,308	8,308	**8,308**
Book value per share at Dec. 31	$ 4.15	5.10	4.61	4.92	5.49	5.76	6.50	7.38	8.79	**9.11**
Share price - high	$ 9.45	8.39	6.70	8.14	8.25	7.15	9.25	10.75	12.05	**9.95**
- low	7.72	4.75	5.25	5.25	6.50	6.50	6.84	7.85	9.00	**8.70**
- close at Dec. 31	8.00	5.81	5.25	7.50	6.87	7.00	7.86	9.35	9.60	**8.99**
Return on average equity	% 16.0	11.7	6.7	18.2	16.8	13.6	13.1	12.1	13.1	**9.0**

* the Company adopted IFRS effective January 1, 2011, with a transition date of January 1, 2010. The financial statement amounts presented above for 2009 and prior years were prepared in accordance with Canadian generally accepted accounting principles.

Management's Report to the Shareholders

The management of Accord Financial Corp. is responsible for the preparation, fair presentation and integrity of the 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 its 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, express 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.

Stuart Adair
Senior Vice President, Chief Financial Officer
Toronto, Canada
February 22, 2017

Independent Auditors' Report to the Shareholders

To the Shareholders of Accord Financial Corp.

We have audited the accompanying consolidated financial statements of Accord Financial Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Accord Financial Corp. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants,
Licensed Public Accountants
Toronto, Canada
February 22, 2017

Consolidated Statements of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Cash	**$ 9,075,993**	$ 12,440,143
Finance receivables and loans, net (note 4)	**138,115,297**	134,259,000
Income taxes receivable	**428,678**	376,727
Other assets	**1,081,066**	658,061
Assets held for sale (note 5)	**1,215,656**	1,544,182
Deferred tax assets, net (note 13)	**432,165**	217,103
Capital assets (note 6)	**359,466**	354,910
Intangible assets (note 7)	**986,718**	1,496,242
Goodwill (note 8)	**3,173,777**	3,213,495
	$ 154,868,816	$ 154,559,863
Liabilities		
Due to clients	**$ 4,082,439**	$ 9,401,637
Bank indebtedness (note 9)	**58,786,548**	54,094,479
Accounts payable and other liabilities	**3,246,723**	2,886,546
Income taxes payable	**810,791**	932,351
Notes payable (note 10(a))	**11,369,553**	13,200,628
Deferred income	**449,221**	378,504
Deferred tax liabilities, net (note 13)	**441,482**	600,034
	79,186,757	81,494,179
Equity		
Capital stock (note 11)	**6,896,153**	6,896,153
Contributed surplus (note 11(c))	**195,704**	60,329
Retained earnings	**60,641,807**	57,066,132
Accumulated other comprehensive income (note 18)	**7,948,395**	9,043,070
	75,682,059	73,065,684
	$ 154,868,816	$ 154,559,863

See accompanying notes to consolidated financial statements.

On behalf of the Board

Ken Hitzig
Chairman of the Board

Tom Henderson
President and Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2016	2015
Revenue		
Interest and other income (note 4 and 5)	**$ 28,522,732**	$ 31,577,010
Expenses		
Interest	**2,280,638**	2,257,582
General and administrative (note 12)	**17,426,575**	17,484,394
Provision for credit and loan losses (note 4)	**963,531**	374,519
Impairment of assets held for sale (note 5)	**44,491**	50,600
Depreciation	**153,521**	135,748
Amortization of intangible assets	**509,524**	575,552
	21,378,280	20,878,395
Earnings before income tax expense	**7,144,452**	10,698,615
Income tax expense (note 13)	**578,000**	1,940,000
Net earnings	**$ 6,566,452**	$ 8,758,615
Basic and diluted earnings per common share (note 14)	**$ 0.79**	$ 1.05

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2016	2015
Net earnings	**$ 6,566,452**	$ 8,758,615
Other comprehensive (loss) income:		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange (loss) gain on translation of self-sustaining foreign operations (note 18)	**(1,094,675)**	5,865,321
Comprehensive income	**$ 5,471,777**	$ 14,623,936

