Investing in Opportunities for Growth

Annual Report 2017

A Brief History of Accord

1978 – 1983

- Accord commences factoring 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 36 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 – 2017

- 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.
- On July 1, 2017 the Company acquired a 51% effective interest in BondIt Media Capital, a film and media finance company based in California.
- On October 27, 2017 the Company acquired a 90% interest in Accord CapX LLC, a Chicago-based provider of equipment finance throughout the U.S.
- In 2017 funds employed averaged $181 million. Shareholders equity reached $76 million. Total assets exceeded $250 million for the first time.

We love helping companies reach their potential.

We are experienced. Our experience is a resource we use to continually examine opportunities for growth. When you have this focus opportunities often present themselves. Our staff presents opportunities. Having this unique blend of experience and youth gives us insights into areas often overlooked by our competitors.

There is a youthfulness and vibrancy in our approach to business. Whether it's questions around financing, or investigating new areas of opportunity for our clients, we are spry. You can count on us. We take the time to understand your business, so we can provide support when it is needed most.

You know what we are made of, you can read it in our financial reports. We bring all our resources to bear to help our clients realize their own opportunities. This helps us both, we all benefit. Yes, we are fast, we are also meticulous. We approach our work seriously so that the opportunities we help create are viable and sustainable.

Growth is vibrancy. You can see it in our people, our relationships, our services and our vision. We invest in opportunities for growth because that is what keeps our business dynamic.

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Just ask them.

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

~ Dustin White
Partner, Dynamic Capital

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

~ Phil Kain
Managing Partner, Rush Street Capital

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

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

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

~ Adrian Fulle
Principal, Poya Pictures

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

Equipment financing

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

Credit protection & receivables management

Accord is one of North America's most experienced firms providing complete receivables management services. For forty 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.

Supply chain finance

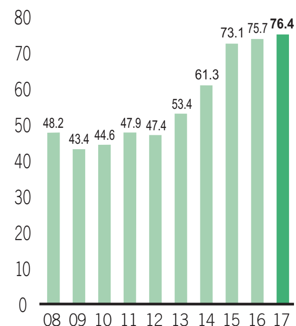
Since 1978, Accord has been a leader in cross-border trade, simplifying supply chain finance for importers and exporters. Our unique AccordOctet program provides trade financing for North American companies sourcing goods anywhere in the world, while our alliance with Factors Chain International facilitates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

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, 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' investment and to long-term financing, like leasing and bank credit.

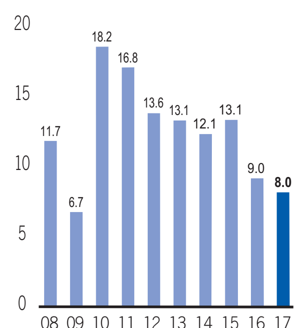
Media finance

Accord provides media finance through affiliate BondIt Media Capital, a world renowned film, television and media financier founded in 2014. Since inception, BondIt has participated in the debt financing of over 200 feature film and television productions ranging from micro-budgets to studio level projects. Based in Santa Monica, BondIt is a flexible financing partner for projects, producers and media companies alike.



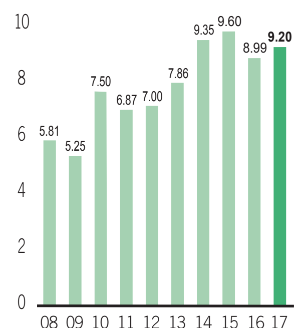
Shareholders' equity
(in millions of dollars)

Shareholders' equity increased to a record $76.4 million at December 31, 2017.



Return on Average Equity
(as a percent per annum of average equity)

Return on average equity ("ROE") decreased to 8.0% in 2017 on lower earnings and higher equity. Adjusted ROE was 9.3%.

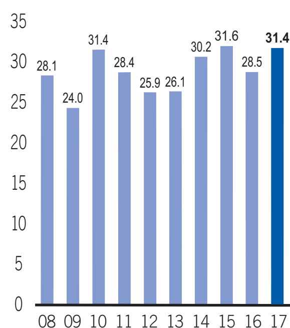


Share Price
(at close on December 31)

Accord's share price closed 2017 at $9.20.

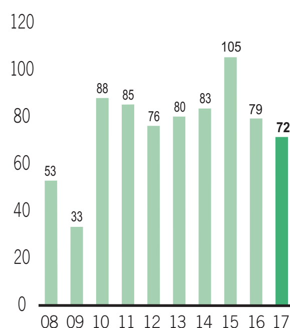
Three Year Financial Highlight Summary

	2017	2016	2015
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Revenue	**$ 31,409**	$ 28,522	$ 31,577
Net earnings attributable to shareholders	**6,010**	6,566	8,759
Adjusted net earnings	**7,005**	7,675	9,281
Return on average equity	**8.0%**	9.0%	13.1%
Adjusted return on average equity	**9.3%**	10.5%	13.8%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	**$ 181,052**	$ 150,318	$ 149,368
Total assets	**251,020**	158,566	154,560
Shareholders' equity	**76,448**	75,682	73,066
Common Share Data (per common share)			
Earnings per share - basic and diluted	**$ 0.72**	$ 0.79	$ 1.05
Adjusted earnings per share - basic and diluted	**0.84**	0.92	1.12
Dividends paid	**0.36**	0.36	0.35
Share price - high	**9.55**	9.95	12.05
- low	**8.40**	8.70	9.00
- close at December 31	**9.20**	8.99	9.60
Book value per share at December 31	**9.20**	9.11	8.79



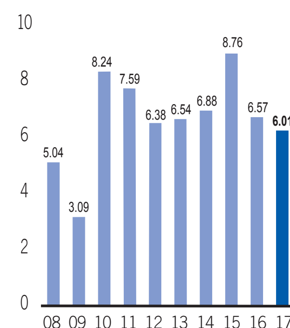
Revenue
(in millions of dollars)

Revenue rose to $31.4 million in 2017 on higher funds employed.



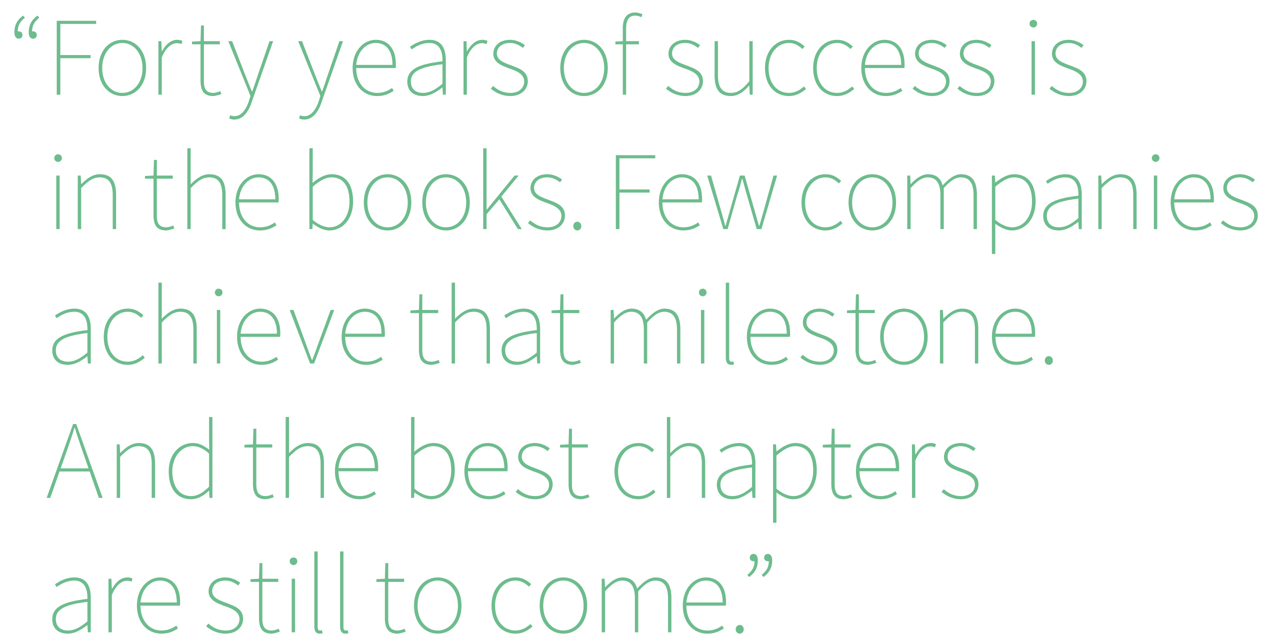
Diluted Earnings per Share
(in cents)

Diluted earnings per share were 72 cents in 2017, while adjusted diluted EPS were 84 cents.



Net Earnings
(in millions of dollars)

Net earnings attributable to shareholders totalled $6.01 million in 2017. Adjusted net earnings were $7.00 million.



~ Ken Hitzig

Ken Hitzig

Tom Henderson

"The strength of our past positions us well for the future."

~ Tom Henderson

Letter to Our Shareholders

From Our Chairman

2017 was a momentous year for Accord. At the date of writing, we are marking forty years since our founding. We are celebrating with strong organic growth and important new partnerships that lay a foundation for the next forty years.

As you will read in management's roundtable discussion, the last several years have seen profound change in the nature of the Company. Accord is no longer just a lender on receivables. Our reach has taken the Company into re-discounting, retail inventory lending, short- and medium-term equipment leasing and media financing. As our new colleagues at CapX like to say: "We can now lend up and down a client's balance sheet, creating a one-stop source of senior secured financing to middle-market business."

While our business profile has evolved, our formula for financial success remains the same: we earn our money on the assets we finance; more assets on our books means more revenue. Strong organic asset growth was the story for 2017. Earning assets, stagnant for three years, grew from $140 million at December 31, 2016 to $220 million at December 31, 2017, an increase of 58%. Needless to say, this should produce welcome rises in revenue and profit in 2018.

Our two new partnerships – BondIt and CapX – generated meaningful revenue, though most of their contribution came in the fourth quarter. We look forward to having a complete year in 2018 to build on these partnerships.

As noted above, 2018 marks our 40th anniversary. On February 28, 1978, we received our federal charter to engage in the factoring and finance business under the name Accord Business Credit Inc. The Company's efforts to raise capital were successfully concluded on September 15th, when $1,000,000 of subordinated serial notes and 1,000,000 common shares were issued for a total capital infusion of $2,000,000. The notes were ultimately redeemed in full five years later. The common shares, issued for $1.00 each, were split 6.4 to 1 in 1992 when Accord was listed on the Toronto Stock Exchange under the name of Accord Financial Corp.

Shareholders who paid $1.00 per share in 1978 now have 6.4 shares each trading at $9.20 (December 31, 2017), for total value of $58.88. Those shareholders have also received steady dividends over the years. Thankfully, many of those original investors are still with us.

As we slowly rose through the ranks in Canada, we set our sights on the U.S., entering that market in 1992. While we came to dominate in Canada, our twenty-five years in the U.S. have been more than eventful. Commercial finance, and Accord's place in it, continues to evolve. But our success is in the books.

The Accord family now consists of nearly 100 talented people located in offices in Toronto, Montreal, Vancouver, Greenville SC, Chicago and Santa Monica. I am proud to be associated with these dedicated people. The next forty years should prove very exciting indeed.

Factors Chain International ("FCI"), the industry's global association, marks its 50th anniversary in June. Having nurtured this fine organization since its founding, I plan to be in Amsterdam to help celebrate its five decades of achievements. Accord remains a dedicated steward of FCI, and one of the longest-standing non-bank members.

The results for 2017 reflect the progress made as I've described, within the business climate we operated in. Here are some of the highlights for Accord in 2017:

- Average funds employed were $181 million compared with $150 million in 2016.
- Total revenue was $31.4 million compared with $28.5 million in 2016.
- Pre-tax earnings were $6.6 million in 2017 compared with $7.1 million in 2016.
- Shareholders' net earnings were $6.0 million in the latest year versus $6.6 million in 2016.
- Adjusted net earnings fell to $7.0 million in 2017 from $7.7 million in 2016.
- Earnings per share were 72 cents, down from 79 cents in 2016.
- Adjusted earnings per share were 84 cents compared with 92 cents the previous year.
- Shareholders' equity was a record high $76.4 million at year-end versus $75.7 million one year ago.
- At Dec. 31, 2017, 52% of our assets were in Canada and 48% were in the U.S.
- Net earnings from the Company's Canadian operations were $3.9 million accounting for 65% of our total earnings; $2.1 million was earned in the U.S.
- General and administrative expenses at $16.9 million in the current year compared to $17.4 million in the previous year.
- Our underwriting fell short of our expectations. The credit and loan loss level was 9.3% of revenue in 2017. It was 3.4% in 2016.
- EBITDA (earnings before interest, taxes, depreciation and amortization) rose to $11.0 million in 2017 from $10.1 million in 2016.

