A Pattern of Evolution

Annual Report 2018

Accord's Pattern of Evolution

A Brief History

1978-1983

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

1984-1988

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

1989-1993

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

1994-1998

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

1999-2003

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

2004-2008

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

2009-2013

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

2014-2016

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

2017-2018

- Acquired a 51% interest in BondIt Media Capital on July 1, 2017, a film finance business in Santa Monica.
- Acquired a 90% interest in CapX Partners, a Chicago-based equipment finance business on October 27, 2017.
- Increased main bank facility to $292 million in 2018 with a syndicate of six banks.
- Raised $19.5 million through a TSX listed convertible debenture offering in December 2018.
- 2018 is another record year. Funds employed rise to $339 million, while revenue almost hits $47 million. Adjusted earnings are a record $10.8 million, or $1.30 per share. Shareholders' equity closes in on $90 million.

A Pattern of Evolution

For forty-one years Accord Financial Corp. has thrived through a pattern of evolution, which means that as the market environment has changed, so have we. From our roots as a factoring company, we've transformed into a diversified commercial finance company, led by the most dynamic team in North America. With a full range of versatile financial solutions, Accord holds the key to unlock our clients' potential.

Unrivalled experience is the cornerstone of our company. It allows us to continually adapt to the marketplace, enhance our range of solutions, and uncover opportunities for growth. Our dynamic team delivers flexible solutions with the speed needed to keep our clients moving forward. And trust is the bedrock of our brand. Our clients can trust that we will honor our commitments without wavering, and trust in our financial strength to fuel their ambitions.

We love helping companies reach their potential. In fact, it's our core purpose – we simplify access to capital so that our clients can thrive. Accord's decades of experience allows us to serve a broad base of the continent's most vital industries with confidence. And our exceptional financial strength makes us the lender of choice for private equity partners, finance professionals and their client companies looking to seize opportunity and drive success.

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Accord Has a Pattern of Helping Companies Evolve to Their Potential

"Groupe JS International has been in business for more than 40 years. Over the last four years we have been financed by Accord Financial, and through the toughest times, Accord has shown the understanding, patience and support that separates them from their competitors. We are forever grateful to the team of professionals at Accord for their support and their understanding of the fashion business. And beyond their attention to financial detail, is their ability to take a personal stake in the day-to-day intricacies of our business. I would describe Accord Financial as being in the Relationship Business more than just the Banking Business."

~ **Mitchell Hops**, President
Groupe JS International

"We are excited about this new relationship with CapX and the continuation of our long-term partnership with Accord Financial, who has supported Javo Beverage as a lender since 2009. We appreciate Accord's readiness to support us with the capital needed to fuel our future growth objectives. This expansion into a second facility will support the growth of our existing and prospective customers, further expand our reach to the East Coast, and broaden our product portfolio in the coffee, tea, and botanical segment of the food and beverage industry."

~ **Dennis Riley**, President and CEO
Javo Beverage Company

"The team at BondIt was professional, thorough and courteous throughout the entire underwriting and funding process. It was a genuine pleasure working with them."

~ **Steve Soffer**, Founder
Media Funding Partners

"Our recently closed financing was my first with Accord Financial, and it was a great experience. The deal was complex and evolving, but Accord did not deviate from its original terms and, in every instance, they did what they said they would do. Accord will be at the top of our list for future ABL deals."

~ **Charles Moncure**, Principal
Dominion Partners, LLC

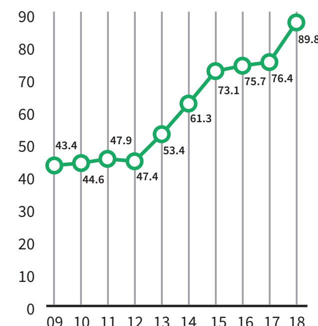
"Innovative, creative, customer centric and collaborative are all great descriptions for the partnership we have with Accord . Accord takes a very customer centric approach in solving the financial needs of Canada's small and middle market participants. Their financial solutions are focused on the needs of all of the stakeholders while mitigating risk and adding value to their shareholders and alliance partners. We have had an excellent relationship with Accord and its team and look forward to a continued collaborative partnerships while meeting the needs of our mutual customers.

~ **Jim Case**, CEO
Ritchie Brothers Financial Services

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.



Shareholders' Equity
(in millions of dollars)

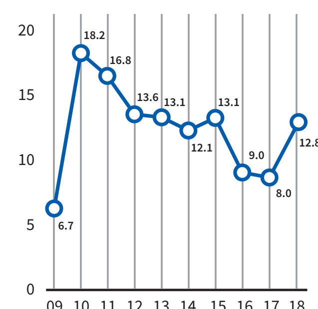
Shareholders' equity increased to a record $89.8 million at December 31, 2018. Book value per share of $10.66 was also a record high.

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.



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

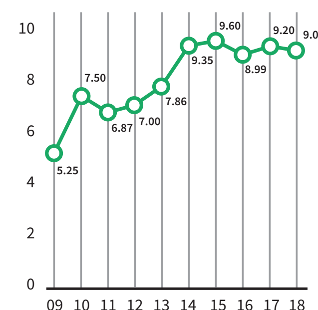
Return on average equity ("ROE") increased to 12.8% in 2018 on record earnings. Adjusted ROE was 13.4%.

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.



Share Price
(at close on December 31)

Accord's share price closed 2018 at $9.09.

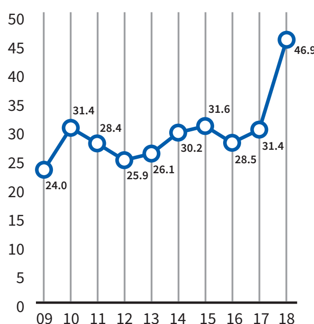
Media finance

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.

Three Year Financial Highlight Summary

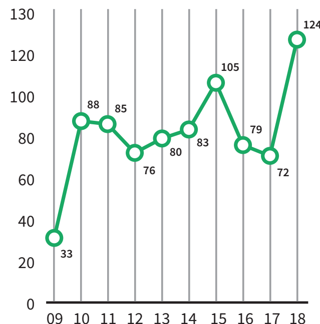
	2018	2017	2016
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Revenue	$ 46,927	$ 31,409	$ 28,522
Net earnings attributable to shareholders	10,356	6,010	6,566
Adjusted net earnings	10,840	7,005	7,675
Return on average equity	12.8%	8.0%	9.0%
Adjusted return on average equity	13.4%	9.3%	10.5%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	$ 270,900	$ 181,052	$ 150,318
Total assets	373,783	251,020	158,566
Shareholders' equity	89,818	76,448	75,682
Common Share Data (per common share)			
Earnings per share - basic and diluted	$ 1.24	$ 0.72	$ 0.79
Adjusted earnings per share - basic and diluted	1.30	0.84	0.92
Dividends paid	0.36	0.36	0.36
Share price - high	10.45	9.55	9.95
- low	8.22	8.40	8.70
- close at December 31	9.09	9.20	8.99
Book value per share at December 31	10.66	9.20	9.11

The Company's financial statements have been prepared in accordance with IFRS. The Company uses a number of other financial measures to monitor its performance and believes that these measures may be useful to investors in evaluating the Company's operating performance and financial position. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency between companies using these measures and are, therefore, considered to be non-IFRS measures. The non-IFRS measures presented in the Three Year Financial Highlight Summary, Letter to Our Shareholders, Management's Roundtable Discussion and A Brief History of Accord are summarized on pages 10 and 11 of this Annual Report in the Management's Discussion and Analysis. Such non-IFRS measures include adjusted net earnings, adjusted earnings per share, book value per share, return on average equity, adjusted return on average equity, average funds employed etc. Please refer to pages 10 and 11.



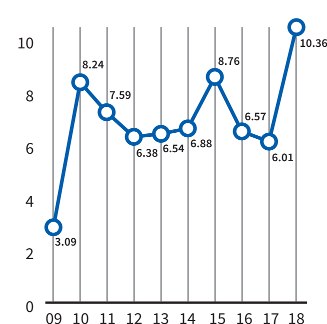
Revenue
(in millions of dollars)

Revenue reached a record $46.9 million in 2018, up 49%.