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	Total
Balance at January 1, 2015	8,307,713	$ 6,896,153	$ 42,840	$ 51,215,217	$ 3,177,749	$ 61,331,959
Comprehensive income	—	—	—	8,758,615	5,865,321	14,623,936
Stock-based compensation expense related to stock option grant	—	—	17,489	—	—	17,489
Dividends paid	—	—	—	(2,907,700)	—	(2,907,700)
Balance at December 31, 2015	**8,307,713**	**6,896,153**	**60,329**	**57,066,132**	**9,043,070**	**73,065,684**
Comprehensive income	—	—	—	**6,566,452**	**(1,094,675)**	**5,471,777**
Stock-based compensation expense related to stock option grants	—	—	**135,375**	—	—	**135,375**
Dividends paid	—	—	—	**(2,990,777)**	—	**(2,990,777)**
Balance at December 31, 2016	**8,307,713**	**$ 6,896,153**	**$ 195,704**	**$60,641,807**	**$ 7,948,395**	**$75,682,059**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2016	2015
Cash provided by (used in)		
Operating activities		
Net earnings	$ 6,566,452	$ 8,758,615
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	(157,029)	(211,334)
Deferred income	(38,597)	(187,498)
Amortization of intangible assets	509,524	575,552
Depreciation	153,521	135,748
Loss on disposal of capital assets	609	—
Loss on disposal of assets held for sale	115,482	10,981
Impairment of assets held for sale	44,491	50,600
Stock-based compensation expense related to stock option grant(s)	135,375	17,489
Deferred tax (recovery) expense	(373,326)	17,265
Current income tax expense	951,326	1,922,735
	7,907,828	11,090,153
Changes in operating assets and liabilities		
Finance receivables and loans, gross	(5,255,249)	11,327,880
Due to clients	(5,338,395)	2,545,490
Other assets	(421,869)	1,414,665
Accounts payable and other liabilities	523,254	(530,386)
Disposal of assets held for sale, net	191,553	1,572,397
Income tax paid, net	(1,104,037)	(1,425,871)
	(3,496,915)	25,994,328
Investing activities		
Additions to capital assets, net	(160,087)	(98,210)
Financing activities		
Bank indebtedness	5,796,844	(15,872,840)
Notes payable redeemed, net	(1,830,223)	(3,609,889)
Dividends paid	(2,990,777)	(2,907,700)
	975,844	(22,390,429)
Effect of exchange rate changes on cash	(682,992)	1,831,181
(Decrease) increase in cash	(3,364,150)	5,336,870
Cash at January 1	12,440,143	7,103,273
Cash at December 31	$ 9,075,993	$ 12,440,143
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 2,108,908	$ 2,012,258

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

1. Description of the business

Accord Financial Corp. (the "Company") is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing asset-based financial services, including factoring, financing, leasing, credit investigation, credit protection and receivables management, to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 77 Bloor Street West, 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.

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 losses relating to finance receivables and loans and to the guarantee of managed receivables (note 3(e) and 4), the determination of the value of goodwill and intangible assets on acquisition (notes 3(g), 3(h), 7 and 8), as well as the net realizable value of assets held for sale and deferred tax assets and liabilities (notes 3(p), 5 and 13). Management believes that these estimates are reasonable and appropriate.

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

- Cash;
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities);
- Share appreciation rights ("SARs") liability*; 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 February 22, 2017.

3. Significant accounting policies

(a) Adoption of narrow-scope amendments to International Accounting Standard ("IAS") 1, Presentation of Financial Statements

During 2016, the Company adopted the amended IAS 1, which emphasizes materiality by clarifying that specific and single disclosures that are not material do not have to be presented even if they

are a minimum requirement of a standard. The amended IAS did not have any impact on amounts reported or the Company's presentation or disclosures.

(b) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries; namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion Capital Corp. ("Varion") in Canada and Accord Financial, Inc. ("AFIU") in the United States. The Company exercises 100% control over each of its subsidiaries. The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation.

(c) Revenue recognition

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

Other revenue, such as due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(d) Finance receivables and loans

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

The Company's leasing operations have standard lease contracts that are non-cancellable direct financing leases and provide for monthly lease payments, usually for periods of one to five years. The present value of the minimum lease payments and residual values expected to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of execution costs, and the cost of the leased

asset is unearned revenue, which is recorded as a reduction in the asset value, with the net amount being shown as the net investment in leases (specifically, the Company's lease receivables). The unearned revenue is then recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return on the net investment throughout the lease term.

(e) Allowances for losses

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables. At each reporting date, the Company assesses whether there is objective evidence that the finance receivables and loans or managed receivables are impaired. A finance receivable or loan or a group of finance receivables or loans is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of these asset(s), and that the loss event has an effect on the future cash flows resulting from the finance receivable(s) or loan(s) that can be estimated reliably. In respect of the Company's guarantee of managed receivables, a loss event has occurred if there exists objective evidence that a debtor is bankrupt or insolvent and payments, which can be estimated reliably, are required to be made to clients under the Company's guarantees to them.