Accord's book value per share inched up to a record high $9.20 compared with $9.11 a year earlier. Accord's share price closed the year on the Toronto Stock Exchange at $9.20; it was $8.99 at December 31, 2016.

Four quarterly dividends of nine cents per share were paid in 2017 continuing Accord's unbroken record of dividends dating back to 1987.

From Our President & CEO

Now, let's talk about what we see as the four highlights behind the numbers for 2017:

1. Bumps in the road
2. Very satisfying funds employed growth
3. Two successful, exciting acquisitions
4. Real busy Shareholder Value Council (SVC)

Let's begin with "Bumps in the road." We had two bumps; both in the U.S. First, we experienced a bad debt loss on a U.S. client. It was our first experience in an industry we targeted for diversification and growth. As a result, we learned a great deal about this particular industry and how to structure and manage these exposures going forward. It's worth noting that the loss on this client was the first one of any kind in the U.S. since 2010.

Second, we determined our idea to open an office in suburban Chicago in 2016 was ill-timed. It was intended to serve customers too small for our Greenville operation and we hired a seasoned factoring executive to run the business. Unfortunately, the market we targeted was in a downturn and though we managed to put on some business it became apparent by mid-year that it was going to take too long to see good results. We decided to bite the bullet, closed shop and the whole experience was an expensive lesson. Were it not for these two bumps, our numbers would have been quite pleasing to me. I promise you, the rest of this letter will be VERY pleasing to you.

Next up is "Very satisfying funds employed growth." For too many years, your Company has experienced tepid growth. It started just after the last recession, when falling interest rates on global treasury instruments highlighted the attraction of our industry to cash rich investors. A torrent of money came sloshing into the U.S. asset-based lending industry and, to a somewhat lesser extent, Canada. It's Econ 101: the law of supply and demand. No surprise that the new money found its way to the market, a market far from sizzling, by pricing loans far below historical norms. The drop in yields was stunning and eventually we had to lower our own return expectations, but we refused to meet this new "hot money" head on. Consequently, we didn't grow, but we didn't succumb to the lure of topline growth by taking on additional risk. At Accord, risk management is number one—we don't compromise on risk.

To meet this challenge of too much money chasing too few opportunities, we invested more and more in our brand—as readers of my messages over the years know very well. We also worked at keeping our expenses under control and bringing new product, and product variations, to the market. We began looking outward for growth and purchased a small equipment leasing business in Vancouver four years ago. By the way, I am

very happy with that investment. Accord Small Business Finance is growing nicely and is exceptionally well managed by James Jang, its founder and CEO.

As you know from the numbers in this report, our assets last year grew by almost 60%. How did this happen? One can never be certain, but it is probably a combination of three elements. In no particular order, they are: the cumulative effect of our branding investments, a reduction in new entrants to our sector and a global economy beginning to waken from a very long slumber, and finally we acquired two great companies. I see no evidence now that this welcome growth will reverse, but I will be very surprised if it continues at this pace. Last year, all of our lending units grew right across the board. Therefore, we finally weathered the "hot money" storm and with much care we intend to keep growing.

Now, we turn to "Two very exciting, successful acquisitions." Several years ago, the SVC laid out a strategy to grow by acquisition within our industry. Acceptable targets had to possess three important criteria: a strong brand that emphasizes their uniqueness (not "me too" operations), exceptional management willing to stay and grow the business and finally it must be in need of nurturing growth capital. We were patient, searching for the right opportunities and our success eventually came from our own proprietary efforts.

In our third quarter report last year, I commented on our July acquisition of a controlling interest in BondIt LLC and I refer you now to those comments. This dynamic media finance company is located in Santa Monica, California and is run by Matt Helderman, CEO, and his two very talented entrepreneurial partners, Co-Founder and COO Luke Taylor and CFO, Pat DePeters. I am very proud of these guys, their strong work ethic and the principled way they operate this growing business. We are flattered they chose to join the Accord family.

In October, we announced the acquisition of Chicago-based CapX Partners. Eighteen years ago this equipment leasing and finance business was started by CEO, Jeff Pfeffer who was later joined by his partners, Jim Hallene, Barrett Carlson and Eric Starr. These exceptional executives have grown the business manyfold over the years using a capital funds model which has served them well. Last year, in February, we began discussing with them our thoughts about forming a new company that would start with zero assets and their talent combined with our capital. This newco has been named Accord CapX LLC but will continue to do business as CapX Partners. It will grow and retain on its own balance sheet a substantial mix of leases and loans to U.S. and Canadian lower- and middle-market companies. Its clients have been, and will continue to be, established cash flowing businesses that, for the most part, are owned by prominent equity sponsors. CapX has an exceptional reputation with U.S. banks and other referral sources setting the stage for exciting growth in revenue and profits in a truly transformative combination with Accord. I am personally thrilled at the opportunity to work with Jeff, Jim, Barrett and Eric, and I am profoundly humbled they too made the decision to join the Accord family. It is noteworthy that acquisition success came in a year we grew our funds employed internally by 42%. This portends strong asset growth over the next few years and our bankers have responded enthusiastically by beginning to structure a much larger loan facility which we expect to have in place during the second quarter of this year.

Lastly, we turn to "Real busy Shareholder Value Council (SVC)." This is a group of our senior executives that was formed seven years ago. Including our Chairman, this group now numbers twelve. At our November meeting last year, we were pleased to be joined by Matt Helderman of BondIt and Jeff Pfeffer of CapX. The mission of the SVC is to increase the long-term value of Accord. As such, it is very forward focused and routinely examines every important aspect of our business. I believe the SVC is a phenomenon unique to our industry and I am proud of its contribution to the ultimate value of Accord, which is why I spend so much time attending to its needs. This group really cares about the direction of your Company and is honest and bold about the future. Currently, the SVC is divided into six working groups, each headed by a chairperson who directs and coordinates its research and planning. These groups meet individually and then the entire SVC meets quarterly to catch up on all the action. The SVC meets semi-annually offsite, with all the other meetings by phone or videoconference. Space here does not permit me to tell you about all the activities on the SVC agenda but if you want to know more just ask me anytime.

This is still the business started by our Chairman, Ken Hitzig, forty years ago. Over those years, and especially last year, it has taken on a completely new and exciting character that positions your Company for our next forty years. I invite you to join Ken and I at our Annual General Meeting of Shareholders on Wednesday, May 2nd at 4:15 p.m. at the Toronto Board of Trade. On that occasion you will have the opportunity to interact with our board of directors and our senior management team. I hope to see you there.

Ken Hitzig
Chairman of the Board

Tom Henderson
President &
Chief Executive Officer

Toronto, Ontario
March 1, 2018

Investing in Opportunities for Growth

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.("AFC"); **Terry Keating**, Executive Vice President of asset-based lending (ABL) for the U.S.; **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; **Jeff Pfeffer**, Head of Accord CapX LLC, **Matthew Helderman**, Head of BondIt Media Capital, **Simon Hitzig**, Corporate Development for AFC; and **Stuart Adair**, Senior Vice President, Chief Financial Officer for AFC.

Ken Hitzig acted as moderator.

Ken: Five years ago Accord began to transition from its roots as a factoring company to a broad-based commercial finance company. This includes careful expansion of our geographic coverage, product line, and notably, management depth. Tom, five years in, it looks like our efforts are being rewarded in the marketplace.

Tom: The evolution has been driven internally and also through targeted acquisitions, accompanied by a concerted campaign to strengthen the Accord brand. Success in all three of these areas is reflected in the financial results; our funds employed has doubled in five years, capped off by 58% growth in 2017.

Ken: In a word, how would you describe 2017?

Tom: Rewarding. After battling through a difficult environment since the credit crisis, our hard work is paying off. Accord's net funds employed grew from $138 million at year-end 2016 to nearly $218 million at year-end 2017. And most importantly, all of our operating units grew in 2017.

Ken: Will the growth continue?

Tom: I don't know. We've certainly put the building blocks in place to succeed, but it's very hard to predict how the economy and competitive environment will unfold. These external factors are finally shifting in our favor, so there's no reason to believe the growth will reverse, but it may not continue at this pace.

Ken: We completed two important transactions in the second half of 2017. How do BondIt Media Capital and Accord CapX play into Accord's future?

Tom: These are two terrific additions to our family. Both companies bring unique value to their markets, and both are run by outstanding teams. Together they boost Accord's U.S. growth trajectory as we continue to expand our range of financing options and our reach into under-served markets. They also bring seven dynamic leaders into the Accord fold.

Ken: Let's talk about operating performance. Canada had a nice run at the Winter Olympics, but did our Canadian business win any medals in 2017?

Fred: Our factoring and ABL portfolio grew nearly 50% during the year. In the third quarter our portfolio topped $100 million for the first time ever, before some of our seasonal clients took us back under that mark by year-end. We're certainly pleased with the growth. But we celebrated quietly, competition is still fierce in Canada, and we always expect the next year to be tougher than the last.

Ken: What drove the growth?

Fred: We've developed valuable expertise in areas like inventory finance, debtor-in-possession financing, and lending to other specialty lenders. These skills set us apart from other finance companies and make us a go-to option for influential referral sources. Many of our best accounts are in these new growth categories.

Ken: James, your Accord Small Business Finance unit also turned in a record year. What drove the success?

James: New products, especially our innovative equipment revolver. And a move towards larger accounts. We also had greater penetration of the Ontario market, where we've focused our efforts on our more unique products, and on developing relationships with the more sophisticated referral sources. The overall economic backdrop helped too, in particular the improving economy in Western Canada. With oil generally holding above US$50 a barrel, we're seeing stability in the oil patch, which in turn drives economic growth in many supporting industries and public infrastructure, all of which we finance.

Ken Hitzig

Ken: Given the dynamic environment in your segment, I get the feeling you're not finished building.

James: We're just hitting our stride. All of our products are performing well, which means we can help companies from coast to coast with equipment financing from $5,000 to $10 million. 2018 will be our fifth year under the Accord umbrella; we intend to make it our best.

Tom Henderson

Ken: Jim, receivables management is a mature business. How are you adapting?

Jim: We used to offer a mix of services for our clients, so that some paid us only for credit protection, while others paid a premium for full-service, which includes collections as well. In recent years we've focused our business on the full service clients. This is where we distinguish ourselves – our service is second to none.

Ken: Why the shift away from credit protection? Isn't that the core expertise?

Jim: We're not downplaying our credit skills; we're simply adding value where our competitors can't. And the "credit only" clients switch suppliers frequently based on price, while our full service clients tend to stay with us for the long term. So we're happier and so are they.

Stuart Adair

Ken: So is the business profitable?

Jim: As we focused our efforts on a smaller list of high-value clients, we also reduced our overhead towards the end of 2016. So our expenses in 2017 were significantly lower than previous years. While our top line held steady, our bottom line was nicely positive.

Ken: Terry, how did the Company fare south of the border?

Terry: As Tom said, all of our hard work finally bore fruit. The portfolio grew nicely from about US$44 million to US$63 million, much of that growth coming in the second half. So I like our momentum.

Simon Hitzig

Ken: But looking at the financials, the bottom line didn't reflect the top line growth.

Terry: Our profit took a hit. As Tom mentions in his President's letter, we lost money on a loan to a lender (our first loss in seven years). We also incurred some expenses in closing our small-ticket factoring division in suburban Chicago. Without those expenses we would have been quite happy with the results. Thankfully the expenses are behind us while the portfolio carries into 2018.

Ken: Besides the healthy portfolio growth, any silver lining?

Terry: Absolutely – we learned a lot. In fact we learned that if we want to succeed in a new market segment, it's better to invest in an outstanding company with a strong operating history, than start something on our own. And that's what we did – we joined forces with BondIt and CapX Partners. Those businesses are performing nicely.

Fred Moss

Ken: Tom, you mentioned one of the keys to success is Accord's expanded product line in recent years. How is that an advantage?

Tom: Having more products in our arsenal makes us more valuable to referral sources. It also makes us more valuable to our borrowing clients, as we can

Terry Keating

Jim Bates

James Jang

Matthew Helderman

Jeff Pfeffer

provide seamless solutions for multiple financing challenges. And our clients can grow with us, graduating from small loans to larger, more comprehensive solutions.

James: Our flexible balance sheet is a tremendous advantage. Many of our competitors "securitize" their portfolios, which means they sell their leases to funders, often large insurance companies. These funders want all deals to look the same, which means our competitors have less flexibility to develop market-responsive solutions. We don't have that problem.

Ken: How does this translate into innovative products?

James: We can tailor products to what our customers really need. For example, we've launched several new products in recent years, including an unsecured small loan product and our unique equipment-backed revolver.

Ken: Have these products been embraced by the market?