Diluted Earnings per Share
(in cents)

2018 diluted earnings per share were a record $1.24, while adjusted diluted EPS were a record $1.30.



Net Earnings
(in millions of dollars)

Net earnings increased 72% to a record $10.4 million in 2018. Adjusted net earnings were a record $10.8 million, up 55%.

Letter to Our Shareholders

From Our Chairman

In my report to you last year I stated that there were profound changes in the nature of the Company; we had evolved from being a narrowly-focused finance company into a broad-based lender to many different types of clients satisfying their different needs for funding that we now fill. In 2018 we built further on our solid foundation. We entered the year with six operating units, three in the U.S.A. and three in Canada.

Because of Accord's rapid growth, it became obvious that our existing lines of bank credit would be exhausted well before we reached the end of the year. We entered into negotiations with our lead bank and by early summer a new line of credit was established, which amounted to $292 million. A total of six banks participated in the new line.

To support the growth in our portfolio, in consultation with several investment bankers, we zeroed in on selling $15-$20 million of 7% convertible five year debentures. The issue was successful and Accord ultimately raised $19.5 million. Our President did a great job shepherding this project to a successful conclusion.

There were some interesting changes at Head Office in 2018. Tom Henderson took the new title of Vice Chairman of the Board, allowing Simon Hitzig to take the reins as President and CEO. With the looming project of raising fresh capital and with his decades of experience in the financial district prior to coming to Accord, Simon was the obvious choice. The change was effective October 1, 2018.

We made great progress in 2018. Many of our accomplishments noted below represent Accord records. Here are some of the highlights:

- Year-end funds employed rose by 54% from $220 million at Dec. 31, 2017 to an all-time high $339 million at Dec. 31, 2018.
- Average funds employed rose to $271 million in 2018 from $181 million in 2017, up 50%.
- Total revenue was $46.9 million in 2018 versus $31.4 million in 2017, an increase of 49%.
- Pre-tax earnings came in at $11.3 million compared to $6.6 million the previous year, up 71%.
- Shareholders' net earnings were $10.4 million in 2018, up 73% from the $6.0 million earned in 2017.
- Adjusted net earnings rose 54% to $10.8 million from $7.0 million in the previous year.
- Earnings per share (EPS) were $1.24 in 2018 versus $0.72 in 2017. This was an increase of 72% and set a record high for Accord.
- Adjusted EPS was $1.30, up 55% from $0.84 in the previous year.
- Shareholders' equity was $89.8 million at Dec. 31, 2018 compared with $76.4 million a year earlier, an increase of 18%.

Simon Hitzig

Ken Hitzig

- At Dec. 31, 2018 we had assets of $143 million in Canada and $231 million in the United States. Canada was up $16 million in the year, while the U.S. grew by $110 million. This marked the first time our U.S. business moved in front of Canada.

- Revenue grew by 13% in Canada to $23.2 million, while the U.S. grew by 118% to $23.9 million in 2018.

Accord's book value per share was $10.66 compared to $9.20 a year ago. Accord's share price closed the year at $9.09 on the Toronto Stock Exchange. Four quarterly dividends of nine cents per share were paid in 2018 extending our unbroken string of dividend payments to 32 years.

From Our President & CEO

We just closed the books on our strongest year since founding in 1978. Total funds employed, revenue and net earnings marked all-time highs. How did we achieve this success? Hard work, of course, and a five year careful transformation from our roots as a factoring company into a broad-based commercial finance company, led by the most dynamic team in North America. Strategic change is in our DNA.

For forty-one years Accord has thrived through a pattern of evolution, which means that as the market environment has changed, so have we. This is a remarkable achievement—to be leading experts in our field, and at the same time, embrace change and successfully adapt over time.

Accord's pattern of evolution goes all the way back to the 1980s, when severe capital constraints drove us out of lending and into credit and collections as a service, a business that operates to this day. We adapted again in the 1990s by acquiring two lending companies, one in Montreal and one in Greenville, both of which continue to thrive. And we continue to evolve, transforming from our roots in factoring to become a diversified commercial finance powerhouse.

Our recent evolution was built around three objectives:

1. Expand our product range to make Accord more valuable to our network of referral sources;
2. Broaden our geographic focus, expanding our presence westward; and
3. Strengthen the management team in preparation for our next phase of growth.

We executed through a number of strategies; three terrific acquisitions, and a variety of internal initiatives, added new products and markets to our existing strong platform. Along the way, key executive and staff hires added outstanding talent to Accord's all-star team. Mission accomplished—Accord can confidently lend up and down a company's balance sheet. And our versatile products are delivered by an industry-leading management team, serving clients from six offices from coast-to-coast in the United States and Canada. In tandem with this evolution we've firmly established Accord as a trusted brand in our markets.

After five years of strategic evolution, we had all the puzzle pieces in place heading into 2018. It was, in

fact, our first full calendar year with contribution from both BondIt Media Capital and CapX Partners, which joined the Accord family in the second half of 2017. We couldn't be happier with the strategic fit and financial performance of both businesses, now key drivers of growth for Accord and its shareholders. Along with BondIt and CapX, our other lending units also delivered strong growth and profits.

As the Chairman alluded to in his letter, we were busy throughout the year gathering support for Accord's renewed growth trajectory. Our syndicate of banks delivered via a larger credit facility, while a new group of investors embraced our story and took up our convertible debenture offering, giving us additional capital to grow the portfolio. We continue to assess a full range of alternative sources of financing to augment our balance sheet if and when needed.

With Accord firing on all cylinders, are we happy to just ride the wave? The answer is a definite NO. Evolution is in our DNA, and there's more work to do. Right now we're particularly focused on three key initiatives:

1. The hard work of pulling six operating units (three arriving by acquisition) into a unified commercial finance powerhouse aligned around a singular vision. We can't underestimate the power of this positioning in the marketplace, or the internal synergies when executed well.

2. Meeting the challenge of funding Accord's growth trajectory. We've made great strides in this area, and will continue to diversify our sources of capital to "bullet proof our balance sheet", as Vice Chairman Tom Henderson has described many times in the past.

3. Continuing to attract and retain the best and the brightest talent. We have only two resources to work with: money and people. The human element matters; people bring passion, invention and growth to our business and our clients.

Success comes from passing strong DNA down from generation to generation. Our increasing earnings and enterprise value are easy to see in the Annual Report. But our DNA is less visible; our ability to thrive through decades of change was formed over generations. Most of us won't be here to enjoy the next forty-one years at Accord, but you can be sure we'll pass on the DNA to ensure the company thrives. With our Board, executive team and entire staff aligned around our growth plan, and strong funding in place, we look forward to 2019.

Ken Hitzig
Chairman of the Board

Simon Hitzig
President & CEO

Toronto, Ontario
March 13, 2019

“For forty-one years Accord Financial Corp. has thrived through a pattern of evolution, which means that as the market environment has changed, so have we. From our roots as a factoring company, we’ve transformed into a diversified commercial finance company, led by the most dynamic team in North America.”

~ Simon Hitzig,
President & CEO

A Pattern of Evolution

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****, Vice Chairman,* ***Simon Hitzig****, President and Chief Executive Officer of Accord Financial Corp. ("AFC"),* ***Terry Keating****, Head of asset-based lending (ABL) for the U.S.,* ***Fred Moss****, Head of 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 Partners,* ***Matthew Helderman****, Head of BondIt Media Capital, and* ***Stuart Adair****, Senior Vice President, Chief Financial Officer for AFC.*

Ken Hitzig acted as moderator.

Ken: There's been a lot of change over the last five years, a "pattern of evolution" as we've titled this Annual Report, notably some key executive hires as well as several strategic acquisitions. 2018 seemed relatively quiet on that front.

Simon: You're right. After strengthening our company in prior years through a series of investments and acquisitions, we had a full year to prove that we executed the right strategy. As I mentioned in my letter in this report, 2018 was our first full year with contributions from both BondIt Media Capital and CapX Partners, which joined the Accord family in the second half of 2017.