The Company maintains these allowances for losses at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and customer receivable portfolios and typical industry loss experience.

The Company considers evidence of impairment for finance receivables and loans and managed receivables at both a specific asset and collective level. All finance receivables and loans and managed receivables are first assessed for specific impairment and, if found not to be specifically impaired, they are then collectively assessed for any impairment that has been incurred but not yet identified.

Losses on finance receivables and loans are charged to the respective allowance for losses account when collectability becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Recoveries from previously written-off accounts are credited to the respective allowance for losses account once collected. The allowance for losses on finance receivables and loans is recorded at amortized cost, while the allowance for losses on the guarantee of managed receivables is recorded at fair value.

(f) Capital assets

Capital assets are 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

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

capital assets on a regular basis to determine that their carrying values have not been impaired.

(g) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill in not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for each cash generating unit. If the carrying value of a cash generating unit exceeds its recoverable amount, goodwill is considered impaired and an appropriate charge is made against earnings in the year in which the impairment is determined.

(h) Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets have a finite life and are amortized over their useful economic life. They 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 and broker relationships in its leasing operations, which are amortized over a period of five to seven years.

(i) 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 and are mainly related to the Company's intangible assets and assets held for sale balances.

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.

(j) Foreign subsidiaries

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

(k) 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 the consolidated statements of financial position dates. 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.

(l) Earnings 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 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.

(m) Stock-based compensation

The Company accounts for SARs and stock options issued to directors and/or employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

The Company's senior executive long-term incentive plan ("LTIP") (note 11(g)) contemplates that grants thereunder may be settled in common shares and/or cash. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the Company's adjusted return on average equity over the three year vesting period of an award. The fair value of the awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

(n) Derivative financial instruments

The Company records derivative financial instruments on its consolidated statements of financial position at their respective fair values. Changes in the fair value of these instruments are reported in the consolidated statements of earnings unless all of the criteria for hedge accounting are met, in which case, changes in fair value would be recorded in other comprehensive income or loss. The Company has employed only cash flow or economic hedges.

(o) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, the SARs liability, and the guarantee of managed receivables, which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

(p) 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").

(q) Financial instruments - disclosures

The financial instruments presented on the consolidated statements of financial position at fair value are further classified according to a fair-value hierarchy that prioritizes the quality and reliability of information used in estimating fair value. The fair values for each of the three levels are based on:

- Level 1 - quoted prices in active markets;
- Level 2 - models using observable inputs other than quoted market prices included within Level 1; and
- Level 3 - models using inputs that are not based on observable market data.

(r) Future accounting policies

IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments;

Recognition and Measurement. The Standard includes new guidance on: (i) classification and measurement of financial assets and liabilities; (ii) impairment of financial assets; and (iii) hedge accounting. The Company intends to adopt IFRS 9 in its consolidated financial statements for the fiscal year beginning January 1, 2018. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 15, Revenue from Contracts with Customers, will replace the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts in the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. IFRS 15 is effective for the fiscal year beginning January 1, 2018. The extent of the impact of adoption of IFRS 15 has not yet been determined.

IFRS 16, Leases, will replace existing guidance on accounting for leases. The accounting treatment of leases by lessees will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for fiscal years beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

4. Finance receivables and loans

Finance receivables and loans at December 31 were as follows:

	2016	2015
Factored receivables	**$ 74,332,950**	$ 77,249,252
Loans to clients	**57,341,953**	52,523,477
Lease receivables	**7,956,394**	6,134,271
Finance receivables and loans, gross	**139,631,297**	135,907,000
Less allowance for losses	**1,516,000**	1,648,000
Finance receivables and loans, net	**$138,115,297**	$134,259,000

Lease receivables comprise Varion's net investment in leases as described in note 3(d). Varion's lease receivables at December 31, 2016 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans in 2016 totalled $22,875,935 (2015 – $25,063,044). Fees from receivables management and credit protection services during 2016 totalled $3,477,873 (2015 – $4,950,370).