James: The equipment revolver went from a standing start in the first quarter to nearly a quarter of our portfolio by year-end. And this happened while our overall portfolio grew by nearly 40%. So I'd say the market gave us a seal of approval.

Ken: Fred, can you provide some color on key initiatives in 2017?

Fred: Our business unit already offers a broad range of asset-based lending programs, with a focus on receivables and inventory, and in some cases equipment. So we're more focused on tailoring our core products to specific industries, where our deep expertise is particularly valuable.

Ken: Can you give us a few examples?

Fred: Alternative lenders and retailers. In both cases we have an exceptional ability to understand their capital needs and the environment they operate in. During the course of 2017 we spoke to dozens of Canadian companies in these industries and developed some terrific relationships. And of course we signed some business too.

Ken: Terry, are you taking a similar approach in the U.S.?

Terry: Yes. We also offer a flexible lender finance program, which is starting to find a market. Since the credit crisis, non-bank lending has seen terrific growth in a variety of areas, including specialty consumer and business lending. Lending to the successful alternative lenders allows us to participate in their growth.

Ken: Do we have an edge in this area?

Terry: That's a softball. We do – we've been an alternative lender for forty years, so we get it. Finance companies love to borrow from Accord; they know we understand their challenges and opportunities.

Ken: Some of our investors have asked if the Greenville office is also now financing equipment.

Terry: Only as part of an overall working capital solution. Standalone equipment finance takes special expertise, which is why we brought CapX Partners into the fold. As Tom said, combining receivables and equipment expertise makes us more valuable to referral sources and clients. We're already seeing this translate into more referrals and funded deals for both business units.

Ken: Tom, you mentioned Accord's focus on developing management depth. Did you make progress in 2017?

Tom: Yes indeed. Our deal with CapX Partners looks great on paper, but it looks even better in real life. CapX is run by four dynamic partners, who together represent more than a century of finance, fund and management consulting experience. They each have deep corporate experience, but are entrepreneurs at heart.

Ken: Jeff, CapX had a successful business managing funds on behalf of institutional investors, investing more than US$500 million in equipment finance over many years. What motivated you to bring CapX into the Accord fold?

Jeff: We saw the advantage of joining a company with a strong balance sheet. And we believe that combining our complementary products and market coverage will be a winning formula. But most importantly, the cultural fit was ideal. The strong credit culture combined with a dedication to sensible growth, felt very familiar to us.

Ken: Simon, how would you describe Accord's acquisition strategy?

Simon: Our investment in BondIt perfectly reflects our strategy: to align with strong management teams that bring special value to under-served markets, where our public profile and capital can take them from good to great.

Ken: Can you tell us more about BondIt Media Capital?

Simon: BondIt was founded in 2014 by media entrepreneurs Matthew Helderman and Luke Taylor, and since joined by CFO Patrick DePeters in early 2015. In four short years the company has earned a worldwide reputation for excellence in media finance. While BondIt has only three partners on staff, it punches well above its weight.

Tom: Partnering with these three outstanding young executives gives us an ideal entry into the film and media sector, one of the country's most dynamic and entrepreneurial industries. The partners have unique expertise, having come out of the creative and production side of the business. Very few media lenders have that depth of experience.

Ken: Matthew, why join forces with Accord?

Matthew: We were drawn to Accord's 40-year record, sterling reputation and deep experience delivering capital to entrepreneurs. And Accord understood our need to increase both funding flexibility and speed in order to compete at the highest level in the marketplace. We are a better company with Accord at our side.

Ken: Jeff described why he felt CapX and Accord was a good match. Simon, what's your take on this?

Simon: Jeff was too modest to mention CapX's stellar reputation. Over the past 18 years, CapX has built one of the premier brands in the U.S.; well-known for their entrepreneurial approach, strong underwriting and unquestioned integrity. Sound familiar? It was clear from our first meeting that this was a perfect match.

Jeff: We were equally impressed with the Accord brand. Combining these two respected brands creates a powerful presence in the market. And when it comes to execution, I want to reiterate that Accord's focus on current asset financing is a key piece of the puzzle.

Ken: Why is that an advantage?

Jeff: Because our focus on equipment finance is a perfect complement. Together, we now offer a financial services platform that can lend up and down a company's balance sheet creating a one-stop source of senior-secured financing to middle-market business.

Simon: And with the additions of BondIt and CapX, our six operating units give us strong market presence from coast to coast in the U.S. and Canada.

Ken: Stuart, if our growth continues, do we have the financial resources to keep pace?

Stuart: For many years we kept a very conservative debt-to-equity ratio, in fact maybe too conservative. In 2017 our leverage increased from less than 1.0 times equity to 1.9 times equity. This is still well below most of our competitors. And we still have plenty of runway before we need more capital. If and when we need to bolster our balance sheet, it'll be a good problem to have. As you know, we have plenty of avenues to address that challenge.

Ken: Thank you gentlemen. We're looking forward to 2018.

Since 2009 Advantex has funded our merchant cash advance business via a credit facility provided by Accord. Through challenges and successes, we have come to truly appreciate the dependability of Accord. They have been a great partner whose senior management team has always been available to discuss our evolving needs. Accord has always quickly reacted to adjust the structure of our facility to meet Advantex's needs. Knowing that we have a reliable source of funding in place has allowed us to focus our efforts on meeting the challenges of the market and, thanks to Accord's critical support, Advantex finds itself well positioned to make the most of many great growth opportunities in the years ahead.

~ Kelly Ambrose
President and CEO
Advantex Marketing International Inc.

"With a strong foundation in place, we are investing in opportunities for growth."

~ Stuart Adair

Stuart Adair

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

Year ended December 31, 2017 compared with year ended December 31, 2016

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, 2017 compared with the year ended December 31, 2016 and, where presented, the year ended December 31, 2015. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at March 1, 2018, should be read in conjunction with the Company's 2017 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 26) and the Letter to our Shareholders all of which form part of this 2017 Annual Report.

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Please refer to the Critical Accounting Policies and Estimates section below and note 2 and 3 to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with IFRS. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at www.sedar.com.

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

Non-IFRS Financial Measures

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

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

ii) Adjusted net earnings, adjusted earnings per common share and adjusted ROE – adjusted net earnings presents shareholders' net earnings before stock-based compensation, business acquisition expenses (namely, business transaction and integration costs and amortization of intangibles) and restructuring expenses. The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of ongoing operating performance than shareholders' net earnings as it excludes items which do not directly relate to ongoing operating activities. Adjusted (basic and diluted) earnings per common share is adjusted net earnings divided by the (basic and diluted) weighted average number of common shares outstanding in the period, while adjusted ROE is adjusted net earnings for the period expressed as an annualized percentage of average shareholders' equity employed in the period;

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

iv) 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 net earnings expressed as a percentage of average assets. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and general and administrative expenses ("G&A") 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 16 presents the following percentages: (i) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; (ii) total equity expressed as a percentage of total assets; and (iii) debt (bank indebtedness and notes payable) expressed as a percentage of total 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 18 presents information on the quality of the Company's total portfolio, namely, its finance receivables and loans and managed receivables. It presents the Company's year-end allowances for 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;

Accord's Business

Accord is a leading North American provider of asset-based financial services to businesses, namely, asset-based lending ("ABL") (including factoring, inventory, lease and equipment financing), working capital financing, film and media financing, credit protection and receivables management, and supply chain financing for importers. The Company's financial services are discussed earlier in this Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 21(a) to the Statements.

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

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

Selected Annual Information

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

	2017	2016	2015
Revenue	**$ 31,409**	$ 28,522	$ 31,577
Net earnings attributable to shareholders	**6,010**	6,566	8,759
Basic and diluted earnings per share	**0.72**	0.79	1.05
Dividends per share	**0.36**	0.36	0.35
Total assets	**$ 251,020**	$ 158,566	$ 154,560

Acquisition of 51% interest in BondIt Media Capital

Effective July 1, 2017, AFIU made a strategic investment acquiring a 51% controlling interest in BondIt, a Santa Monica, California based company that specializes in film and media finance, for a total purchase consideration of $6,488,500 (US$5,000,000). Details of the transaction and the assets acquired and liabilities assumed are set out in note 4 to the Statements. Note 9 also provides details of the goodwill acquired.

The investment in BondIt strengthens Accord's presence on the U.S. West Coast and allows it to enter the film and media finance business.

Acquisition of 90% interest in Accord CapX LLC

Effective October 27, 2017, AFIU also acquired a 90% interest in CapX, a Chicago-based leading provider of equipment finance to middle-market companies throughout the U.S., for a total consideration of $10,427,940 (US$8,100,000), including the estimated fair value of $7,853,140 (US$6,100,000) for certain contingent consideration payable. This acquisition recognizes the Company's renewed emphasis on its U.S. growth trajectory as it continues to expand its broad range of financing offerings. Details of the transaction and the assets acquired and liabilities assumed are set out in note 4 to the Statements. Note 8 also provides details of the intangible assets acquired, while note 9 provides details of the goodwill acquired.

Results of Operations

Years ended December 31 (in thousands unless otherwise stated)	2017			2016			% change from 2016 to 2017
		Actual	% of Revenue		Actual	% of Revenue	
Average funds employed (millions)	$	181		$	150		21%
Revenue							
Interest and other income	$	31,409	100%	$	28,522	100%	10%
Expenses							
Interest		3,847	12.2%		2,281	8.0%	69%
General and administrative		16,945	54.0%		17,427	61.1%	-3%
Provision for credit and loan losses		2,898	9.3%		963	3.4%	201%
Impairment of assets help for sale		24	0.1%		44	0.2%	-45%
Depreciation		161	0.5%		154	0.5%	5%
Business acquisition expenses:							
Transaction and integration costs		545	1.7%		—	—%	n/m
Amortization of intangible assets		387	1.2%		509	1.8%	-24%
		24,807	79.0%		21,378	75.0%	16%
Earnings before income tax expense		6,602	21.0%		7,144	25.0%	-8%
Income tax expense		391	1.2%		578	2.0%	-32%
Net earnings		6,211	19.8%		6,566	23.0%	-5%
Net earnings attributable to non-controlling interests in subsidiaries		201	0.7%		—	—%	n/m
Net earnings attributable to shareholders	$	6,010	19.1%	$	6,566	23.0%	-8%
Adjusted net earnings	$	7,005	22.3%	$	7,675	26.9%	-9%
Earnings per common share*	$	0.72		$	0.79		-9%
Adjusted earnings per common share	$	0.84		$	0.92		-9%

* basic and diluted
n/m - not meaningful

Results of Operations

Year ended December 31, 2017 compared with year ended December 31, 2016

Shareholders' net earnings in 2017 decreased by $556,000 or 8% to $6,010,000 compared to the $6,566,000 earned in 2016 and were $2,749,000 or 31% below the record $8,759,000 earned in 2015. Shareholders' net earnings declined compared to 2016 and 2015 mainly as a result of higher provision for losses, interest expense and business acquisition expenses. The Company's 2017 net earnings were only lower than 2016's because of one significant charge-off in the year, as well as a significant rise in the non-cash reserve expense resulting from an $80 million rise in the Company's loan portfolio, otherwise 2017 would have seen a nice improvement in net earnings. 2017's provision for losses is discussed below.

Basic and diluted earnings per common share ("EPS") declined by 9% to 72 cents compared to the 79 cents earned last year and were 31% below the record $1.05 earned in 2015. The Company's ROE decreased to 8.0% in 2017 compared to 9.0% last year and 13.1% in 2015.

Adjusted net earnings in 2017 were $7,005,000, 9% below last year's $7,675,000 and 25% below 2015's record $9,281,000. Adjusted EPS were 84 cents in 2017, 9% below the 92 cents earned in 2016 and 25% below the record high $1.12 earned in 2015. Adjusted ROE was 9.3% in 2017 compared to 10.5% in 2016 and 13.9% in 2015. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Years ended Dec 31 (in thousands)	**2017**	**2016**	**2015**
Shareholders' net earnings	**$ 6,010**	$ 6,566	$ 8,759
Adjustments, net of tax:			
Stock-based compensation expense	**188**	189	99
Restructuring expenses	**122**	545	—
Business acquisition expenses	**685**	375	423
Adjusted net earnings	**$ 7,005**	$ 7,675	$ 9,281

Revenue rose by $2,887,000 or 10% to $31,409,000 in 2017 compared to $28,522,000 in 2016 but was $168,000 or 1% lower than the $31,577,000 in 2015. Revenue in 2017 was higher than last year mainly as a result of higher funds employed and post-acquisition revenue from BondIt and CapX, which totalled $1,531,000 and $329,000, respectively. Revenue decreased compared to 2015 as a result of lower yields on funds employed and reduced receivables management fees. Average funds employed in 2017 increased by 21% to $181 million compared to $150 million last year.