Ken: You've described this evolution as a transformation from our roots in factoring to a diversified commercial finance company. What tangible changes were made?

Simon: We set out to deepen our management team, broaden our marketing reach, and expand our product line. Five years ago we were mostly focused on selling factoring services out of three offices: Toronto, Montreal and Greenville, SC. By the start of 2018 we could confidently lend up and down a company's balance sheet, secured by receivables, inventory and/or equipment. Our management team has never been stronger, and we now serve clients from six offices from coast-to-coast in the United States and Canada.

Ken: Tom, it must be a challenge bringing new companies under the Accord umbrella.

Tom: The biggest challenge is cultural fit. We spent a lot of time with the partners at BondIt and CapX before bringing them into the fold. Preserving and strengthening our culture is paramount, and we wanted to make sure we had the right fit. But even after diligence in this area, you never know for sure until after you close a deal and start working together.

Ken: And how is it working out?

Tom: We couldn't have imagined how well these companies would fit. We are very closely aligned in the key areas: growth ambition, credit discipline, a focus on superior service, and a belief that human capital matters in our business.

Ken: Did the "pattern of evolution" translate into financial performance?

Tom: Yes indeed, 2018 saw strong growth from our latest additions: BondIt and CapX. Our other lending units also contributed nicely. We're very pleased to report growth on all fronts.

Ken: Simon, give us the highlights.

Simon: Accord's loan portfolio, or as we call it "funds employed", grew from $220 million at year-end 2017 to more than $339 million at year-end 2018. Total revenue reached nearly $47 million and earnings per common share were $1.24. All three measures marked all-time highs.

Ken Hitzig

Tom Henderson

Simon Hitzig

Stuart Adair

Fred Moss

Ken: Will the growth continue?

Simon: Our funds employed have grown by more than 50% in each of the last two years. It will be very difficult to keep up this pace. But the market has clearly embraced our brand and is driving nice momentum. And we're in a good position to continue putting up solid bottom line growth.

Ken: Why the confidence in that regard?

Simon: Simple: operating leverage. We currently manage $339 million of loans with approximately 100 people plus rent expense in six locations. We believe that with only a modest increase in overhead we can manage in excess of $500 million of portfolio loans. Recent experience gives a preview of that trend.

Ken: Let's turn to our operating units. Terry how did the U.S. ABL business perform in 2018?

Terry: It was our second straight year of strong portfolio growth. We started the year with net funds employed of $63 million and closed the year at $81 million (U.S. dollars). And we stayed out of the penalty box in terms of loan losses. In fact the only loss in our financials was a provision, which is an estimate of possible future losses based on portfolio growth.

Ken: What do you think were the keys to success?

Terry: We've taken our sales and marketing approach to a new level. We have an outstanding team now running a very streamlined process supported by excellent technology. And the work we've done in recent years to communicate our value to the market is paying off.

Ken: How do you define Accord's "value"?

Terry: Financial strength and responsiveness for starters. Most importantly trust, specifically, our clients can trust that we will honor our commitments without wavering, and we have the financial resources to provide certainty of close. Our network of referral sources can bank on Accord getting their deals done.

Ken: Let's head north of the border, Fred, tell us about the ABL market in Canada.

Fred: The market continues to be very competitive, especially with the large banks operating in our space. The banks tend to come and go, but for now, they're here.

Ken: What drives the banks' behavior in commercial lending?

Fred: With the long period of economic growth, banks are reaching down the credit spectrum, taking on clients that don't meet the historical definition of "bankable." Having lived through these cycles before, we anticipate an eventual reversion to the mean, probably sooner than later as we are in the late stages of the current credit cycle.

Ken: How do you weather the storm?

Fred: Excellent people and outstanding client service once again led to client retention and growth. You can't deliver great service without great people, and we are fortunate in that regard. Our team grew the Canadian ABL portfolio almost 10% during the year. We managed to close 2018 with $106 million of net funds employed, the first time we've celebrated New Year's Eve above $100 million.

Ken: Jim, you continue to manage through a tough environment for the receivables management business.

Jim: As you know, our services typically don't involve lending, we offer an outsourced solution for credit and collections work. Many of our clients are shipping goods

to retail stores – we handle their collections and offer credit protection when we can comfortably approve. As online sellers and global chains have grown, our retail market has declined.

Ken: How have you adapted?

Jim: We've had success adding to our international business, which now accounts for more than half of our credit and collections volume. Cross-border tends to be lower margin business, but often carries lower credit risk, which we appreciate.

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

James: We have two rare advantages in the equipment finance marketplace. First, we use Accord's balance sheet to develop unique and valuable products. Second, our senior team takes a hands-on approach to structure effective financing for our clients. Both advantages mean we don't rely on cookie-cutter products. Our solutions really are tailor-made to our client's circumstances.

Ken: Why is Accord's balance sheet an advantage?

James: We hold all of our leases and loans on our balance sheet, which means we can structure each transaction to match the client's real need. In contrast, most competitors "securitize" their portfolio, which means they sell their leases to third-party funders. These funders want all deals to look the same, which means our competitors have limited flexibility. We don't have that problem.

Ken: What challenges do you see for 2019?

James: We tend to be a good match with sophisticated referral sources, those who appreciate the value we bring to each transaction. So we're focused on developing that network. From our base in Western Canada, we've begun to build key relationships in Ontario and the East. Luckily, that's where Accord has forty-one years of history in factoring and ABL.

Ken: After five years under the Accord umbrella, it sounds like you're just hitting your stride.

James: We joined Accord in early 2014 and the first few years were tough. The oil price collapsed, which wreaked havoc on the western economy. We were profitable but didn't grow very much. Now we're firing on all cylinders, and proud to be a big part of Accord's success.

Ken: Jeff, CapX just completed its first full year as part of the Accord family – can you comment on performance so far?

Jeff: We felt pretty good about our contribution to overall portfolio growth – we funded close to $60 million (U.S. dollars) in new equipment loans and leases during the year. We're certainly pleased to deliver value right out of the gate.

Ken: What about joining the Accord family, how would you describe the experience?

Jeff: One of the advantages of bringing our two companies together is the opportunity to leverage all of our products across our combined referral networks. Last year we collaborated with the ABL units in Greenville and Montreal, which resulted in new transactions for all three business units. Believe it or not, we also sent a few referrals to BondIt in Santa Monica. All of this cross-division activity is starting to bear fruit.

Ken: One of your goals for CapX was to evolve in 2018 on the theme of "simplifying access to capital".

Jeff: This is our way of harnessing the value of innovation. If we can simplify our clients' access to capital, we will earn their loyalty over the long term. In 2018 we cultivated new sourcing channels and tools to improve clients' access to capital. We've been working on exciting partnerships with several fintech companies that will allow us to capture deal flow in our credit space with very little "friction" experienced by the borrower. And internally we've been developing tools to enable a much faster and more predictive credit-decisioning process.

Ken: Matthew, tell us about BondIt. Did 2018 meet expectations?

Matthew: From a deal flow perspective – absolutely. The competitive landscape changed in our favor last year, and the long-term trend towards smaller projects

James Jang

Terry Keating

Matthew Helderman

Jeff Pfeffer

Jim Bates

for delivery channels like Amazon and Netflix remains positive for us. Our pipeline is very strong.

Ken: How do you manage the pace of growth and change in your industry?

Matthew: Our small team allows us to be very entrepreneurial, and respond to change and opportunity as it unfolds. But it's a challenge to keep up with the number of deals we see. We deployed more than $15 million (U.S. dollars) in 2018, an all-time record for BondIt. But we could have done more.

Ken: What held you back?

Matthew: Our funding model is not perfect. We still rely on a modest equity base and a small credit facility. The good news is that we can cherry-pick the strongest projects to finance; the bad news is we are leaving some good deals on the table. Priority number one is to improve our access to capital.

Ken: What do you see for 2019?

Matthew: We're confident we can double originations, from $15 million to $30 million without compromising credit quality. But we need to arrange the right capital – we're focused now on bolstering our balance sheet to capitalize on the opportunity.

Ken: Stuart, you were busy last year securing the capital needed to fund growth. How did you approach that challenge?