The Company's allowance for losses on finance receivables and loans to clients at December 31, 2016 and 2015 comprised only a collective allowance. The activity in the allowance for losses on finance receivables and loans account during 2016 and 2015 was as follows:

	2016	2015
Allowance for losses at January 1	**$ 1,648,000**	$ 1,763,000
Provision for loan losses	**872,358**	230,741
Charge-offs	**(1,080,398)**	(437,412)
Recoveries	**86,012**	19,336
Foreign exchange adjustment	**(9,972)**	72,335
Allowance for losses at December 31	**$ 1,516,000**	$ 1,648,000

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to

the majority of the clients' receivables. At December 31, 2016, the gross amount of these managed receivables was $55,682,019 (2015 – $70,148,210). At December 31, 2016, management provided an amount of $131,000 (2015 – $166,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during 2016 and 2015 was as follows:

	2016	2015
Allowance for losses at January 1	**$ 166,000**	$ 190,000
Provision for credit losses	**91,173**	143,778
Charge-offs	**(152,367)**	(197,166)
Recoveries	**26,194**	29,388
Allowance for losses at December 31	**$ 131,000**	$ 166,000

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted on terms that are usual and customary to the Company's asset-based lending and factoring activities. The Company controls the credit risk associated with its finance receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 19(a).

At December 31, 2016, the Company held cash collateral of $1,877,450 (2015 – $1,486,710) to help reduce the risk of loss on certain of the Company's finance receivables and loans and managed receivables.

The Company considers the allowances for losses on both its finance receivables and loans to clients and its guarantee of managed receivables critical to its financial results (note 3(e)). As noted above, the Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover estimated losses thereon. The allowances are based upon several considerations, including current economic environment, condition of the loan and receivable portfolios and typical industry loss experience. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as a bankruptcy or insolvency.

In establishing its collective allowances, the Company applies percentage formulae to its finance receivables and loans to clients, and managed receivables. The Company reviewed and adjusted its allowance for losses formulae at the beginning of 2016. The changes in estimate did not have a material impact on the Company's consolidated financial statements.

5. Assets held for sale

Assets held for sale and movements therein during 2016 and 2015 was as follows:

	2016	2015
Assets held for sale at January 1	**$ 1,544,182**	$ 2,172,491
Additions	**25,540**	944,589
Disposals	**(309,575)**	(1,583,378)
Impairment charge	**(44,491)**	(50,600)
Foreign exchange adjustment	**—**	61,080
Assets held for sale at December 31	**$ 1,215,656**	$ 1,544,182

During 2016 and prior years, the Company obtained title to or repossessed certain long-lived assets securing defaulted loans. These assets will be disposed of as market conditions permit. The estimated net realizable value of the assets at December 31, 2016 and 2015 was

estimated based upon appraisals of the assets.

The assets disposed of in 2016 were sold for $194,093, resulting in an overall loss on sale of $115,482 compared to the book value of the assets. The assets disposed of in 2015 were sold for $1,572,397, resulting in an overall loss on sale of $10,981 compared to the book value of the assets. These losses were included in other income.

6. Capital assets

	Dec. 31, 2016	Dec. 31, 2015
Cost	**$ 2,490,036**	$ 2,350,215
Less accumulated depreciation	**2,130,570**	1,995,305
	$ 359,466	$ 354,910

7. Intangible assets

Intangible assets were as follows:

	Existing customer contracts	Broker relationships	Total
Cost			
January 1, 2016 and December 31, 2016	$1,179,097	$1,343,938	$ 2,523,035
Accumulated amortization			
January 1, 2016	$ (635,533)	$ (391,260)	$ (1,026,793)
Amortization expense	(305,388)	(204,136)	(509,524)
December 31, 2016	$ (940,921)	$ (595,396)	$ (1,536,317)
Book value			
January 1, 2016	$ 543,564	$ 952,678	$ 1,496,242
December 31, 2016	**$ 238,176**	**$ 748,542**	**$ 986,718**

	Existing customer contracts	Broker relationships	Total
Cost			
January 1, 2015 and December 31, 2015	$1,179,097	$1,343,938	$ 2,523,035
Accumulated amortization			
January 1, 2015	$ (264,117)	$ (187,124)	$ (451,241)
Amortization expense	(371,416)	(204,136)	(575,552)
December 31, 2015	$ (635,533)	$ (391,260)	$ (1,026,793)
Book value			
January 1, 2015	$ 914,980	$1,156,814	$ 2,071,794
December 31, 2015	$ 543,564	$ 952,678	$ 1,496,242

8. Goodwill

	2016	2015
January 1	**$ 3,213,495**	$ 2,998,172
Foreign exchange adjustment	**(39,718)**	215,323
December 31	**$ 3,173,777**	$ 3,213,495

During 2016 and 2015, the Company conducted annual impairment reviews and determined that there was no impairment to the carrying value of goodwill. Goodwill of US$961,697 is carried in the Company's U.S. subsidiary and a foreign exchange adjustment is recognized each year-end when this balance is translated into Canadian dollars at a different prevailing year-end exchange rate.