Total expenses increased by $3,429,000 or 16% to $24,807,000 compared to $21,378,000 in 2016. The provision for credit and loan losses, interest expense, business acquisition expenses (transaction and integrations costs, and amortization of intangible assets) and depreciation increased by $1,935,000, $1,566,000, $423,000 and $7,000, respectively. G&A and impairment of assets held for sale declined by $482,000 and $20,000, respectively.

Interest expense rose by 69% to $3,847,000 in 2017 from $2,281,000 last year on 36% higher average borrowings and increased interest rates.

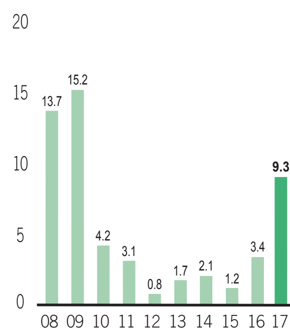
G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A included restructuring expenses in 2017 of $174,000 (2016 – $756,000) related to staff and office space reductions in the Company's U.S. operations. G&A decreased by $482,000 to $16,945,000 compared to $17,427,000 last year on lower restructuring expenses and reduced personnel costs, which declined as a result of the 2016 and 2017 restructurings. G&A decreased despite incurring G&A for BondIt and CapX of $1,225,000 from the date of their acquisitions. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by $1,935,000 to $2,898,000 compared to $963,000 last year. The provision comprised:

Years ended Dec 31 (in thousands)	**2017**	**2016**
Net charge-offs	**$ 2,348**	$ 1,121
Reserves expense (recovery) related to change in total allowances for losses	**550**	(158)
	$ 2,898	$ 963

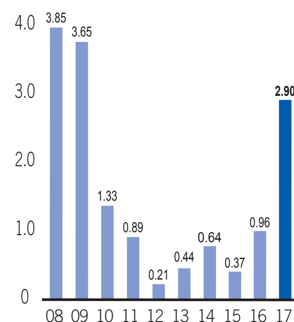
The provision for credit and loan losses as a percentage of revenue rose to 9.3% in 2017 from 3.4% in 2016. Net charge-offs rose by $1,227,000 or 109% to $2,348,000 in 2017 compared to the prior year, while the non-cash reserves expenses increased by $708,000 to $550,000 as a result of the $80 million increase in funds employed during the year. Net charge-offs included one charge-off totalling $2,021,000. The Company's allowance 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 $24,000 (2016 – $44,000) was taken during 2017 against certain assets held for sale where the estimated net realizable value had declined below book value (see note 6 to the Statements).



Provision for Credit and Loan Losses
(as a percentage of revenue)

The provision rose to 9.3% of revenue in 2017 from 3.4% last year.



Provision for Credit and Loan Losses
(in millions of dollars)

The provision rose to $2.90 million in 2017 from $0.91 million in 2016 mainly on a single $2.0 million charge-off.

Operating Expenses

Operating expenses declined to 53.2% of revenue in 2017 from 58.2% last year.

Business acquisition expenses consist of transaction and integration costs relating to the BondIt and CapX acquisitions and amortization of intangibles. For the year ended December 31, 2017, these expenses totalled $932,000 (2016 – $509,000). Transaction and integration costs related to BondIt and CapX totalled $545,000 (2016 – nil), while the amortization of intangible assets totalled $387,000 (2016 – $509,000). Please refer to note 8 to the Statements for details of the Company's intangibles assets and amortization thereof.

Income tax expense declined by $187,000 or 32% to $391,000 compared to $578,000 in 2016 mainly as a result of a reduced effective income tax rate and an 8% decline in pre-tax earnings. The Company's effective income tax rate declined to 5.9% in 2017 compared to 8.1% last year.

Table 1 – Profitability, Yield and Efficiency Ratios

Years ended Dec 31 (in thousands)	2017	2016	2015
Return on average assets	**3.0**	4.0	5.2
Return on average equity	**8.0**	9.0	13.1
Adjusted return on average equity	**9.3**	10.5	13.9
Net revenue / average assets	**13.8**	15.8	17.6
Operating expenses / average assets	**8.4**	10.0	10.5

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2017, the return on average assets, ROE and adjusted ROE expressed in percentages, declined to 3.0%, 8.0% and 9.3%, respectively, on reduced earnings.

Net revenue as a percentage of average assets declined to 13.8% compared to 15.8% in 2016. The ratio of operating expenses to average assets decreased to 8.4% in 2017 compared with 10.0% last year.

Canadian operations reported a 44% rise in shareholders' net earnings in 2017 compared to 2016 (see note 24 to the Statements) mainly as a result of higher revenue and lower operating expenses. Shareholders' net earnings rose by $1,205,000 to $3,936,000 compared to $2,731,000 last year. Revenue increased by $2,321,000 or 13% to $20,446,000. Expenses increased by $647,000 to $14,978,000. Interest expense rose by $1,327,000 or 60% to $3,549,000 on 36% higher average borrowings and increased interest rates, while the provision for credit and loan losses was $475,000 higher at $597,000. G&A was $1,004,000 lower at $10,323,000 in the absence of Canadian restructuring expenses this year (2016 – $756,000) and lower personnel costs. Business acquisition expenses, comprising amortization of intangible assets, and impairment of assets held for sale were lower by $141,000 and $20,000, respectively. Depreciation was $10,000 higher. Income tax expense in 2017 increased by $469,000 or 44% to $1,532,000 on a similar rise in pre-tax earnings.

U.S. operations reported a 46% decrease in shareholders' net earnings compared to 2016 (see note 24 to the Statements). Shareholders' net earnings declined by $1,761,000 to $2,074,000 compared to $3,835,000 last year. Revenue increased by $566,000 or 5% to $10,963,000. Revenue included revenue from BondIt and CapX of $1,531,000 and $329,000, respectively. Expenses rose by $2,782,000 or 39% to $9,829,000. The provision for credit and loan losses increased by $1,460,000 to $2,301,000, business acquisition expenses, mostly transaction and integrations costs related to BondIt and CapX, totalled $564,000 (2016 – nil). G&A increased by $522,000 to $6,622,000, while interest expense rose by $239,000 to $298,000. Depreciation was $3,000 lower. Income tax recovery increased by $656,000 to $1,141,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $201,000 (2016 – nil). In U.S. dollars, net earnings were 44% lower at US$1,639,000 compared to 2016.

Summary of Quarterly Results

Quarters ended December 31 (in thousands unless otherwise stated)	2017 Dec. 31	2017 Sept. 30	2017 June 30	2017 Mar. 31	2016 Dec. 31	2016 Sept. 30	2016 June 30	2016 Mar. 31
Average funds employed (millions)	$ 226	$ 189	$ 167	$ 143	$ 157	$ 151	$ 152	$ 142
Revenue								
Interest and other income	$ 9,935	$ 8,370	$ 6,603	$ 6,501	$ 7,722	$ 7,032	$ 6,897	$ 6,871
Expenses								
Interest	1,407	1,068	754	619	655	550	574	501
General and administrative	5,105	3,962	3,887	3,991	4,612	4,719	3,992	4,104
Provision for credit and loan losses	(190)	781	1,959	347	(222)	339	312	535
Impairment of assets held for sale	24	—	—	—	—	44	—	—
Depreciation	43	39	41	37	44	42	34	34
Business acquisition expenses	546	202	92	92	127	127	127	127
	6,935	6,052	6,733	5,086	5,216	5,821	5,039	5,301
Earnings (loss) before income tax expense	3,000	2,318	(130)	1,415	2,506	1,211	1,858	1,570
Income tax expense (recovery)	387	314	(499)	189	296	(54)	231	105
Net earnings	2,613	2,004	369	1,226	2,210	1,265	1,627	1,465
Non-controlling interests in net earnings	180	21	—	—	—	—	—	—
Net earnings attributable to shareholders	$ 2,433	$ 1,983	$ 369	$ 1,226	$ 2,210	$ 1,265	$ 1,627	$ 1,465
Adjusted net earnings	$ 2,903	$ 2,166	$ 573	$ 1,362	$ 2,362	$ 1,923	$ 1,800	$ 1,591
Earnings per common share (cents)**	29	24	4	15	27	15	20	18
Adjusted earnings per common share (cents)**	35	26	7	16	28	23	22	19

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

Fourth Quarter 2017

Quarter ended December 31, 2017 compared with quarter ended December 31, 2016

Shareholders' net earnings for the quarter ended December 31, 2017 increased by $223,000 or 10% to $2,433,000 compared with $2,210,000 last year. Shareholders' net earnings rose on higher revenue. EPS rose by 7% to 29 cents compared to the 27 cents earned last year.

Adjusted net earnings for the fourth quarter of 2017 totalled $2,903,000, 23% higher than last year's $2,362,000. Adjusted EPS were 35 cents compared to 28 cents in 2016. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarters ended Dec 31 (in thousands)	2017	2016
Shareholders' net earnings	$ 2,433	$ 2,210
Adjustments, net of tax:		
Stock-based compensation expense	45	43
Restructuring expenses	12	15
Business acquisition expenses	413	94
Adjusted net earnings	$ 2,903	$ 2,362

Revenue increased by $2,213,000 or 29% to a quarterly record $9,935,000 in the current quarter compared with $7,722,000 last year. Revenue increased compared to 2016 mainly as a result of higher funds employed and revenue from BondIt and CapX which totalled $924,000 and $329,000, respectively. Average funds employed in the current quarter totalled $226 million, 44% above last year's $157 million.

Total expenses increased by $1,718,000 or 33% to $6,935,000 compared to $5,217,000 in 2016. Interest, G&A, business acquisition expenses, the provision for credit and loan losses and impairment of assets held for sale increased by $752,000, $493,000, $419,000, $32,000 and $24,000, respectively. Depreciation was slightly lower.

Interest expense rose by $752,000 or 115% to $1,407,000 in the fourth quarter of 2017 compared to $655,000 last year on 75% higher average borrowings and increased interest rates.

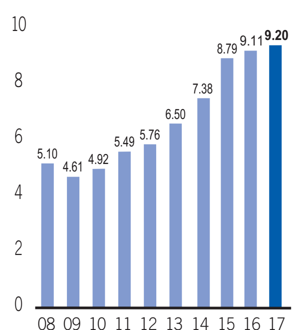
G&A, which included BondIt and CapX G&A totalling $1,018,000, increased by $493,000 or 11% to $5,105,000 in the current quarter compared to $4,612,000 last year.

There was a $190,000 recovery of credit and loan losses in the fourth quarter of 2017 compared to a recovery of $222,000 last year. The recovery comprised:

Quarters ended Dec 31 (in thousands)	**2017**	**2016**
Net charge-offs	$ 11	$ 72
Reserves recovery related to decrease in total allowances for losses	(201)	(294)
	$ (190)	$ (222)

An impairment charge of $24,000 (2016 – nil) was taken in the fourth quarter of 2017 against certain assets held for sale where the estimated net realizable value had declined below book value.

Business acquisition expenses for the fourth quarter totalled $546,000 (2016 – $127,000). Transaction and integration costs related to the CapX acquisition totalled $435,000 (2016 – nil), while amortization of intangible assets totalled $111,000 (2016 – $127,000).



Book Value per Share
(in dollars)

Book value per share rose to a record high $9.20 at December 31, 2017 from $9.11 last year-end.

Income tax expense increased by $91,000 to $387,000 in the current quarter compared to $296,000 in the fourth quarter of 2016 as a result of 20% higher pre-tax earnings. The Company's effective income tax rate rose to 12.9% in the current quarter compared to 11.8% last year.

Review of Financial Position

Shareholders' equity at December 31, 2017 rose by $766,000 to $76,448,000 compared to $75,682,000 at December 31, 2016. Book value per common share was $9.20 at December 31, 2017 compared to $9.11 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 29 of this Annual Report.

Total assets were a record high $251,020,000 at December 31, 2017, 58% higher than the $158,566,000 at December 31, 2016. Total assets largely comprised Loans (funds employed). Assets grew as a result of organic growth in the Company's funds employed and the acquisitions of BondIt and CapX.

Excluding inter-company loans, identifiable assets located in the United States were 48% of total assets at December 31, 2017 compared to 43% in 2016 (see note 24 to the Statements).