Stuart: The first step was to upsize our primary banking facility led by The Bank of Nova Scotia. In July our banking syndicate agreed to increase our credit line from $175 million to $292 million, with an accordion that could add another $75 million.

Ken: It's gratifying to have strong bank support. Is it enough to finance Accord's growth?

Stuart: It was a good start. We followed it up by issuing three-year term notes, as well as TSX-listed convertible debentures. In total, we raised another $31.5 million, which reflects a new level of support from the investor community.

Ken: Simon, you spent several months last fall travelling around the country and talking to potential investors. Tell us how our story was received.

Simon: It was a terrific experience. "Alternative credit" has become a hot sector to invest in, and I encountered many myths out there that will lead to investor disappointment. With our ROE nearly 13% in 2018 and climbing, plus a dividend yield of approximately 4% (at year-end), I made the case that Accord is the ideal way to capture growth in this asset class. The result – a new group of investors embraced our story and trusted us with part of their investment portfolio.

Ken: *Thank you gentlemen. We're looking forward to 2019.*

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

Year ended December 31, 2018 compared with year ended December 31, 2017

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the year ended December 31, 2018 compared with the year ended December 31, 2017 and, where presented, the year ended December 31, 2016. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at March 13, 2019, should be read in conjunction with the Company's 2018 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 32) and the Letter to Our Shareholders all of which form part of this 2018 Annual Report.

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

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

Non-IFRS Financial Measures

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in its 2018 Annual Report 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

Stuart Adair

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. A reconciliation of shareholders' net earnings to adjusted net earnings is presented below. Adjusted (basic and diluted) earnings per common share is adjusted net earnings divided by the (basic and diluted) weighted average number of common shares outstanding in the year, while adjusted ROE is adjusted net earnings for the year expressed as a percentage of average shareholders' equity employed in the year;

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

iv) **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 15 presents certain profitability measures. In addition to ROE and adjusted ROE, the return on average assets is also presented. This is the 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 operating expenses (general and administrative expenses ("G&A") and depreciation) 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 18 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, loan payable, notes payable and convertible debentures) 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 20 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;

Results of Operations

Years ended December 31 (in thousands unless otherwise stated)	2018 Actual	2018 % of Revenue	2017 Actual	2017 % of Revenue	% change from 2017 to 2018
Average funds employed (millions)	$ 271		$ 181		50%
Revenue					
Interest income	$ 37,843	80.6%	$ 25,305	80.6%	50%
Other income	9,084	19.4%	6,104	19.4%	49%
	46,927	100.0%	31,409	100.0%	49%
Expenses					
Interest	9,407	20.0%	3,847	12.2%	145%
General and administrative	23,524	50.1%	16,945	54.0%	39%
Provision for credit and loan losses	2,025	4.3%	2,898	9.3%	-30%
Impairment of assets held for sale	25	0.1%	24	0.1%	4%
Depreciation	279	0.6%	161	0.5%	73%
Business acquisition expenses					
Translation and integration costs	(74)	-0.2%	545	1.7%	n/m
Amortization of intangible assets	410	0.9%	387	1.2%	6%
	35,596	75.8%	24,807	79.0%	43%
Earnings before income tax expense	11,331	24.2%	6,602	21.0%	72%
Income tax expense	104	0.3%	391	1.2%	-73%
Net earnings	11,227	23.9%	$6,211	19.8%	81%
Net earnings attributable to non-controlling interests in subsidiaries	871	1.8%	201	0.7%	333%
Net earnings attributable to shareholders	$ 10,356	22.1%	$ 6,010	19.1%	72%
Adjusted net earnings	$ 10,840	23.1%	$ 7,005	22.3%	55%
Earnings per common share*	$ 1.24		$ 0.72		72%
Adjusted earnings per common share*	$ 1.30		$ 0.84		55%

* basic and diluted
n/m - not meaningful

Accord's Business

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

	2018	2017	2016
Revenue	$ 46,927	$ 31,409	$ 28,523
Net earnings attributable to shareholders	10,356	6,010	6,566
Basic and diluted earnings per share	1.24	0.72	0.79
Dividends per share	0.36	0.36	0.36
Total assets	373,783	251,020	158,566
Long-term financial liabilities	$ 28,168	$ —	$ —

Results of Operations

Year ended December 31, 2018 compared with year ended December 31, 2017

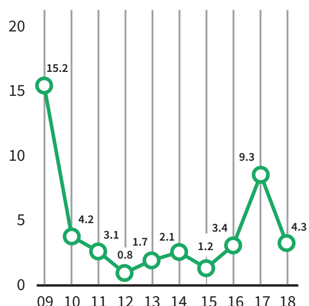
Shareholders' net earnings in 2018 increased by 72% or $4,346,000 to a record $10,356,000 compared to the $6,010,000 earned in 2017 and were $3,790,000 or 58% higher than the $6,566,000 earned in 2016. Shareholders' net earnings compared to 2017 rose mainly as a result of higher revenue, a lower provision for losses and reduced business acquisition expenses. Shareholders' net earnings compared to 2016 rose mainly on higher revenue. Basic and diluted earnings per common share ("EPS") rose by 72% to a record $1.24 compared to the 72 cents earned last year and were 57% above the 79 cents earned in 2016. The Company's ROE increased to 12.8% in 2018 compared to 8.0% last year and 9.0% in 2016.

Adjusted net earnings increased by 55% to a record $10,840,000 in 2018 compared to last year's $7,005,000 and were 41% higher than 2016's $7,675,000. Adjusted EPS were a record $1.30 in 2018, 55% higher than the 84 cents earned in 2017 and 41% above the 92 cents earned in 2016. Adjusted ROE was 13.4% in 2018 compared to 9.3% in 2017 and 10.5% in 2016. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Years ended Dec. 31 (in thousands)	2018	2017	2016
Shareholders' net earnings	$ 10,356	$ 6,010	$ 6,566
Adjustments, net of tax:			
Stock-based compensation expense	233	188	189
Restructuring expenses	—	122	545
Business acquisition expenses	251	685	375
Adjusted net earnings	$ 10,840	$ 7,005	$ 7,675

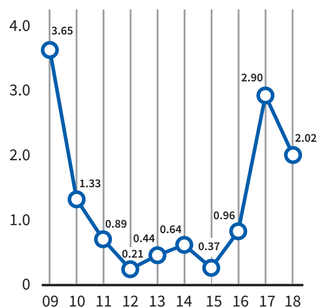
Revenue rose by 49% or $15,518,000 to $46,927,000 in 2018 compared to $31,409,000 in 2017 and was $18,404,000 or 65% higher than the $28,523,000 in 2016. Interest income rose by $12,538,000 or 50% to $37,843,000 compared to 2017 on the same percentage rise in average funds employed, while average loan yields remained unchanged. Other income rose by $2,980,000 to $9,084,000 compared to 2017 mainly as a result of management fees earned by CapX for managing a legacy equipment finance fund, as well as increased account fees earned by ASBF. Interest income in 2018 increased by $14,967,000 or 65% compared to 2016 on an 80% rise in average funds employed, which was partly offset by an 8% decrease in average loan yields. Other income in 2018 rose by $3,437,000 or 61% compared to 2016 for the reasons noted above. Average funds employed in 2018 increased by 50% to $271 million compared to $181 million last year and were 80% higher than the $150 million in 2016.

Total expenses increased by $10,789,000 or 43% to $35,596,000 compared to $24,807,000 in 2017. G&A, interest, depreciation, amortization of intangibles and impairment of assets held for sale increased by $6,579,000, $5,560,000, $118,000, $23,000 and $1,000, respectively. The provision for credit and loan losses and business acquisition expenses declined by $873,000 and $619,000, respectively.



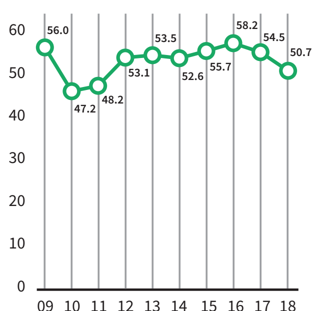
Provision for Credit and Loan Losses
(as a percentage of revenue)

The provision declined to 4.3% of revenue in 2018 from 9.3% last year.