9. Bank indebtedness

Revolving lines of credit totalling approximately $155,000,000 have been established with a number of banks, bearing interest varying with the bank prime rate or Libor. These lines of credit are collateralized primarily by finance receivables and loans to clients. At December 31, 2016, the amounts outstanding under these lines of credit totalled $58,786,548 (2015 – $54,094,479). The Company was in compliance with all loan covenants under these lines of credit during 2016 and 2015.

10. Related party transactions

(a) Notes payable

Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. The notes are unsecured, due on demand, or in the case of one note, a week after requesting repayment, and bear interest at rates at, or below those of the Company's bank lines of credit.

Notes payable at December 31 were as follows:

	2016	2015
Related parties	$ 10,308,352	$ 11,787,564
Third parties	1,061,201	1,413,064
	$ 11,369,553	$ 13,200,628

Interest expense on the notes payable was as follows:

	2016	2015
Related parties	$ 270,363	$ 391,088
Third parties	26,020	36,413
	$ 296,383	$ 427,501

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[(1)] during 2016 and 2015 was as follows:

	2016	2015
Salaries and directors' fees	$ 2,291,411	$ 2,220,343
Stock-based compensation[(2)]	143,983	80,733
	$ 2,435,394	$ 2,301,076

[(1)] Key management personnel comprise the Chairman of the Company's Board, the President of AFC and AFIU, the Presidents of AFIC, AFL and Varion and the Company's Chief Financial Officer.

[(2)] Stock-based compensation comprises the expense related to the Company's SARs, stock option and LTIP grants. Please see note 11(h).

11. Capital stock, contributed surplus, dividends, share appreciation rights, stock option plans, senior executive long-term incentive plan and stock-based compensation

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2016 and 2015, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2016 and 2015 are set out in the consolidated statements of changes in equity.

(c) Contributed surplus

	2016	2015
January 1	$ 60,329	$ 42,840
Stock-based compensation expense related to stock option grants (note 11(f))	135,375	17,489
December 31	$ 195,704	$ 60,329

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2016, dividends totalling $2,990,777 (2015 – $2,907,700) or $0.36 (2015 – $0.35) per common share were declared and paid.

On January 24, 2017, the Company declared a quarterly dividend of $0.09 per common share, payable March 1, 2017 to shareholders of record on February 14, 2017.

(e) Share appreciation rights

The Company has established a SARs plan, whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be granted in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company at the time of grant. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the ten days that the shares were traded immediately preceding the date of grant, or other ten day trading period that the Company's Board may determine. Employees can sell part or all of their SARs after

holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant. Directors have to sell their SARs to the Company on or before October 27, 2017 at which time they will automatically be sold.

No SARs have been granted by the Company to directors or employees since 2011. During 2016, 15,000 SARs were exercised (2015 – 15,000).

The Company's vested and outstanding SARs at December 31 were as follows:

Exercise price	Grant date	2016	2015
$6.03	July 28, 2009	**7,500**	7,500
$5.50	May 7, 2010	**15,000**	15,000
$7.97	May 4, 2011	**45,000**	55,000
$7.56	July 26, 2011	**—**	5,000
		67,500	82,500

At December 31, 2016, the Company had accrued $123,375 (2015 – $190,050) in respect of the fair value of its liability for outstanding SARs. At that date, only SARs held by the Company's directors remained outstanding.

(f) Stock option plans

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

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

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

Outstanding options granted under the NEDSOP at December 31 were as follows:

Exercise price	Grant date	2016	2015
$9.56	October 28, 2015	**100,000**	100,000
$9.28	July 27, 2016	**100,000**	—
		200,000	100,000
Earned and exercisable		**50,000**	—

The fair value of the options granted in 2016 and 2015 was determined using the Black-Scholes option pricing model with the following assumptions on the grant date:

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

(g) Senior executive long-term incentive plan

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual

bonus subject to an annual LTIP pool maximum of 5% of adjusted consolidated net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance shares and/or paid in cash.

(h) Stock-based compensation

During 2016, the Company recorded a stock-based compensation expense totalling $217,374 (2015 – $141,263), of which $135,375 (2015 – $17,489) was in respect of NEDSOP grants and $125,474 (2015 – $97,074) was in respect of LTIP awards, while there was a recovery of $43,475 (2015 – expense $26,700) in respect of outstanding SARs.