Table 2 – Financial Condition and Leverage

at December 31 (as a percentage)	**2017**	**2016**	**2015**
Tangible equity / assets	25	45	44
Equity / assets	32	48	47
Debt (bank indebtedness & notes payable) / equity	193	98	92
(in thousands)			
Receivables and loans	$ 220,104	$ 139,631	$ 135,907
Managed receivables	53,478	55,682	70,148
Total portfolio	$ 273,582	$ 195,313	$ 206,055

Table 2 highlights the Company's financial condition and leverage for the past three year-ends. The first two ratios in the table (25% and 32%), detailing equity as a percentage of assets, declined in 2017 on the large rise in assets; mainly, funds employed. The debt to equity ratio increased to 193% at December 31, 2017, up from 98% a year earlier on higher borrowings used mainly to finance funds employed. 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 $80,473,000 or 58% to $220,104,000 at December 31, 2017 compared to $139,631,000 last year-end. The increase resulted from organic growth at AFIC, AFIU and ASBF, as well as the acquisitions of BondIt and CapX. As detailed in note 5 to the Statements, the Company's Loans comprised:

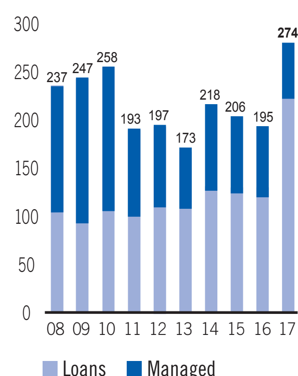
(in thousands)	Dec. 31, 2017	Dec. 31, 2016
Factored receivables	$ 96,852	$ 74,333
Loans to clients	105,950	57,342
Lease receivables	17,302	7,956
Finance receivables and loans, gross	220,104	139,631
Less allowance of losses	2,129	1,516
Finance receivables and loans, net	$ 217,975	$ 138,115

The Company's factored receivables rose by 30% to $96,852,000 at December 31, 2017 compared to $74,333,000 at December 31, 2016. Loans to clients, which mainly comprise advances against non-receivable assets such as inventory and equipment, as well as BondIt's media finance loans, rose by 85% to $105,950,000 at December 31, 2017 compared to a year earlier. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 117% to $17,302,000 at December 31, 2017. Net of the allowance for losses thereon, Loans increased by 58% to $217,975,000 at December 31, 2017 compared to $138,115,000 at December 31, 2016. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 70 clients in a wide variety of industries, as well as ASBF's and CapX's equipment leases and loans to over 300 clients. At December 31, 2017, the largest client comprised 8% of gross Loans, while two clients 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 $53 million at December 31, 2017 compared to $56 million at December 31, 2016. Managed receivables comprise the receivables of approximately 80 clients at December 31, 2017. The 25 largest clients comprised 74% of non-recourse factoring volume in 2017. 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, 2017, the 25 largest customers accounted for 72% of total managed receivables, of which the largest five comprised 38%. Two customer balances were above $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.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, rose by 41% to $274 million at December 31, 2017 compared to $195 million at December 31, 2016.

As described in note 21(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's asset-based lending businesses, media finance business, Canadian equipment finance business (ASBF), and credit protection business is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1,000,000 ($500,000 for BondIt credit), the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by its Investment Committee, with amounts in excess of US$2,500,000 also being approved by the Company's President. CapX credit in excess of US$4,000,000 is also approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.



Total Portfolio

Loans and managed receivables
(in millions of dollars)

The Company's total portfolio rose by 41% to $274 million at December 31, 2016 from $195 million a year earlier.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 3.6% were past due more than 60 days at December 31, 2017. In the Company's asset-based lending business, receivables become

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

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

The Company also minimizes credit risk by limiting the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's Canadian leasing operations, security deposits are obtained in respect of each equipment lease or loan. In its credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$4 million in the case of CapX) is approved by the Company's Credit Committee on a case-by-case basis. Note 21(a) to the Statements provides details of the Company's credit exposure by industrial sector.

Table 3 – Credit Quality

at December 31 (as a percentage)	**2017**	**2016**	**2015**
Managed receivables past due more than 60 days	**3.6**	4.1	3.9
Reserves* / portfolio	**0.8**	0.8	0.9
Reserves* / net charge-offs	**96**	147	310
Net charge-offs / revenue	**7.5**	3.9	1.9

* 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 $89,000 in 2017 compared to $126,000 last year. Net charge-offs of managed receivables were 2 basis points of volume in 2017 compared to 3 basis points in 2016. Net charge-offs in the Company's asset-based lending business increased to $2,259,000 in 2017 compared to $994,000 last year, of which $2,021,000 related to one loan. Overall, the Company's total net charge-offs in 2017, as set out in the Results of Operations section above, rose by 109% to $2,348,000 compared with $1,121,000 in 2016. 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 increased by $613,000 or 40% to $2,129,000 at December 31, 2017 compared to $1,516,000 at December 31, 2016 on an $80 million rise in Loans. The allowance for losses on the guarantee of managed receivables decreased slightly to $130,000 at December 31, 2017 compared to $131,000 at December 31, 2016 on a $2 million 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 2017 and 2016 is set out in note 5 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased slightly to $12,457,000 at December 31, 2017 compared with $12,773,000 at December 31, 2016. 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 their estimated net realizable value and totalled $72,000 at December 31, 2017 compared to $1,216,000 at December 31, 2016. Please refer to note 6 to the Statements for details of changes in the assets held for sale balance during 2017 and 2016. Certain assets held for sale with a book value of $1,119,510 were sold in 2017 for $1,150,000 resulting in a gain on sale of $30,490. An impairment charge of $24,000 was taken in 2017 (2016 – $44,000) against other assets held for sale as their estimated net realizable value had declined below book value. There were no additions to the assets held for

sale in 2017 (2016 – $26,000). During 2016, certain assets held for sale with a book value of $309,000 were sold for $194,000 resulting in a loss on sale of $115,000. The estimated net realizable value of the assets at December 31, 2017 and 2016 was based upon appraisals thereof.

Intangible assets, net of accumulated amortization, totalled $4,227,000 at December 31, 2017 compared with $987,000 last year-end. Amortization of $387,000 was expensed in 2017 (2016 – $509,000). Intangible assets totalling $3,714,000 (US$2,885,000) were acquired on the acquisition of CapX on October 27, 2017 and comprised existing customer relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. No intangible assets were acquired on the acquisition of BondIt. Intangible assets were also 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. Please refer to note 8 to the Statements.

Goodwill totalled $13,082,000 at December 31, 2017 compared to $3,174,000 at December 31, 2016. During 2017, goodwill acquired on the acquisitions of BondIt and CapX totalled $3,126,000 (US$2,409,000) and $7,130,000 (US$5,538,000), respectively. The BondIt and CapX goodwill is carried in the Company's U.S. subsidiary. Please see note 4 to the Statements which details the acquisitions. Goodwill of $1,883,000 was also acquired as part of the Varion acquisition in 2014, while goodwill of US$962,000 is also carried in the Company's U.S. subsidiary from an earlier acquisition. All goodwill carried in the Company's U.S. subsidiary is translated into Canadian dollars at the prevailing year-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 9 to the Statements.

Other assets, income taxes receivable, deferred tax assets and capital assets at December 31, 2017 and 2016 were not significant.

Total liabilities increased by $88,003,000 to $170,887,000 at December 31, 2017 compared to $82,884,000 at December 31, 2016. The increase mainly resulted from higher bank indebtedness, accounts payable and other liabilities, and notes payables.

Bank indebtedness increased by $75,657,000 to $138,140,000 at December 31, 2017 compared with $62,483,000 at December 31, 2016. The Company had approved credit lines with a number of banks totalling approximately $187 million at December 31, 2017 and was in compliance with all loan covenants thereunder during 2017 and 2016. 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 2017 and 2016.

Accounts payable and other liabilities increased by $7,753,000 to $11,000,000 at December 31, 2017 compared to $3,247,000 a year earlier. The increase mainly comprised the estimated fair value of the contingent consideration payable on the acquisition of CapX totalling $7,668,000 (US$6,100,000). Please refer to note 4 to the Statements.

Notes payable increased by $4,492,000 to $15,862,000 at December 31, 2017 compared to $11,370,000 at December 31, 2016. The increase in notes payable mainly resulted from new notes issued and accrued interest, net of note redemptions. Please see Related Party Transactions section below and note 11(a) to the Statements.

Amounts due to clients increased by $548,000 to $4,630,000 at December 31, 2017 compared to $4,082,000 at December 31, 2016. 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.

Income taxes payable, deferred income and deferred tax liabilities at December 31, 2017 and 2016 were not material.

Capital stock remained unchanged at $6,896,000 at December 31, 2017 and 2016. There were 8,307,713 common shares outstanding at December 31, 2017 and 2016. At the date of this MD&A, March 1, 2018, 8,307,713 common shares remained outstanding.

Retained earnings totalled $63,661,000 at December 31, 2017 compared to $60,642,000 at December 31, 2016. During 2017, retained earnings increased by $3,019,000, which comprised shareholders' net earnings of $6,010,000 less dividends paid of $2,991,000 (36 cents per common share). Please see the consolidated statements of changes in equity on page 29 of this report for details of changes in retained earnings during 2017 and 2016.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's U.S. dollar reporting foreign subsidiaries. The AOCI balance totalled $5,593,000 at December 31, 2017 compared to $7,948,000 at December 31, 2016. Please refer to note 19 to the Statements and the consolidated statements of changes in equity on page 29 of this report, which details movements in the AOCI account during 2017 and 2016. The $2,355,000 decrease in AOCI balance during 2017 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar

declined from $1.3427 at December 31, 2016 to $1.2571 at December 31, 2017. This decreased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$32 million by $2,355,000.

Non-controlling interests in subsidiaries ("NCIs") totalled $3,684,000 (2016 – nil) at December 31, 2017 (see note 20 to the Statements). NCIs comprised a 49% non-controlling interest in BondIt's identifiable net assets of $3,388,000 (2016 – nil) and a 10% non-controlling interest in CapX's identifiable net assets of $296,000 (2016 – nil.)

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, 2017 indicate the Company's continued financial strength and overall relatively low degree of leverage.

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 $187 million at December 31, 2017 and had borrowed $138 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 $12,457,000 at December 31, 2017 compared to $12,773,000 at December 31, 2016. 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.

Contractual Obligations and Commitments

	Payments due in				
(in thousands)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	**Total**
Operating lease obligations	$ 622	$ 1,000	$ 912	$ 390	**$ 2,924**
Purchase obligations	124	29	—	—	**153**
	$ 746	$ 1,029	$ 912	$ 390	**$ 3,077**

Fiscal 2017 cash flows:

Year ended December 31, 2017 compared with year ended December 31, 2016

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $7,728,000 in 2017 compared to $7,908,000 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 $75,261,000 in 2017 compared to $3,497,000 last year. The net cash outflow in 2017 largely resulted from financing loans of $82,599,000. In 2016, the net cash outflow largely resulted from paying down amounts due to clients and financing gross loans. 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 30 of this report.

Cash outflows for investing activities totalled $1,330,000 in 2017 compared to $160,000 last year. On a net basis (cash consideration paid net of cash held in the acquired company), $1,997,000 cash was incurred purchasing CapX, while $1,077,000 cash was acquired on the purchase of BondIt. Net capital assets additions totalled $409,000. Cash outflows for investing activities of $160,000 in 2016 comprised capital assets additions.

Net cash inflow from financing activities totalled $75,620,000 in 2017 compared to $4,673,000 last year. The net cash inflow this year resulted from an increase in bank indebtedness of $76,929,000 and notes payables issued, net, of $1,682,000. Partially offsetting these inflows were dividend payments totalling $2,991,000. In 2016, the net cash inflow resulted from an increase in bank indebtedness of $9,494,000, which was partly offset by dividend payments of $2,991,000 and redemption of notes payable, net, of $1,830,000.

The effect of exchange rate changes on cash comprised a gain of $655,000 in 2017 compared to a reduction of $683,000 in 2016.

Overall, there was a net cash outflow of $316,000 in 2017 compared to an inflow of $333,000 in 2016.

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. The majority of notes are repayable on demand, while a number are repayable a week after demand, and bear interest at rates that vary with bank prime or Libor. Notes payable at December 31, 2017 totalled $15,862,000 compared with $11,370,000 at December 31, 2016. Of these notes payable, $14,038,000 (2016 – $10,309,000) was owing to related parties and $1,824,000 (2016 – $1,061,000) to third parties. Interest expense on these notes in 2017 totalled $461,000 (2016 – $296,000). Please refer to note 11(a) to the Statements. Note 11(b) to the Statements details the remuneration of directors and key management personnel during 2017 and 2016.

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 equipment loans in our equipment financing businesses, are short term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2017, there were no outstanding foreign exchange contracts entered into by the Company.

Critical Accounting Policies and Estimates

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

(i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios 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 5 to the Statements.

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

Future Changes In Accounting Policies

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments has replaced IAS 39, Financial Instruments: Recognition and Measurement. We adopted IFRS 9 effective January 1, 2018. It includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

IFRS 9 requires that a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. If it is not solely payments of principal and interest, it is recorded at FVTPL. Based upon our initial analysis of the business model and contractual cash flow characteristics of the financial assets, we have determined that our financial assets, other than leases, will continue to be measured at amortized cost and be subject to the IFRS 9 impairment rules, while leases may be measured at FVTPL.