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

The provision declined to $2.0 million in 2018 from $2.9 million in 2017.



Operating Expenses
(G&A and depreciation)

Operating expenses declined to 50.7% of revenue in 2018 from 54.5% last year.

Interest expense rose by 145% to $9,407,000 in 2018 from $3,847,000 last year on 74% higher average borrowings and increased interest rates. Market interest rates rose, while the Company also borrowed at higher rates under its main credit facility, as well as on its loan payable, term notes payable and convertible debenture debt.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A increased by $6,579,000 to $23,524,000 compared to $16,945,000 last year on a full year of CapX and BondIt G&A, compared to two and six months, respectively, in 2017. In addition, personnel costs rose in other group companies consistent with their growth. In 2018, CapX and BondIt G&A increased by $5,242,000 to $6,467,000 (2017 – $1,225,000), while personnel costs at other group companies were $869,000 higher. The Company continues to manage its controllable expenses closely and in 2018 G&A as a percentage of revenue declined to 50.1% (2017 – 54.0%), while G&A and depreciation as a percentage of average assets, as detailed in Table 1, decreased to 8.0% (2017 – 8.4%).

The provision for credit and loan losses declined by $873,000 to $2,025,000 compared to $2,898,000 last year. The provision comprised:

Years ended Dec. 31 (in thousands)	2018	2017
Net charge-offs	$ 818	$ 2,348
Reserves expense related to increase in total allowances for losses	1,207	550
	$ 2,025	$ 2,898

The provision for credit and loan losses as a percentage of revenue declined to 4.3% in 2018 from 9.3% in 2017. Net charge-offs decreased by $1,530,000 or 65% to $818,000 in 2018 compared to the prior year. Net charge-offs in 2017 included one charge-off totalling $2,021,000. The non-cash reserves expense increased by $657,000 to $1,207,000 mainly as a result of a $119 million increase in funds employed during the year (2017 – reserves expense of $550,000 on an $80 million increase in funds employed). In years

where funds employed are growing significantly, this non-cash item will tend to adversely impact shareholders' net earnings. The Company's allowances for losses, which reflect the adoption of the expected credit loss ("ECL") modelling required under IFRS 9, Financial Instruments, on January 1, 2018, and its portfolio 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 $25,000 (2017 – $24,000) was taken during 2018 against certain assets held for sale where the net realizable value had declined below book value (see note 6 to the Statements).

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, 2018, these expenses totalled $336,000 (2017 – $932,000). Transaction and integration costs saw a recovery of $74,000 (2017 – expense $545,000). This recovery resulted from a $685,000 reduction in contingent consideration estimated to be paid out on the acquisition of CapX, net of a $610,000 expense relating to the accretion of the present value of the CapX contingent consideration liability. Amortization of intangible assets relating to Varion and CapX totalled $410,000 in 2018 compared to $387,000 last year (see note 7 to the statements).

Income tax expense declined by $287,000 or 73% to $104,000 compared to $391,000 in 2017 mainly as a result of a reduced effective income tax rate. The Company's effective income tax rate decreased to 0.9% in 2018 compared to 5.9% last year.

Table 1 – Profitability, Yield and Efficiency Ratios

(as a percentage)	2018	2017	2016
Return on average assets	**3.5**	3.0	4.0
Return on average equity	**12.8**	8.0	9.0
Adjusted return on average equity	**13.4**	9.3	10.5
Net revenue / average assets	**12.6**	13.8	15.8
Operating expenses* / average assets	**8.0**	8.4	10.0

* *G&A and depreciation*

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2018, the return on average assets, ROE and adjusted ROE, expressed in percentages, rose to 3.5%, 12.8% and 13.4%, respectively, as earnings increased.

Net revenue as a percentage of average assets declined to 12.6% compared to 13.8% in 2017. The ratio of G&A to average assets decreased to 8.0% in 2018 compared with 8.4% last year.

Canadian operations reported a 60% decrease in shareholders' net earnings in 2018 compared to 2017 (see note 24 to the Statements) mainly as a result of increased interest expense and, to a lesser extent, a higher provision for losses. Shareholders' net earnings declined by $2,362,000 to $1,574,000 compared to $3,936,000 last year. Revenue increased by $2,750,000 or 13% to $23,196,000. Expenses increased by $6,015,000 to $20,993,000. Interest expense rose by $4,937,000 or 139% to $8,486,000, while G&A, provision for credit and loan losses, depreciation and impairment of assets held for sale were higher by $658,000, $451,000, $57,000 and $1,000, respectively. Business acquisition expenses (amortization of intangibles) declined by $89,000. Income tax expense decreased by $903,000 or 59% to $629,000 on a 60% decline in pre-tax earnings.

U.S. operations reported a 324% increase in shareholders' net earnings compared to 2017 (see note 24 to the Statements). Shareholders' net earnings rose by $6,708,000 to $8,782,000 compared to $2,074,000 last year. Revenue increased by $12,931,000 to $23,894,000 on a full year of revenue from CapX and BondIt, which were acquired in the second half of 2017. Expenses rose by $4,937,000 or 50% to $14,766,000. G&A increased by $5,921,000 to $12,543,000, while interest expense rose by $786,000 to $1,084,000. The provision for credit and loan losses decreased by $1,324,000 to $977,000, while business acquisition expenses declined by $507,000 to $57,000. Depreciation rose by $61,000. There was an income tax recovery of $525,000. In U.S. dollars, net earnings were 311% higher at US$6,733,000 compared to 2017. Net earnings attributable to non-

Summary of Quarterly Results

Quarters ended (in thousands unless otherwise stated)	2018 Dec. 31	 Sept. 30	 June 30	 Mar. 31	2017 Dec. 31	 Sept. 30	 June 30	 Mar. 31
Average funds employed (millions)	$ 317	$ 283	$ 255	$ 229	$ 226	$ 189	$ 167	$ 143
Revenue								
Interest and other income	$ 2,951	$ 13,120	$ 10,823	$ 10,033	$ 9,935	$ 8,370	$ 6,603	$ 6,501
Expenses								
Interest	3,295	2,655	1,991	1,466	1,407	1,068	754	619
General and administrative	6,594	5,810	5,714	5,406	5,105	3,962	3,887	3,991
Provision for credit and loan losses	(834)	1,234	186	1,439	(190)	781	1,959	347
Impairment of assets held for sale	—	—	25	—	24	—	—	—
Depreciation	118	62	52	47	43	39	41	37
Business acquisition expenses	(449)	254	263	268	546	202	92	92
	8,724	10,015	8,231	8,626	6,935	6,052	6,733	5,086
Earnings (loss) before income tax expense	4,227	3,105	2,592	1,407	3,000	2,318	(130)	1,415
Income tax (recovery) expense	(103)	274	109	(176)	387	314	(499)	189
Net earnings	4,330	2,831	2,483	1,583	2,613	2,004	369	1,226
Non-controlling interests in net earnings	169	215	120	367	180	21	—	—
Net earnings attributable to shareholders	$ 4,161	$ 2,616	$ 2,363	$ 1,216	$ 2,433	$ 1,983	$ 369	$ 1,226
Adjusted net earnings	$ 3,883	$ 2,842	$ 2,674	$ 1,441	$ 2,903	$ 2,166	$ 573	$ 1,362
Earnings per common share ** (cents)	50	31	28	15	29	24	4	15
Adjusted earnings per common share (cents)**	46	34	32	17	35	26	7	16

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

Quarterly revenue has grown mainly as a result of the increase in funds employed. The growth in funds employed and revenue has resulted in higher quarterly shareholders' net earnings in recent quarters after taking into account the impact of variations in the provision for losses.

controlling interests in subsidiaries totalled $871,000 compared to $201,000 in 2017.

Fourth Quarter 2018: *Quarter ended December 31, 2018 compared with quarter ended December 31, 2017*

Shareholders' net earnings for the quarter ended December 31, 2018 increased by $1,728,000 or 71% to $4,161,000 compared with $2,433,000 last year. Shareholders' net earnings rose on higher revenue and lower provision for losses and business acquisition expenses. EPS rose by 72% to 50 cents compared to the 29 cents earned last year.