12. Restructuring expenses

During 2016, the Company incurred restructuring expenses to downsize its Canadian operations. The restructuring involves employee and office space reductions. General and administrative expenses include $755,741 (2015 – nil) comprising of $731,441 (2015 – nil) related to employee benefits and $24,300 (2015 – nil) related to an office space reduction expensed by the Company in respect of this restructuring.

13. Income taxes

The Company's income tax expense comprises:

	2016	2015
Current income tax expense	$ 951,326	$ 1,922,735
Deferred tax (recovery) expense	(373,326)	17,265
Income tax expense	$ 578,000	$ 1,940,000

During 2016 and 2015, 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:

	2016	%
Income tax expense computed at statutory rates	$ 1,893,280	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(1,197,219)	(16.8)
Other	(118,061)	(1.6)
Income tax expense	$ 578,000	8.1

	2015	%
Income tax expense computed at statutory rates	$ 2,835,133	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(681,997)	(6.4)
Other	(213,136)	(2.0)
Income tax expense	$ 1,940,000	18.1

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

	2016	2015
Deferred tax assets:		
Allowances for losses	$ 382,358	$ 88,000
Unused tax losses	317,103	244,103
SARs and LTIP liabilities	81,440	71,000
Other	275,254	—
	1,056,155	403,103
Deferred tax liabilities:		
Goodwill	(355,816)	—
Lease receivables	(246,061)	(183,000)
Capital assets	(6,000)	(3,000)
Other	(16,113)	—
	623,990	(186,000)
	$ 432,165	$ 217,103

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

	2016	2015
Deferred tax liabilities:		
Acquired intangibles	**$ 261,482**	$ 396,506
Assets held for sale	**180,000**	180,000
Goodwill	—	366,345
Other	—	22,559
	441,482	965,410
Deferred tax assets:		
Allowance for losses	—	(149,887)
Other	—	(215,489)
	—	(365,376)
	$ 441,482	$ 600,034

At December 31, 2016 and 2015, 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.

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

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

The following is a reconciliation of shares used in the calculation of earnings per share:

	2016	2015
Basic weighted average number of common shares outstanding	**8,307,713**	8,307,713
Effect of dilutive stock options	—	844
Diluted weighted average number of common shares outstanding	**8,307,713**	8,308,557

For the year ended December 31, 2016, all outstanding options were excluded from the calculation of the diluted weighted average number of common shares outstanding because they were considered to be anti-dilutive for earnings per share purposes. Details of outstanding options are set out in note 11(f).

15. Contingent liabilities

(a) In the normal course of business, there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defence. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At December 31, 2016, 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 (2015 – nil).

(b) At December 31, 2016, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $827,289 (2015 – $481,201). In addition, at December 31,

2016 the Company was contingently liable with respect to a letter of guarantee issued on behalf of a client in the amount of $402,810 (2015 – $150,000). These amounts have been considered in determining the allowance for losses on finance receivables and loans.

16. Lease commitments

The Company is committed under operating leases, principally office space leases, which expire in 2027. The minimum rental payments under these long-term operating leases, exclusive of certain operating costs and property taxes for which the Company is responsible, are as follows:

2017	$ 277,140
2018	113,544
2019	110,221
2020	81,000
2021	81,000
Thereafter	479,250
	$ 1,142,155

17. Derivative financial instruments

At December 31, 2016, the Company had entered into forward foreign exchange contracts with a financial institution that must be exercised between January 1, 2017 and February 28, 2017 and which oblige the Company to sell Canadian dollars and buy U.S. $1,172,516 at exchange rates ranging from 1.2880 to 1.3790. These contracts were entered into by the Company on behalf of clients and similar forward foreign exchange contracts were entered into between the Company and the clients, whereby the Company will buy Canadian dollars from and sell U.S. $1,172,516 to the clients.

At December 31, 2015, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 29, 2016 and March 31, 2016 and which obliged the Company to sell Canadian dollars and buy U.S. $700,000 at exchange rates ranging from 1.3075 to 1.3100. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company bought Canadian dollars from and sold U.S. $700,000 to the client.

The favorable and unfavorable fair values of these contracts were recorded on the Company's consolidated statements of financial position at December 31, 2016 and 2015 in other assets and accounts payable and other liabilities, respectively. The fair values of these contracts, which totalled $49,623 (2015 – $52,861), were classified as Level 2 under IFRS 7, Financial Instruments - Disclosures. During 2016 and 2015, there were no transfers between the three-level fair value hierarchy described in note 3(q).

18. 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 2016 and 2015 are set out in the consolidated statements of changes in equity.