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets). The determination of the provision for credit and loan losses will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of potential credit losses at that time. Under IFRS 9, Accord will recognize a loss allowance equal to the expected credit loss of the financial asset as currently most of our financial assets are of a short–term duration, or in case of financial assets that are of a term longer than one year, 12 months of expected credit losses will be provided thereon, provided that the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This represents the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial asset(s) (lifetime expected credit losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected value of possible default events over the life of a financial instrument. All information that leads us to believe that the credit risk of financial assets has significantly increased will be considered. This includes analyzing forward-looking information, including macro-economic factors. Financial assets will typically be transferred to Stage 2 if 30 days past due. Credit impaired financial assets are transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows. Interest revenue is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net amount for financial assets in Stage 3.

Accord has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount

as at January 1, 2018 through an adjustment to opening retained earnings. Based on our current analysis, we have determined that the implementation of IFRS 9 will have not a material impact on the Company's consolidated financial statements as our financial assets are mainly of a short-term duration, while for leases and term loans our existing model of impairment factors in most of the expected credit losses which IFRS 9 requires. Accord will continue to refine its impairment analysis leading up to our 2018 first quarter reporting.

IFRS 15 – Revenue from Contracts with Customers, replaced the existing standards for revenue recognition. We adopted IFRS 15 effective January 1, 2018. 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 within the scope of other standards, such as financial instruments, insurance contracts and leases. As most of our contracts are financial instruments, guarantee contracts and leases, the Company believes that the implementation of IFRS 15 will have not a material impact on the Company's consolidated financial statements.

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 2017 that have materially affected, or are reasonably likely to materially affect, DC&P or ICFR.

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

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2017 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

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

(i) the Company's management is responsible for establishing and maintaining adequate internal control over financial reporting within the Company. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation;

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

(iii) The Company's management has designed and tested the effectiveness of its internal control over financial reporting as at December 31, 2017 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 21 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 $274 million at December 31, 2017. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 21(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 borrowings, the Company is exposed to some degree to interest rate fluctuations. This is partially mitigated in its equipment financing businesses, where lease receivables and equipment loans are typically term loans at fixed effective interest rates, while related bank borrowings tend to be floating rate. Please refer to note 21(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, 2017. Please see notes 19 and 21(c)(i) to the Statements.

Potential acquisitions and investments

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

Personnel significance

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

Outlook

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

The Company is starting to benefit from the substantial rise in its funds employed, which rose 58% to a record $220 million at December 31, 2017. This will result in improved revenues in the future and bodes well for future results although the Company continues to face intense competition, particularly in the U.S. which has resulted in lower loan yields there.

It is anticipated that the Company's asset-based financing units, AFIC and AFIU, which grew their funds employed by 42% in 2017, will be able to continue to build on their growth despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business, ASBF grew its funds employed by 66% in 2017, continues to expand its product offerings,

such as the equipment revolving line of credit product it introduced in 2017, and is quite profitable. ASBF also launched a working capital loan product that it believes will accelerate its growth over the next few years and it is now doing larger equipment finance deals. Our credit protection and receivables management business continues to face intense competition from multinational credit insurers, although with last year's restructuring behind it, it made decent earnings in 2017 and we are hopeful net earnings improvements will continue.

Effective July 1, 2017, the Company acquired a 51% interest in BondIt. This investment strengthened Accord's presence on the U.S. West Coast and allowed it to enter the film and media finance sector. We expect BondIt to grow substantially over the next few years and become an increasing contributor to our earnings.

On October 27, 2017, the Company acquired a 90% interest in CapX. CapX was formed 18 years ago and since then has generated more than US$500 million in equipment lease and finance transactions. A transformative transaction for Accord, we expect this acquisition to add substantially to Accord's earnings once it reaches a critical mass.

The Company will remain vigilant in maintaining portfolio quality in the face of an increasingly uncertain global economy. It will also continue to review opportunities to acquire companies or portfolios to further grow its business. Overall, the Company is optimistic about its prospects for 2018 and beyond.

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

March 1, 2018

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 3.6% to 4.1%. At December 31, 2017, the percentage was 3.6%.

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, 2017.

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 net charge-offs. This percentage was 96% at December 31, 2017, which means year-end reserves were almost sufficient to absorb 2017's entire net charge-offs.

Net charge-offs to revenue

This is an important benchmark in our business. The Company considers net charge-offs of less than 5% of revenue to be acceptable. It has ranged between 1.9% and 7.5% over the last three years and was 7.5% in 2017 solely as a result of one charge-off totalling $2,021,000. The Company, however, continues to manage its portfolio very well.

Ten Year Financial Summary 2008-2017

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*							
		2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Revenue	$	28,060	24,045	31,406	28,408	25,891	26,074	30,235	31,577	28,522	**31,409**
Interest		2,871	1,180	1,730	2,047	1,911	1,913	2,523	2,258	2,281	**3,847**
General and administrative		13,491	13,290	14,679	13,558	13,615	13,845	16,154	17,484	17,427	**16,945**
Provision for credit and loan losses		3,849	3,648	1,325	886	213	438	639	375	963	**2,898**
Impairment of assets held for sale		—	1,265	1,237	462	—	—	—	50	44	**24**
Depreciation		195	181	159	130	126	112	125	136	154	**161**
Business acquisition expenses		—	—	—	—	—	—	570	575	509	**932**
Total expenses		20,406	19,564	19,130	17,083	15,865	16,308	20,011	20,878	21,378	**24,807**
Earnings before income tax expense		7,654	4,481	12,276	11,325	10,026	9,766	10,224	10,699	7,144	**6,602**
Income tax expense		2,613	1,392	4,033	3,740	3,649	3,228	3,345	1,940	578	**391**
Net earnings		5,041	3,089	8,243	7,585	6,377	6,538	6,879	8,759	6,566	**6,211**
Non-controlling interests		—	—	—	—	—	—	—	—	—	**201**
Net earnings attributable to shareholders	$	5,041	3,089	8,243	7,585	6,377	6,538	6,879	8,759	6,566	**6,010**
Earnings per common share											
Basic and diluted	$	0.53	0.33	0.88	0.85	0.76	0.80	0.83	1.05	0.79	**0.72**
Dividends per common share	$	0.24	0.26	0.28	0.30	0.31	0.32	0.33	0.35	0.36	**0.36**
Finance receivables and loans	$	99,990	89,907	102,313	89,124	108,477	109,775	136,346	134,259	138,115	**217,975**
Other assets		3,508	8.030	10,811	9,368	16,115	11,034	18,278	20,301	20,451	**33,045**
Total assets	$	103,498	97,937	113,124	98,492	124,592	120,809	154,624	154,560	158,566	**251,020**
Due to clients	$	4,588	4,517	5,113	3,519	3,874	5,115	6,639	9,402	4,082	**4,630**
Bank indebtedness		35,877	36,798	44,596	27,222	54,572	43,368	63,995	54,094	62,484	**138,140**
Notes payable		10,944	9,254	10,142	14,611	14,492	14,809	16,808	13,201	11,370	**15,862**
Other liabilities		3,910	4,013	8,713	5,285	4,258	4,086	5,850	4,797	4,948	**12,255**
Total liabilities		55,319	54,582	68,564	50,367	77,196	67,378	93,292	81,494	82,884	**170,887**
Shareholders' equity		48,179	43,355	44,560	47,855	47,396	53,431	61,332	73,066	75,682	**76,449**
Non-controlling interests in subsidiaries		—	—	—	—	—	—	—	—	—	**3,684**
Total equity		48,179	43,355	44,560	47,855	47,396	53,431	61,332	73,066	75,682	**80,133**
Total liabilities and equity	$	103,498	97,937	113,124	98,492	124,592	120,809	154,624	154,560	158,566	**251,020**
Shares outstanding at Dec. 31	#	9,438	9,409	9,066	8,719	8,221	8,221	8,308	8,308	8,308	**8,308**
Book value per share at Dec. 31	$	5.10	4.61	4.92	5.49	5.76	6.50	7.38	8.79	9.11	**9.20**
Share price - high	$	8.39	6.70	8.14	8.25	7.15	9.25	10.75	12.05	9.95	**9.55**
- low	$	4.75	5.25	5.25	6.50	6.50	6.84	7.85	9.00	8.70	**8.40**
- close at Dec 31	$	5.81	5.25	7.50	6.87	7.00	7.86	9.35	9.60	8.99	**9.20**
Return on average equity	%	11.7	6.7	18.2	16.8	13.6	13.1	12.1	13.1	9.0	**8.0**

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

Stuart Adair
Senior Vice President, Chief Financial Officer
Toronto, Canada
March 1, 2018

Independent Auditors' Report

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, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

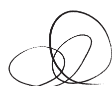
Chartered Professional Accountants,
Licensed Public Accountants
Toronto, Canada
March 1, 2018

Consolidated Statements of Financial Position

		December 31, 2017		December 31, 2016
Assets				
Cash	$	12,457,000	$	12,772,906
Finance receivables and loans, net (note 5)		217,975,156		138,115,297
Income taxes receivable		1,023,144		428,678
Other assets		863,886		1,081,066
Assets held for sale (note 6)		71,882		1,215,656
Deferred tax assets, net (note 14)		640,249		432,165
Capital assets (note 7)		679,828		359,466
Intangible assets (note 8)		4,227,011		986,718
Goodwill (note 9)		13,081,651		3,173,777
		251,019,807		158,565,729
Liabilities				
Due to clients	$	4,629,555	$	4,082,439
Bank indebtedness (note 10)		138,140,342		62,483,461
Accounts payable and other liabilities (note 4(b))		10,999,747		3,246,723
Income taxes payable		408,854		810,791
Notes payable (note 11(a))		15,862,033		11,369,553
Deferred income		682,813		449,221
Deferred tax liabilities (note 14)		163,954		441,482
		170,887,298		82,883,670
Equity				
Capital stock (note 12)	$	6,896,153	$	6,896,153
Contributed surplus (note 12(c))		297,825		195,704
Retained earnings		63,661,034		60,641,807
Accumulated other comprehensive income (note 19)		5,593,426		7,948,395
Shareholders' equity		76,448,438		75,682,059
Non-controlling interests in subsidiaries (note 20)		3,684,071		—
Total equity		80,132,509		75,682,059
	$	251,019,807	$	158,565,729

See accompanying notes to consolidated financial statements.

On Behalf of the Board



Ken Hitzig
Chairman of the Board

Tom Henderson
President & Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31		2017		2016
Revenue				
Interest and other income (note 4 and 5)	$	**31,409,059**	$	28,522,732
Expenses				
Interest		**3,847,168**		2,280,638
General and administrative (note 13)		**16,944,632**		17,426,575
Provision for credit and loan losses (note 5)		**2,898,079**		963,531
Impairment of assets held for sale (note 6)		**24,264**		44,491
Depreciation		**160,931**		153,521
Business acquisition expenses:				
Transaction and integration costs		**544,963**		—
Amortization of intangible assets		**386,734**		509,524
		24,806,771		21,378,280
Earnings before income tax expense		**6,602,288**		7,144,452
Income tax expense (note 14)		**391,000**		578,000
Net earnings		**6,211,288**		6,566,452
Net earnings attributable to non-controlling interests in subsidiaries		**201,285**		—
Net earnings attributable to shareholders	$	**6,010,003**	$	6,566,452
Basic and diluted earnings per common share (note 15)	$	**0.72**	$	0.79

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31		2017		2016
Net earnings attributable to shareholders	$	**6,010,003**	$	6,566,452
Other comprehensive loss:				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange loss on translation of self-sustaining foreign operations (note 19)		**(2,354,969)**		(1,094,675)
Comprehensive income	$	**3,655,034**	$	5,471,777