Adjusted net earnings for the fourth quarter of 2018 totalled $3,883,000, 34% higher than last year's $2,903,000. Adjusted EPS were 46 cents compared to 35 cents in 2017. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarters ended Dec. 31 (in thousands)	2018	2017
Shareholders' net earnings	$ 4,161	$ 2,433
Adjustments, net of tax:		
Stock-based compensation expense	64	45
Restructuring expenses	—	12
Business acquisition expenses	(342)	413
Adjusted net earnings	$ 3,883	$ 2,903

Revenue increased by 30% or $3,016,000 to $12,951,000 in the current quarter compared with $9,935,000 last year. Interest income rose by $2,867,000 or 36%

to $10,858,000 on a 40% increase in funds employed, partly offset by a 3% decline in average loan yields, while other income rose by $149,000. Average funds employed in the current quarter totalled $317 million compared to $226 million last year.

Total expenses increased by 26% or $1,789,000 to $8,724,000 compared to $6,935,000 in 2017. Interest expense, G&A and depreciation increased by $1,888,000, $1,489,000 and $75,000, respectively. Business acquisition expenses, the provision for credit and loan losses and impairment of assets held for sale decreased by $995,000, $644,000 and $24,000, respectively.

Interest expense rose by 134% or $1,888,000 to $3,295,000 in the fourth quarter of 2018 compared to $1,407,000 last year on 54% higher average borrowings and increased interest rates. Interest rates rose for reasons noted above.

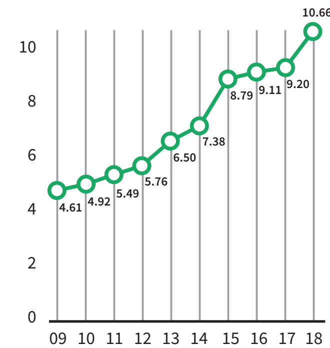
G&A increased by 29% or $1,489,000 to $6,594,000 in the current quarter compared to $5,105,000 last year mainly as a result of an $865,000 rise in CapX and BondIt G&A this year (in 2017 G&A included only two months of CapX expenses) and a $365,000 increase in personnel costs at other group companies.

There was an $834,000 recovery of credit and loan losses in the fourth quarter compared to a recovery of $190,000 last year. The recovery comprised:

Quarters ended Dec. 31 (in thousands)	2018	2017
Net charge-offs	$ 42	$ 11
Reserves recovery related to decrease in total allowances for losses	(876)	(201)
	$ (834)	$ (190)

There was no impairment charge against assets held for sale during the current quarter (2017 – $24,000).

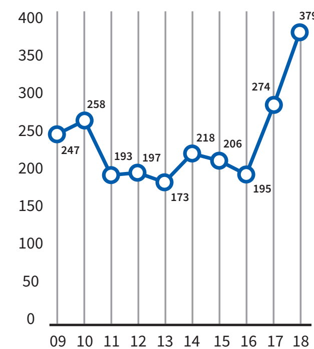
Business acquisition expenses saw a recovery of $449,000 (2017 – expense $546,000) in the fourth quarter. Transaction and integration costs saw a recovery of $552,000, for reasons noted above, compared to a $435,000 expense last year, while amortization of intangible assets relating to Varion



Book Value per Share

(in dollars)

Book value per share rose to a record high $10.66 at December 31, 2018. It was 16% higher than the $9.20 last year-end.



Total Portfolio

Loans and managed receivables

(in millions of dollars)

The Company's total portfolio rose by 38% to a record $379 million at December 31, 2018 from $274 million last year-end.

and CapX totalled $103,000 in 2018 compared to $111,000 last year.

Income tax decreased by $490,000 to a recovery of $103,000 in the current quarter compared to an expense of $387,000 in the fourth quarter of 2017.

Review of Financial Position

Shareholders' equity at December 31, 2018 rose by $13,370,000 or 17% to a record $89,818,000 compared to $76,448,000 at December 31, 2017. Book value per common share was also a record $10.66 at December 31, 2018 compared to $9.20 a year earlier. The increase in equity mainly resulted from a rise in retained earnings and increased accumulated other comprehensive income. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 36 of this Annual Report.

Total assets rose 49% to $373,783,000 at December 31, 2018 compared to $251,020,000 at December 31, 2017. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 62% of total assets at December 31, 2018 compared to 48% in 2017 (see note 24 to the Statements).

Table 2 – Financial Condition and Leverage

(as a percentage)	2018	2017	2016
Tangible equity/assets	20	25	45
Total equity/assets	25	32	48
Debt*/total equity	276	193	98
(in thousands)			
Receivables and Loans			
Loans	$ 339,102	$ 220,104	$ 139,631
Managed receivables	40,145	53,478	55,682
Total Portfolio	$ 379,247	$ 273,582	$ 195,313

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

Table 2 highlights the Company's financial condition. The first two ratios in the table (20% and 25%), detailing total equity as a percentage of assets, decreased in 2018 on a 49% rise in assets, mainly funds employed. Meanwhile, the Company's debt to total equity ratio rose to 276% in 2018, up from 193% in 2017 on higher borrowings used to finance funds employed. While leverage has been rising, these ratios indicate the Company's continued financial strength.

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, rose by $118,998,000 or 54% to $339,102,000 at December 31, 2018 compared to $220,104,000 last year-end. As detailed in note 5 to the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
Receivable loans	$ 134,422	$ 96,852
Other loans*	135,307	105,950
Lease receivables	69,373	17,302
Finance receivables and loans, gross	339,102	220,104
Less allowance for losses	3,450	2,129
Finance receivables and loans, net	$ 335,652	$ 217,975

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

The Company's receivable loans rose by 39% to $134,422,000 at December 31, 2018 compared to $96,852,000 at December 31, 2017. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, as well as unsecured working capital loans, rose by 28% to $135,307,000 at December 31, 2018 compared to a year earlier. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 301% to $69,373,000 at December 31, 2018. Net of the allowance for losses thereon, Loans increased by 54% to $335,652,000 at December 31, 2018 compared to $217,975,000 at December 31, 2017. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 80 clients in a wide variety of industries, as well as ASBF's and CapX's lease receivables and equipment and related loans to over 250 clients. The largest client comprised 7% of gross Loans, while two clients comprised over 5% each at December 31, 2018.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the

Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $40 million at December 31, 2018 compared to $53 million at December 31, 2017. Managed receivables comprise the receivables of approximately 70 clients at December 31, 2018. The 25 largest clients comprised 83% of total volume in 2018. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At December 31, 2018, the 25 largest customers accounted for 67% of total managed receivables, of which the largest five comprised 45%. One customer balance was 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 38% to $379 million at December 31, 2018 compared to $274 million at December 31, 2017.

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

In its asset-based lending operations, a primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are usually term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at anytime. Of the total managed receivables that the Company guarantees payment, 3.6% were past due more than 60 days at December 31, 2018. In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

The Company employs internal client credit risk rating systems to assess credit risk in its asset-based lending and leasing businesses, which review, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 5 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk), as well as an aged analysis thereof and also the three stage credit criteria of IFRS 9. Credit risk is primarily managed by ensuring

that, as far as possible, the receivables financed are of the good quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$4 million in the case of CapX) is approved by the Company's Credit Committee on a case-by-case basis. Note 21(a) to the Statements provides details of the Company's credit exposure by industrial sector.