19. Financial risk management

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

limit, control and monitor the risks faced by the Company. Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company's case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these loans and managed receivables represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending, including factoring and leasing, business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. Typically, the Company takes title to the factored receivables and collateral security over the other assets that it lends against and does not lend on an unsecured basis. It does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending, including leasing, and credit protection and receivables management operations, credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1.0 million, the Company's President and the Chairman of its Board. Credit in excess of $2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. In its asset-based lending operations, the Company's primary focus continues to be on the credit-worthiness and collectability of its clients' receivables.

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. Varion's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 4.1% were past due more than 60 days at December 31, 2016 (2015 – 3.9%). In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Credit risk is primarily

managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. The financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

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

In its credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At December 31, 2016, the Company had not guaranteed any accounts receivable in excess of $5 million for any customer.

The Company's credit exposure relating to its finance receivables and loans by industrial sector at December 31 was as follows:

(in thousands)	2016 Gross finance receivables and loans	2016 % of total
Financial and professional services	**$ 58,583**	**42**
Wholesale and distribution	**31,193**	**22**
Manufacturing	**25,385**	**18**
Real estate	**7,900**	**6**
Other	**16,570**	**12**
	$ 139,631	**100**

(in thousands)	2015 Gross finance receivables and loans	2015 % of total
Financial and professional services	$ 49,996	37
Manufacturing	38,018	28
Wholesale and distribution	29,970	22
Other	17,923	13
	$ 135,907	100

The Company's credit exposure relating to its managed receivables by industrial sector at December 31 was as follows:

(in thousands)	2016 Managed receivables	2016 % of total
Retail	**$ 44,460**	**80**
Wholesale and distribution	**9,228**	**16**
Other	**1,994**	**4**
	$ 55,682	**100**

(in thousands)	2015 Managed receivables	2015 % of total
Retail	$ 57,819	82
Wholesale and distribution	10,623	15
Other	1,706	3
	$ 70,148	100

As set out in notes 3(e) and 4, the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately $155,000,000 have been established at a number of banking institutions, bearing interest varying with the bank prime rate or Libor. At December 31, 2016, the Company had borrowed $58,786,548 (2015 – $54,094,479) against these facilities. These lines of credit are collateralized by finance receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit during 2016 and 2015. Notes payable are due on demand, or in the case of one note, a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. At December 31, 2016, 91% (2015 – 89%) of these notes were due to related parties and 9% (2015 – 11%) to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At December 31, 2016, the Company had gross finance receivables and loans totalling $139,631,297 (2015 – $135,907,000), which substantially exceeded its total liabilities of $79,186,757 at that date (2015 – $81,494,179). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

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

(c) Market risk

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

(i) Currency risk

The Company is exposed to currency risk primarily in its foreign operations which operate in U.S. dollars, to the full extent of the foreign operations

net assets of U.S. $26,409,000 at December 31, 2016. The Company's investments in its foreign subsidiaries are not hedged as they are long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's foreign operations into Canadian dollars each year-end. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the AOCI component of equity (note 18). The Company is also subject to foreign currency risk on the earnings of its foreign operations which are unhedged. Based on the foreign operations results for the year-ended December 31, 2016, a one-cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $30,000. It would also change other comprehensive income or loss and the AOCI component of equity by approximately $264,000.

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, 2016, the Company's unhedged foreign currency positions in its Canadian operations totalled $188,000 (2016 – $276,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the foreign currencies against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

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

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's finance receivables and loans substantially exceed its floating and short-term fixed rate (usually 30 days) borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity. This is partially mitigated in the Company's leasing business, where Varion's lease receivables and term loans to clients are usually at fixed effective interest rates, while related bank borrowings are currently at floating rates.

The following table shows the interest rate sensitivity gap at December 31, 2016:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 6,701	$ —	$ —	$ —	$ 2,375	$ 9,076
Finance receivables and loans, net	110,565	12,951	8,651	921	5,027	138,115
Assets held for sale	—	—	—	—	1,216	1,216
All other assets	—	428	—	—	6,034	6,462
	117,266	13,379	8,651	921	14,652	154,869
Liabilities						
Due to clients	—	—	—	—	4,082	4,082
Bank indebtedness	1,149	57,638	—	—	—	58,787
Notes payable	11,370	—	—	—	—	11,370
All other liabilities	—	811	—	—	4,137	4,948
Equity	—	—	—	—	75,682	75,682
	12,519	58,449	—	—	83,901	154,869
	$104,747	$(45,070)	$ 8,651	$ 921	$(69,249)	$ —

Based on the Company's interest rate positions as at December 31, 2016, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $600,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

20. Fair values of financial assets and liabilities

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

21. Capital disclosure

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, these ratios were 93% (2015 – 92%) and 49% (2015 – 47%), respectively, at December 31, 2016, indicating the Company's continued financial strength and relatively low degree of leverage. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at December 31, 2016, AFIC and AFIU are required to maintain a debt to TNW ratio of less than 3.0 on a combined basis. Varion is also required to maintain a debt to TNW ratio of less than 3.0. The Company was fully compliant with its banking covenants at December 31, 2016. There were no changes in the Company's approach to capital management from the previous year.