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital Stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note20)	Total
Balance at January 1, 2016	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**
Comprehensive Income	**—**	**—**	**—**	**6,010,003**	**(2,354,969)**	**—**	**3,655,034**
Non-controlling interests on acquisitions during the year	**—**	**—**	**—**	**—**	**—**	**3,596,238**	**3,596,238**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**201,285**	**201,285**
Stock-based compensation expense related to stock option grants	**—**	**—**	**102,121**	**—**	**—**	**—**	**102,121**
Dividends paid	**—**	**—**	**—**	**(2,990,776)**	**—**	**—**	**(2,990,776)**
Dividend paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(3,273)**	**(3,273)**
Translation adjustments on non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(110,179)**	**(110,179)**
Balance at December 31, 2017	**8,307,713**	**$ 6,896,153**	**$ 297,825**	**$ 63,661,034**	**$ 5,593,426**	**$ 3,684,071**	**$ 80,132,509**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016	2017	2016
Cash (used in) provided by		
Operating activities		
Net earnings	$ **6,211,288**	$ 6,566,452
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	**550,423**	(157,029)
Deferred income	**(100,555)**	(38,597)
Amortization of intangible assets	**386,734**	509,524
Depreciation	**160,931**	153,521
Loss on disposal of capital assets	**32,686**	609
(Gain) loss on disposal of assets held for sale	**(30,490)**	115,482
Impairment of assets held for sale	**24,264**	44,491
Stock-based compensation expense related to stock option grants	**102,121**	135,375
Deferred tax recovery	**(543,141)**	(373,326)
Current income tax expense	**934,141**	951,326
	7,728,402	7,907,828
Change in operating assets and liabilities		
Finance receivables and loans, gross	**(82,598,706)**	(5,255,249)
Due to clients	**568,207**	(5,338,395)
Other assets	**87,439**	(421,869)
Accounts payable and other liabilities	**(266,399)**	523,254
Disposal of assets held for sale, net	**1,150,000**	191,553
Income tax paid, net	**(1,930,280)**	(1,104,037)
	(75,261,337)	(3,496,915)
Investing activities		
Net cash acquired on acquisition of BondIt LLC (note 4(a))	**1,076,530**	—
Purchase of units in Accord CapX LLC, net of cash acquired (note 4(b))	**(1,996,878)**	—
Additions to capital assets, net	**(409,167)**	(160,087)
	(1,329,515)	(160,087)
Financing activities		
Bank indebtedness	**76,928,715**	9,493,757
Notes payable issued (redeemed), net	**1,682,029**	(1,830,223)
Dividends paid	**(2,990,776)**	(2,990,777)
	75,619,968	4,672,757
Effect of exchange rate changes on cash	**654,978**	(682,992)
(Decrease) increase in cash	**(315,906)**	332,763
Cash at January 1	**12,772,906**	12,440,143
Cash at December 31	$ **12,457,000**	$ 12,772,906
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ **3,678,727**	$ 2,108,908

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2017 compared with year ended December 31, 2016

1. Description of the business:

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

2. Basis of presentation and statement of compliance:

These consolidated financial statements are expressed in Canadian dollars unless otherwise stated, 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. Certain prior year comparative numbers have been recast to conform to the current year's presentation.

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(d) and 5), the determination of the value of goodwill and intangible assets on acquisition (notes 3(f), 3(g), 4, 8 and 9), as well as the deferred tax assets and liabilities (notes 3(h) and 14). 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") and senior executive long-term incentive plan ("LTIP") liabilities* and
- Guarantee of managed receivables*

* component(s) of accounts payable and other liabilities

These consolidated financial statements were approved for issue by the Company's Board of Directors ("Board") on March 1, 2018.

3. Significant accounting policies:

(a) Basis of consolidation:

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries; namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and 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.

(b) Revenue recognition:

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial

discount period. For managed receivables, factoring commissions are charged upfront and a certain portion is deferred and recognized over the period that costs are incurred collecting the receivables. Interest charged on finance receivables and loans to clients is recognized as revenue using the effective interest rate method. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of Varion and Accord CapX LLC ("CapX"), a subsidiary of AFIU, are considered an integral part of the yield earned on the debtor balance and are accounted for using the effective interest rate method.

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

(c) 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.

(d) 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 the(se) 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.

(e) 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.

(f) Goodwill:

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

(g) Intangible assets:

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

(h) 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.

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

(i) Foreign subsidiaries:

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

(j) Foreign currency transactions:

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

(k) 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 attributable to common shareholders by the diluted weighted average number of common shares outstanding in the year, which comprises the weighted average number of common shares outstanding plus the effects of all dilutive common share equivalents.

(l) Stock-based compensation:

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

The Company's LTIP (note 12(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.

(m) 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.

(n) Financial assets and liabilities:

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

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

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

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

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

(o) Assets held for sale:

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

(p) 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.

(q) Business combinations:

Business combinations are accounted for using the acquisition method of accounting under IFRS 3, Business Combinations. This involves recognizing identifiable assets and liabilities, including previously unrecognized intangible assets and liabilities, and contingent liabilities but excluding future restructuring of the acquired business, at fair value. Transaction and integration costs incurred in business combinations are expensed as incurred and reported as “business acquisition expenses” in the statement of earnings.

(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. Management has completed its assessment on the implementation of IFRS 9 and has determined that the result will not

have a material impact on the Company's consolidated financial statements.

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 within 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. Management believes that the implementation of IFRS 15 will have not a material impact on the Company's consolidated financial statements.

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. Acquisitions:

(a) Acquisition of 51% interest in BondIt Media Capital ("BondIt"):

Effective July 1, 2017, AFIU acquired convertible preferred member units in BondIt, a film and media finance company based in California, for a total consideration of $6,488,500 (US$5,000,000). The preferred member units can be converted into a 51% interest in BondIt's common member units at any time within three years by the Company and will accrue interest at a rate of 7% until the earlier of a conversion into common member units and the third anniversary of closing.

The following table summarizes the purchase price paid and the fair value of BondIt's assets acquired and liabilities assumed at the effective date of acquisition:

Purchase price:	
Cash consideration	$ 6,488,500
Assets acquired:	
Cash	$ 7,565,030
Loans to clients, net	1,955,938
Other assets	8,936
Goodwill (note 9)	3,126,168
	12,656,072
Liabilities assumed:	
Notes and loans payable	2,916,695
Accounts payable and other liabilities	20,402
	2,937,097
BondIt net assets acquired	9,718,975
Less: Non-controlling interests	(3,230,475)
Fair value of net assets acquired	$ 6,488,500

During 2017, the Company incurred business acquisition expenses of $90,764 (2016 – nil) relating to the purchase of BondIt. Subsequent to July 1, 2017, BondIt generated revenue of $1,531,197 and had net earnings attributable to the Company's shareholders of $164,954. Had the BondIt acquisition occurred at the beginning of the year, revenue and net earnings attributable to the Company's shareholders would have been approximately $1,500,000 and $160,000 higher, respectively.

(b) Acquisition of 90% interest in Accord CapX LLC ("CapX"):

Effective October 27, 2017, AFIU acquired a 90% interest in CapX, a Chicago-based leading provider of equipment finance to middle-market companies throughout the U.S. for a total consideration of $10,427,940 (US$8,100,000). Total consideration includes the estimated fair value of contingent consideration payable of $7,853,140 (US$6,100,000) at the acquisition date. The maximum contingent consideration payable under the purchase agreement is US$7,000,000, which is contingent upon achievement of certain performance targets tied to financial performance of the acquired entity, as well as volume of loan originations. Up to US$4,000,000 of the contingent consideration is payable in shares of the

Company. The estimated fair value of the contingent consideration is included in accounts payable and other liabilities at December 31, 2017. The following table summarizes the purchase price and the fair value of CapX's assets acquired and liabilities assumed at the effective date of acquisition:

Purchase price:	
Cash consideration	$ 2,574,800
Fair value of contingent consideration payable	7,853,140
	$ 10,427,940
Assets acquired:	
Cash	$ 577,922
Lease receivables, net	3,879,998
Capital assets	111,703
Intangible assets (note 8)	3,714,149
Goodwill (note 9)	7,129,633
	15,413,405
Liabilities assumed:	
Loan payable	4,343,851
Accounts payable and other liabilities	275,851
	4,619,702
CapX net assets acquired	10,793,703
Less: Non-controlling interests	(365,763)
Fair value of net assets acquired	$ 10,427,940

During 2017, the Company incurred business acquisition expenses of $454,199 (2016 – nil) relating to the purchase of CapX. Subsequent to October 27, 2017, CapX generated revenue of $328,547 and incurred a net loss attributable to the Company's shareholders of $354,326. CapX was incorporated on August 31, 2017. Since CapX did not exist prior to this date, it could not have had revenue and earnings prior to this date.

5. Finance receivables and loans:

Finance receivables and loans at December 31 were as follows:

	2017	2016
Factored receivables	**$ 96,852,291**	$ 74,332,950
Loans to clients	**105,950,408**	57,341,953
Lease receivables	**17,301,457**	7,956,394
Finance receivables and loans, gross	**220,104,156**	139,631,297
Less allowance for losses	**2,129,000**	1,516,000
Finance receivables and loans, net	**$ 217,975,156**	$ 138,115,297

Lease receivables comprise the net investment in leases by Varion and CapX as described in note 3(c). Lease receivables at December 31, 2017 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans in 2017 totalled $25,305,315 (2016 – $22,875,935). Fees from receivables management and credit protection services during 2017 totalled $3,200,474 (2016 – $3,477,873).

The Company's allowance for losses on finance receivables and loans to clients at December 31, 2017 and 2016 comprised only a collective allowance. The activity in the allowance for losses on finance receivables and loans account during 2017 and 2016 was as follows:

	2017	2016
Allowance for losses at January 1	**$ 1,516,000**	$ 1,648,000
Allowance assumed on acquisition of BondIt	**40,229**	—
Allowance assumed on acquisition of CapX	**44,487**	—
Provision for loan losses	**2,810,210**	872,358
Charge-offs	**(2,296,348)**	(1,080,398)
Recoveries	**37,561**	86,012
Foreign exchange adjustment	**(23,139)**	(9,972)
Allowance for losses at December 31	**$ 2,129,000**	$ 1,516,000

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, 2017, the gross amount of these managed receivables was $53,477,791 (2016 – $55,682,019). At December 31, 2017, management provided an amount of $130,000 (2016 – $131,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during 2017 and 2016 was as follows:

	2017	2016
Allowance for losses at January 1	**$ 131,000**	$ 166,000
Provision for credit losses	**87,869**	91,173
Charge-offs	**(99,004)**	(152,367)
Recoveries	**10,135**	26,194
Allowance for losses at December 31	**$ 130,000**	$ 131,000

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 21(a).

At December 31, 2017, the Company held cash collateral of $1,645,691 (2016 – $1,877,450) 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(d)). 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 occur in 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 2017. The changes in estimate did not have a material impact on the Company's consolidated financial statements.

6. Assets held for sale:

Assets held for sale and movements therein during 2017 and 2016 were as follows:

	2017	2016
Assets held for sale at January 1	**$ 1,215,656**	$ 1,544,182
Additions	**—**	25,540
Disposals	**(1,119,510)**	(309,575)
Impairment charge	**(24,264)**	(44,491)
Assets held for sale at December 31	**$ 71,882**	$ 1,215,656

During 2016 and prior years, the Company obtained title to or repossessed certain long-lived assets securing defaulted loans. These assets are disposed of as market conditions permit. The estimated net realizable value of the assets at December 31, 2017 and 2016 was based upon appraisals of the assets.

The asset disposed of in 2017 was sold for $1,150,000 resulting in a gain on sale of $30,490 compared to the book value of the asset. 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 gain and loss were included in other income.

7. Capital assets:

	2017	2016
Cost	**$ 2,576,823**	$ 2,490,036
Less accumulated depreciation	**1,896,995**	2,130,570
	$ 679,828	$ 359,466

8. Intangible assets:

Intangible assets and movements therein during 2017 and 2016 were as follows:

2017	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost:					
January 1, 2017	$ 1,179,097	$ —	$ 1,343,938	$ —	$ 2,523,035
CapX acquisition (note 4(b))	—	1,960,710	—	1,753,439	3,714,149
Foreign exchange adjustment	—	(46,147)	—	(41,268)	(87,415)
December 31, 2017	$ 1,179,097	$ 1,914,563	$ 1,343,938	$ 1,712,171	$ 6,149,769
Accumulated amortization:					
January 1, 2017	$ (940,921)	$ —	$ (595,396)	$ —	$ (1,536,317)
Amortization expense	(163,896)	(18,702)	(204,136)	—	(386,734)
Foreign exchange adjustment	—	293	—	—	293
December 31, 2017	$ (1,104,817)	$ (18,409)	$ (799,532)	$ —	$ (1,922,758)
Book Value:					
January 1, 2017	$ 238,176	$ —	$ 748,542	$ —	$ 986,718
December 31, 2017	$ 74,280	$ 1,896,154	$ 544,406	$ 1,712,171	$ 4,227,011

2016	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

9. Goodwill:

	2017	2016
January 1	$ 3,173,777	$ 3,213,495
BondIt acquisition (note 4(a))	3,126,168	—
CapX acquisition (note 4(b))	7,129,633	—
Foreign exchange adjustment	(347,927)	(39,718)
December 31	$ 13,081,651	$ 3,173,777

During 2017 and 2016, the Company conducted annual impairment reviews and determined that there was no impairment to the carrying value of goodwill. At December 31, 2017, goodwill of US$8,908,713 (2016 – US$961,697) was carried in the Company's U.S. subsidiary. 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.

10. Bank indebtedness:

Revolving lines of credit totalling approximately $187,000,000 have been established with a number of banks, bearing interest varying with the bank prime rate or Libor. These lines of credit are collateralized primarily by finance receivables and loans to clients. One bank line ($170,000,000) matures in August 2018, while another ($17,000,000) is due on demand. At December 31, 2017, the amounts outstanding under these lines of credit totalled $138,140,342 (2016 – $62,483,461).