Table 3 – Credit Quality

(as a percentage)	2018	2017	2016
Managed receivables past due more than 60 days	3.6	3.6	4.1
Reserves*/portfolio	0.9	0.8	0.8
Reserves*/net charge-offs	431	96	147
Net charge-offs/revenue	1.7	7.5	3.9

* *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 increased to $664,000 in 2018 compared to $89,000 last year mainly as a result of one charge-off totalling $503,000. Net charge-offs of managed receivables were 22 basis points of volume in 2018 compared to 2 basis points in 2017. Net charge-offs in the Company's asset-based lending business decreased to $154,000 in 2018 compared to $2,259,000 last year, of which $2,021,000 related to one loan. Overall, the Company's total net charge-offs in 2018, as set out in the Results of Operations section above, declined by 65% to $818,000 compared with $2,348,000 in 2017. Net charge-offs declined to 1.7% of revenue in 2018 from 7.5% in 2017. After the customary detailed period-end review of the Company's portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for where necessary. The Company maintains separate allowances for 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 Company adopted IFRS 9 effective January 1, 2018, which replaced IAS 39, Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities. Under IFRS 9 the Company initially recognizes its financial assets at fair value plus or minus direct and incremental transaction costs, and subsequently measures them at amortized cost using the effective interest rate method, net of any allowances for ECLs. Upon adoption of IFRS 9 on January 1, 2018 the Company's allowances for losses were remeasured. The allowance for losses on finance receivables and loans was reduced by $132,000 to $1,997,000 (IAS 39 – $2,129,000), while the allowance for losses on the guarantee of managed receivables was increased by $10,000 to $140,000 (IAS 39 – $130,000). These remeasurements, net of taxes, totalled $81,000, of which $87,000 was credited to retained earnings and $6,000 was debited to non-controlling interests. See detailed discussion of the adoption of IFRS 9 in note 3(a) to the statements.

The allowance for losses on Loans, calculated under the ECL model of IFRS 9, increased by 73% to $3,450,000 at December 31, 2018 compared to $1,997,000 (remeasured under IFRS 9) at January 1, 2018. The allowance was 62% higher than the $2,129,000 (calculated under IAS 39) at December 31, 2017. The allowance for losses on the guarantee of managed receivables decreased to $74,000 at December 31, 2018 compared to the $140,000 (remeasured under IFRS 9) at January 1, 2018 and the $130,000 (calculated under IAS 39) at December 31, 2017. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for 2018 and 2017 is set out in note 5 to the Statements. The estimates of both allowances for losses are highly judgmental. Management considers them to be reasonable and appropriate.

Cash increased to $16,346,000 at December 31, 2018 compared with $12,457,000 at December 31, 2017. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. The rise in cash this year-end is temporary. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled $4,116,000 at December 31, 2018 compared to $4,227,000 at December 31, 2017. Intangible assets totalling US$2,885,000 were acquired upon the acquisition of CapX on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the Varion acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Amortization of $410,000 was expensed in 2018 (2017 – $387,000). Please refer to note 7 to the Statements.

Goodwill totalled $14,031,000 at December 31, 2018 compared to $13,082,000 at December 31, 2017. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and CapX on July 1, 2017 and October 27, 2017, respectively. Bondit and CapX goodwill is carried in the Company's U.S. operations, while goodwill of US$962,000 is also carried in the U.S. operations from a much earlier acquisition. Goodwill of $1,883,000 was also acquired as part of the Varion acquisition and is carried in the Company's Canadian operations. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 9 to the Statements for information regarding the annual goodwill impairment reviews. During 2018 and 2017, the Company conducted annual impairment reviews of each of its cash generating units ("CGUs") and determined that there was no impairment to the carrying value of each CGU's goodwill.

Other assets, income taxes receivable, net deferred tax assets, assets held for sale and capital assets at December 31, 2018 and 2017 were not significant.

Total liabilities increased by $107,711,000 to $278,598,000 at December 31, 2018 compared to $170,887,000 at December 31, 2017. The increase mainly resulted from higher bank indebtedness and convertible debentures issued.

Amounts due to clients decreased by $1,473,000 to $3,156,000 at December 31, 2018 compared to $4,629,000 at December 31, 2017. 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. Last year-end a couple of borrowing clients were in a credit position resulting in a higher balance at that time.

Contractual Obligations and Commitments at December 31, 2018

(in thousands of dollars)	Payments due in Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	Total
Debt obligations	$ 234,423	$ 12,213	$ 15,955	$ —	**$ 262,591**
Operating lease obligations	561	1,029	597	298	**2,485**
Purchase obligations	96	—	—	—	**96**
	$ 235,080	$ 13,242	$ 16,552	$ 298	**$ 265,172**

Bank indebtedness increased by $84,722,000 to $222,862,000 at December 31, 2018 compared with $138,140,000 at December 31, 2017. Bank indebtedness mainly increased compared to last December 31 to fund the rise in Loans. The Company extended and increased its credit facility with a syndicate of six banks in the third quarter of 2018. The new facility totalling $292 million is for a three year term maturing on July 25, 2021. The Company was in compliance with all loan covenants under its current and previous bank facilities during 2018 and 2017. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable totalled $5,696,000 at December 31, 2018 (December 31, 2017 – nil). A revolving line of credit totalling $13,637,000 (US$10,000,000) was established during April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. Under this facility BondIt failed one specific covenant at December 31, 2018 which the lender subsequently waived. BondIt expects that the credit facility will be amended to avoid a similar technical default in the future. See note 11 to the Statements.

Accounts payable and other liabilities decreased by $306,000 to $10,694,000 at December 31, 2018 compared to $11,000,000 a year earlier. The decrease mainly resulted from a reduction in remaining contingent consideration payable on the acquisition of CapX.

Notes payable increased by $2,217,000 to $18,079,000 at December 31, 2018 compared to $15,862,000 at December 31, 2017. Notes payable comprise unsecured short-term notes due in less than one year ($5,865,000), as well as long-term notes ($12,214,000) which mature on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand totalling ($3,819,000); and (ii) numerous BondIt notes ($2,046,000), which are repayable on various dates the latest of which is August 2, 2019. The long-term notes were entered into for a three year term on August 1, 2018. The increase in notes payable resulted from new notes issued, as well as accrued interest. Please see Related Party Transactions section below and note 12(a) to the Statements.

Convertible debentures with a face value of $18.4 million were issued by the Company in December, 2018. The convertible unsecured debentures carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year commencing from June 30, 2019. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of $13.50 per common share. Net of transaction costs, the Company raised $16,922,000. Please see note 13 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At December 31, 2018, the debt component was $15,955,000 and the equity component was $755,000, net of deferred taxes of $272,000. On January 18, 2019, the underwriters of the debenture issue exercised their over-allotment option and a further $1,090,000 of debentures were issued, bringing the total value of debentures issued under the offering to $19,490,000.

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

Capital stock totalled $8,115,000 at December 31, 2018 compared to $6,896,000 at December 31, 2017. There were 8,428,542 common shares outstanding at December 31, 2018 (December 31, 2017 – 8,307,713). Please see note 14 to the Statements and the consolidated statements of changes in equity on page 36 of this report for details of changes in capital stock during 2018 and 2017. At the date of this MD&A, March 13, 2019, 8,428,542 common shares remained outstanding.

Contributed surplus totalled $1,073,000 at December 31, 2018 compared to $298,000 last year-end. Included in contributed surplus is the equity component of the convertible debentures issued totalling $755,000, net of deferred tax. Please refer to note 13 to the Statements. Also included in contributed surplus is the 2018 stock-based compensation expense relating to stock option grants of $20,000 (2017 – $102,000). Please see the consolidated statements of changes in equity on page 36 of this report for details of changes in contributed surplus in 2018.

Retained earnings totalled $71,558,000 at December 31, 2018 compared to $63,661,000 at December 31, 2017. During 2018, retained earnings increased by $7,897,000. The increase comprised shareholders' net earnings of $10,356,000 less dividends paid of $3,002,000 (36 cents per common share) plus the $87,000 increase relating to the remeasurement of the Company's allowances for losses upon adoption of IFRS 9 on January 1, 2018. Also included in retained earnings was an equity gain of $456,000 related to a capital injection into BondIt by a minority shareholder. Please see the consolidated statements of changes in equity on page 36 of this report for details of changes in retained earnings during 2018 and 2017.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled $9,072,000 at December 31, 2018 compared to $5,593,000 at December 31, 2017. Please refer to note 19 to the Statements and the consolidated statements of changes in equity on page 36 of this report, which details movements in the AOCI account during 2018 and 2017. The $3,479,000 increase in AOCI balance during 2018 resulted from a rise in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar rose from $1.2571 at December 31, 2017 to $1.3637 at December 31, 2018. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$39 million by $3,479,000.