22. Segmented information

The Company operates and manages its businesses in one dominant industry segment - providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. There were no significant changes to capital assets during 2016 and 2015.

2016 (in thousands)	**Canada**	**United States**	**Inter-company**	**Total**
Identifiable assets	**$ 88,335**	**$ 66,534**	**$ —**	**$ 154,869**
Revenue	**$ 18,125**	**$ 10,397**	**$ —**	**$ 28,522**
Expenses				
Interest	**2,222**	**59**	**—**	**2,281**
General and administrative	**11,327**	**6,100**	**—**	**17,427**
Provision for credit and loan losses	**122**	**841**	**—**	**963**
Impairment of assets held for sale	**44**	**—**	**—**	**44**
Depreciation	**107**	**47**	**—**	**154**
Amortization of intangible assets	**509**	**—**	**—**	**509**
	14,331	**7,047**	**—**	**21,378**
Earnings before income tax expense (recovery)	**3,794**	**3,350**	**—**	**7,144**
Income tax expense (recovery)	**1,063**	**(485)**	**—**	**578**
Net earnings	**$ 2,731**	**$ 3,835**	**$ —**	**$ 6,566**

2015 (in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 85,938	$ 76,934	$ (8,312)	$ 154,560
Revenue	$ 20,738	$ 10,875	$ (36)	$ 31,577
Expenses				
Interest	2,217	77	(36)	2,258
General and administrative	12,388	5,096	—	17,484
Provision for credit and loan losses	424	(49)	—	375
Impairment of assets held for sale	50	—	—	50
Depreciation	94	42	—	136
Amortization of intangible assets	575	—	—	575
	15,748	5,166	(36)	20,878
Earnings before income tax expense	4,990	5,709	—	10,699
Income tax expense	1,361	579	—	1,940
Net earnings	$ 3,629	$ 5,130	$ —	$ 8,759

23. Subsequent events

On January 25, 2017, a customer of several of the Company's clients, whose obligations to them are guaranteed by the Company, filed for insolvency protection under the Companies' Creditors Arrangement Act ("CCAA"). At December 31, 2016, the Company had guaranteed payment of client receivables from that customer of $2,829,000, of which $1,927,000 remained outstanding at January 25, 2017, the date of the CCAA filing. The customer is to make a proposal to its creditors but as of February 22, 2017, the date of these statements, the extent of any loss to the Company under the guarantees to its clients could not be determined, but is not expected to be material to the Company. Any loss as a result will be recorded in 2017.

There were no other subsequent events occurring after December 31, 2016 that required disclosure.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2]
David Beutel, Toronto, Ontario [1, 3]
Tom Henderson, Greenville, South Carolina
Gary Prager, Atlanta, Georgia [3]
Robert S. Sandler, White Plains, New York [2, 3]
John J. Swidler, Montreal, Quebec [1]
Stephen D. Warden, Oakville, Ontario [1, 2]

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Credit Committee

Officers

Ken Hitzig, Chairman of the Board
Tom Henderson, President & CEO
Stuart Adair, Senior Vice President, Chief Financial Officer
Jim Bates, Secretary
Simon Hitzig, Senior Vice President
Fred Moss, Vice President

Subsidiaries

Accord Financial Ltd.
Jim Bates, President

Accord Financial Inc.
Fred Moss, President

Accord Financial, Inc.
Tom Henderson, President

Accord Small Business Finance (Varion Capital Corp.)
James Jang, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

The Bank of Nova Scotia
Branch Banking and Trust
Canadian Imperial Bank of Commerce
HSBC Bank Canada
The Toronto-Dominion Bank

Stock Exchange Listing

Toronto Stock Exchange
Symbol: ACD

Registrar & Transfer Agent

Computershare Trust Company of Canada

Annual Meeting

The Annual Meeting of Shareholders will be held **Wednesday, May 3rd, 2017** at 4:15 pm at The Toronto Board of Trade First Canadian Place, Toronto, Ontario

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