11. 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 for some notes, a week after requesting repayment, and bear interest at rates that vary with bank prime rate or Libor.

Notes payable at December 31 were as follows:

	2017	2016
Related parties	$ 14,037,950	$ 10,308,352
Third parties	1,824,083	1,061,201
	$ 15,862,033	$ 11,369,553

Interest expense on the notes payable was as follows:

	2017	2016
Related parties	$ 358,106	$ 270,363
Third parties	102,980	26,020
	$ 461,086	$ 296,383

(b) Compensation of directors and key management personnel:

The remuneration of directors and key management personnel[(1)] during 2017 and 2016 was as follows:

	2017	2016
Salaries and directors' fees	$ 2,670,348	$ 2,291,411
Stock-based compensation [(2)]	181,409	143,983
	$ 2,851,757	$ 2,435,394

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

(2) Stock-based compensation comprises the expense related to the Company's SARs, stock option and LTIP grants. Please see note 12(h).

12. 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, 2017 and 2016, there were no first preferred shares outstanding.

(b) Issued and outstanding:

The Company's issued and outstanding common shares during 2017 and 2016 are set out in the consolidated statements of changes in equity.

(c) Contributed surplus:

	2017	2016
January 1	$ 195,704	$ 60,329
Stock-based compensation expense related to stock option grants (note 12(h))	102,121	135,375
December 31	$ 297,825	$ 195,704

(d) Dividends:

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2017 dividends totalling $2,990,776 (2016 – $2,990,777) or $0.36 (2016 – $0.36) per common share were declared and paid.

On February 1, 2018 the Company declared a quarterly dividend of $0.09 per common share, payable March 1, 2018 to shareholders of record on February 15, 2018.

(e) Share appreciation rights:

The Company has established a SARs plan, whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be granted in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company at the time of grant. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the ten days that the shares were traded immediately preceding the date of grant, or other ten-day trading period that the Company's Board may determine. Employees can sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant.

No SARs have been granted by the Company to directors and employees since 2011. During 2017, directors sold their remaining 67,500 SARs to the Company and no SARs were outstanding at December 31, 2017. During 2016, 15,000 SARs were sold to the Company.

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

Exercise price	Grant date	2017	2016
$ 6.03	July 28, 2009	–	7,500
$ 5.50	May 7, 2010	–	15,000
$ 7.97	May 4, 2011	–	45,000
		–	67,500

(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	2017	2016
$9.56	October 28, 2015	**100,000**	100,000
$9.28	July 27, 2016	**100,000**	100,000
Outstanding		**200,000**	200,000
Earned and exercisable		**150,000**	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 dates:

	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 of shares and/or paid in cash.

(h) Stock-based compensation:

During 2017, the Company recorded a stock-based compensation expense totalling $227,179 (2016 – $217,374), of which $131,808 (2016 – $125,474) was in respect of LTIP awards and $102,121 (2016 – $135,375) was in respect of NEDSOP grants, while there was a recovery of $6,750 (2016 – recovery of $43,475) in respect of outstanding SARs awards.

13. Restructuring expenses:

During 2017, the Company incurred restructuring expenses to downsize certain U.S. operations. The restructuring involved employee and office space reductions. General and administrative expenses include $173,827 (2016 – $755,741), comprising of $100,821 (2016 – $731,441) related to employee benefits and $73,006 (2016 – $24,300) related to an office space reduction, expensed by the Company in respect of this restructuring.

14. Income taxes:

The Company's income tax expense comprises:

	2017	2016
Current income tax expense	**$ 934,141**	$ 951,326
Deferred tax recovery	**(543,141)**	(373,326)
Income tax expense	**$ 391,000**	$ 578,000

During 2017 and 2016, 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:

	2017	%	2016	%
Income tax expense computed at statutory rates	**$ 1,749,606**	**26.5**	$ 1,893,280	26.5
Decrease resulting from:				
Lower effective tax rate on income of subsidiaries	**(1,378,978)**	**(20.9)**	(1,197,219)	(16.8)
Other	**20,372**	**0.3**	(118,061)	(1.6)
Income tax expense	**$ 391,000**	**5.9**	$ 578,000	8.1

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

	2017	2016
Deferred tax assets:		
Unused tax losses	**$ 785,020**	$ 317,103
Allowances for losses	**224,083**	382,358
SARs and LTIP liabilities	**65,000**	81,440
Other	**66,598**	275,254
	1,140,701	1,056,155
Deferred tax liabilities:		
Acquired intangibles	**(213,707)**	—
Lease receivables	**(163,000)**	(246,061)
Basis differential on pass through subsidiaries	**(87,997)**	—
Capital assets	**(28,000)**	(6,000)
Goodwill	**—**	(355,816)
Other	**(7,748)**	(16,113)
	(500,452)	(623,990)
	$ 640,249	$ 432,165

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

	2017	2016
Acquired intangibles	**$ 163,954**	$ 261,482
Assets held for sale	**—**	180,000
	$ 163,954	$ 441,482

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

At December 31, 2017 and 2016, 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.

15. 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.

For the years ended December 31, 2017 and 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 12(f).

16. 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, 2017, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company and thus had not accrued a loss (2016 – nil).

(b) At December 31, 2017, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $1,018,475 (2016 – $827,289). In addition, at December 31, 2017 the Company was contingently liable with respect to a letter of guarantee issued on behalf of a client in the amount of $12,545 (2016 – $402,810). These amounts have been considered in determining the allowance for losses on finance receivables and loans.

17. 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:

2018	$	621,647
2019		510,206
2020		489,891
2021		497,093
2022		414,588
Thereafter		390,150
	$	2,923,575

18. Derivative financial instruments:

At December 31, 2017, there were no outstanding forward foreign exchange contracts entered into by the Company.

At December 31, 2016, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 1, 2017 and February 28, 2017 and which obliged the Company to sell Canadian dollars and buy US$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 US$1,172,516 to the clients.

The favorable and unfavorable fair values of these contracts were recorded on the Company's consolidated statements of financial position at December 31, 2016 in other assets and accounts payable and other liabilities, respectively. As there were no forward foreign exchange contracts outstanding at December 31, 2017, the fair value was nil (2016 – $49,623). The fair value of the contracts is classified as Level 2 under IFRS 7, Financial Instruments - Disclosures. During 2017 and 2016, there were no transfers between the three-level fair value hierarchy described in note 3(p).

19. 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 2017 and 2016 are set out in the consolidated statements of changes in equity.

20. Non-controlling interests in subsidiaries:

Non-controlling interests in subsidiaries at December 31, 2017 comprised:

Non-controlling interests on acquisition of BondIt	$	3,230,475
Non-controlling interests on acquisition of CapX		365,763
Non-controlling interests in net earnings		201,285
Distribution to non-controlling interests		(3,273)
Translation adjustment on non-controlling interests		(110,179)
	$	3,684,071

21. Financial risk management:

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

(a) Credit risk:

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

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

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 3.6% were past due more than 60 days at December 31, 2017 (2016 – 4.1%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

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

The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they

become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's leasing operations, security deposits are obtained by Varion in respect of each of its equipment leases or loans.

In its credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At December 31, 2017, the Company had guaranteed accounts receivable in excess of $5 million for two customers.

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

		2017	
(in thousands)		**Gross finance receivables and loans**	**% of total**
Financial and professional services	**$**	**73,176**	**33**
Manufacturing		**42,085**	**19**
Wholesale and distribution		**31,943**	**14**
Retail		**26,172**	**12**
Transportation		**13,422**	**6**
Media		**10,887**	**5**
Real estate		**7,900**	**4**
Other		**14,519**	**7**
	$	**220,104**	**100**

		2016	
(in thousands)		Gross finance receivables and loans	% 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

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

		2017	
(in thousands)		**Managed receivables**	**% of total**
Retail	**$**	**44,364**	**83**
Wholesale and distribution		**7,750**	**14**
Other		**1,364**	**3**
	$	**53,478**	**100**

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

As set out in notes 3(d) and 5, 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 $187,000,000 have been established at a number of banking institutions, bearing interest varying with the bank prime rate or Libor. At December 31, 2017, the Company had borrowed

$138,140,342 (2016 – $62,483,461) against these facilities. These lines of credit are collateralized by finance receivables and loans to clients. 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, 2017, 89% (2016 – 91%) of these notes were due to related parties and 11% (2016 – 9%) 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, 2017, the Company had gross finance receivables and loans totalling $220,104,156 (2016 – $139,631,297), which substantially exceeded its total liabilities of $170,887,298 at that date (2016 – $82,883,670). The Company's factored 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 lease receivables and equipment term loans, capital assets, deferred tax, intangible assets, goodwill and the LTIP liability, are expected to be settled within 12 months at the carrying values stated in the consolidated statements of financial position.

(c) Market risk:

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

(i) Currency risk:

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, 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, 2017, the Company's unhedged foreign currency positions in its Canadian operations totalled $208,000 (2016 – $188,000). 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 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, 2017:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets:						
Cash	$ 8,943	$ —	$ —	$ —	$ 3,514	**$ 12,457**
Finance receivables and loans, net	162,348	22,043	24,773	9,861	(1,050)	**217,975**
All other assets	—	1,023	—	—	19,565	**20,588**
	171,291	23,066	24,773	9,861	22,029	**251,020**
Liabilities:						
Due to clients	—	—	—	—	4,629	**4,629**
Bank indebtedness	65,923	72,217	—	—	—	**138,140**
Notes payable	15,862	—	—	—	—	**15,862**
All other liabilities	—	409	—	—	11,847	**12,256**
Equity	—	—	—	—	80,133	**80,133**
	81,785	72,626	—	—	96,609	**251,020**
	$ 89,506	$ (49,560)	$ 24,773	$ 9,861	$ (74,580)	**$ —**

Based on the Company's interest rate positions as at December 31, 2017, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $400,000 over a one-year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

22. 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.

23. Capital disclosure:

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. As a percentage, these ratios were 193% (2016 – 98%) and 32% (2016 – 48%), respectively, at December 31, 2017 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, 2017, 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. There were no changes in the Company's approach to capital management from the previous year.

24. 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 2017 and 2016. For additions to intangible assets and goodwill, which were acquired as part of the CapX and BondIt acquisitions in 2017 and are part of U.S. operations, please refer to notes 4, 8 and 9.

2017 (in thousands)	Canada	United States	Consolidated
Identifiable assets	**$ 129,850**	**$ 121,170**	**$ 251,020**
Revenue	**$ 20,446**	**$ 10,963**	**$ 31,409**
Expenses:			
Interest	**3,549**	**298**	**3,847**
General and administrative	**10,323**	**6,622**	**16,945**
Provision for credit and loan losses	**597**	**2,301**	**2,898**
Impairment of assets held for sale	**24**	**—**	**24**
Depreciation	**117**	**44**	**161**
Business acquisition expenses	**368**	**564**	**932**
	14,978	**9,829**	**24,807**
Earnings before income tax expense	**5,468**	**1,134**	**6,602**
Income tax expense (recovery)	**1,532**	**(1,141)**	**391**
Net earnings	**3,936**	**2,275**	**6,211**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**201**	**201**
Net earnings attributable to shareholders	**$ 3,936**	**$ 2,074**	**$ 6,010**

2016 (in thousands)	**Canada**	**United States**	**Consolidated**
Identifiable assets	$ 92,032	$ 66,534	$ 158,566
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
Business acquisition expenses	509	—	509
	14,331	7,047	21,378
Earnings before income tax expense	3,794	3,350	7,144
Income tax expense (recovery)	1,063	(485)	578
Net earnings	$ 2,731	$ 3,835	$ 6,566

25. Subsequent events:

At March 1, 2018, there were no subsequent events occurring after December 31, 2017 that required disclosure or adjustment to the financial statements.

Corporate Information

Annual Meeting

The Annual Meeting of Shareholders will be held **Wednesday, May 2nd, 2018** at 4:15 pm at The Toronto Board of Trade, First Canadian Place, Toronto, Ontario

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

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Officers

Ken Hitzig, Chairman of the Board

Tom Henderson, President & CEO

Stuart Adair, Senior Vice President, Chief Financial Officer

Jim Bates, Secretary

Simon Hitzig, Senior Vice President

Fred Moss, Vice President

Subsidiaries

Accord Financial Ltd.
Jim Bates, President

Accord Financial Inc.
Fred Moss, President

Accord Financial, Inc.
Tom Henderson, President

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

Accord CapX LLC
Jeff Pfeffer, President

BondIt Media Capital
Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

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

Stock Exchange Listing

Toronto Stock Exchange
Symbol: ACD

Registrar and Transfer Agent

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