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness, loan payable, notes payable and convertible debentures. 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 debt, 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, 2018 indicate the Company's continued financial strength.

The Company's financing and capital requirements generally increase with the level of Loans outstanding. The collection period and resulting turnover of outstanding receivables also impact financing needs. In addition to cash flow generated from operations,

the Company maintains lines of credit in Canada and the United States. The Company can also raise funds through its notes payable program or raise other forms of debt, such as convertible debentures.

The Company had credit lines totalling approximately $306 million at December 31, 2018 and had borrowed $229 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt decrease the usage of, and dependence on, these lines. Note 21(b) details the Company's financial assets and liabilities at December 31, 2018 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $16,346,000 at December 31, 2018 compared to $12,457,000 at December 31, 2017. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Fiscal 2018 cash flows: *Year ended December 31, 2018 compared with year ended December 31, 2017*

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $13,399,000 in 2018 compared to $7,728,000 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 $94,342,000 in 2018 compared to $75,261,000 last year. The net cash outflow in 2018 largely resulted from financing loans of $105,848,000. In 2017, the net cash outflow largely resulted from financing loans of $82,599,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 37 of this report.

Cash outflows from investing activities totalled $501,000 in 2018 compared to $1,330,000 last year and comprised net capital assets additions. Net cash outflows in 2017 of $1,330,000 comprised of $1,997,000 incurred purchasing CapX, $1,077,000 acquired on the purchase of BondIt (both CapX and BondIt cash considerations paid are net of cash held in the acquired companies), as well as net capital asset additions of $409,000.

Net cash inflow from financing activities totalled $99,615,000 in 2018 compared to $75,620,000 last year. The net cash inflow this year resulted from an increase in bank indebtedness of $76,905,000, issue of convertible debentures of $16,922,000 (net of transaction costs), increase in loan payable of $5,779,000, notes payables issued, net, of $2,069,000, common units issued by BondIt of $924,000 and the issue of the Company's common shares for $18,000. Partially offsetting this inflow were dividend payments totalling $3,002,000. In 2017, the net cash inflow resulted from an increase in bank indebtedness of $76,929,000 and notes payable issued, net, of $1,682,000, which was partly offset by dividend payments totalling $2,991,000.

The effect of exchange rate changes on cash comprised a loss of $883,000 in 2018 compared to a gain of $655,000 in 2017.

Overall, there was a net cash inflow of $3,889,000 in 2018 compared to an outflow of $316,000 in 2017.

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise short-term notes (due within one year) and long-term notes due on July 31, 2021 as discussed above. The short-term notes comprise: (i) notes due on, or within a week of, demand ($3,819,000) and bear interest at rates that vary with the bank Prime rate or Libor; and (ii) numerous

BondIt notes ($2,046,000) which are repayable on various dates the latest of which is August 2, 2019 and bear interest at rates of 8% or 12%. The long-term notes maturing on July 31, 2021 ($12,214,000) were entered into for a three year term commencing August 1, 2018 and carry a fixed interest rate of 7%. Notes payable at December 31, 2018 totalled $18,079,000 compared with $15,862,000 at December 31, 2017. Of these notes payable, $15,536,000 (December 31, 2017 – $14,038,000) was owing to related parties and $2,543,000 (December 31, 2017 – $1,824,000) to third parties. Interest expense on these notes in 2018 totalled $997,000 (2017 – $461,000). Please refer to note 12(a) to the Statements.

The following related parties had notes payable with the Company at December 31, 2018:

Short term demand notes payable		
Hitzig Bros., Hargreaves & Co. Inc. ("Hitzig Bros.")*	Directors	C$ 1,050,000
Hitzig Bros.	Directors	US$ 637,695
Tom Henderson	Director	US$ 157,154
Term notes payable (due July 31, 2021)		
Hitzig Bros.	Directors	C$ 3,500,000
Oakwest Corporation Inc.*	Director	C$ 2,000,000
Belweather Capital Partners Inc.*	Director	C$ 1,000,000
Ken Hitzig	Director	C$ 1,000,000

* *a director(s) has an ownership interest in the Company*

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

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

Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables and the Company's LTIP liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, are generally short-term in nature and, therefore, their carrying values approximate fair values. Please see note 21(b) for longer term financial assets and liabilities.

At December 31, 2018 and 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, typical industry loss experience, macro-economic factors and forward looking information. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

The Company's allowance for losses on its Loans and its guarantee of managed receivables are identified under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against expected credit losses ("ECL") that are estimated to have occurred and which have not experienced a significant increase in credit risk ("SICR") and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve month period after the reporting date. Stage 1 accounts are considered in good standing. In establishing its Stage 1 allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watchlist." Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(a) 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 16, Leases, will replace IAS 17, Leases, existing guidance on accounting for leases and is effective for fiscal years beginning January 1, 2019. The Company plans to transition to IFRS 16 using the modified retrospective method under which the Company will not be required to restate 2018 comparatives. 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 will affect the accounting for the Company's office leases where payments under such leases were previously expensed as part of operating expenses. Under IFRS 16, a significant right-of-use asset and a lease liability will be recognized at the date of implementation resulting in an increase in both assets and liabilities. The Company will elect to use the exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also for lease contracts of certain office equipment

that are considered low value. The Company estimates at January 1, 2019 that it will record a right-of-use asset of approximately $2,000,000 and a similar corresponding lease liability. The Company does not expect adoption of IFRS 16 to have a material impact on the Company's net earnings. For further details, please refer note 3(s) to the 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 2018 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, 2018 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, 2018 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 from alternative sources of financing

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

Credit risk, inability to underwrite finance receivables and loan applications

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

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

Interest rate risk

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

Foreign currency risk

The Company has international operations, primarily in the United States. Accordingly, a significant portion of its financial resources are held in currencies other than the Canadian dollar. In recent years, the Company has seen the fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. It has also affected the value

of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the accumulated other comprehensive income component of equity to a loss position, although it is now in a large gain position. No assurances can be made that changes in foreign currency rates will not have a significant adverse effect on the Company's business, financial condition or results of operations.

External financing

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

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

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

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

Dependence on key personnel

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

Income tax matters

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

Recent and future acquisitions and investments

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

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

Fraud by lessees, borrowers, vendors or brokers

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

Risk of future legal proceedings

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

Outlook

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

The Company had a record year in 2018 and is benefitting from the substantial growth in its funds

employed, which has grown by $199 million or 142% from the $140 million at the end to 2016 to finish 2018 at a record high $339 million. Growth in funds employed, a key indicator of where the Company is heading, has been achieved organically through the introduction of new lending products and through the investments in BondIt and CapX in the second half of 2017, and Varion in 2014.

2018 revenue, a record high, was 49% higher than 2017's and was achieved on average funds employed in the year of $271 million; funds employed at the end of 2018 were 25% higher than the 2018 average. Growth in funds employed is expected to continue and will result in improved revenues in the future which bodes well for future earnings, although the Company continues to face intense competition, particularly in the U.S. which has resulted in lower loan yields there in recent years. It is anticipated that the Company's asset-based financing units, AFIC and AFIU, will be able to continue to build on their growth, particularly AFIU in the U.S. where synergies with CapX are being realized, despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business, ASBF, is forecasting growth to continue in future years. That unit continues to expand its product offerings, including working capital loans and the equipment revolving line of credit product that it introduced in 2017, as well as carefully increasing its average equipment finance deal size.

Our new group companies are also expected to strongly grow their funds employed. BondIt closed on a new credit facility in the second quarter of 2018, which will help in this regard, while CapX, which started from scratch in the fourth quarter of 2017, had funds employed of $74 million at the end of 2018. Our credit protection and receivables management business continues to face intense competition from multinational credit insurers which is expected to continue.

To support this growth, the Company now has an increased credit facility with a syndicate of six banks which should provide it with the majority of funding that it will require to keep it growing in 2019. In addition, in December 2018, the Company went to market with a convertible debenture offering and raised $19.5 million, including the overallotment proceeds received in January 2019. We will continue to review alternative sources of financing to augment our balance sheet if and when necessary.

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

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

Stuart Adair
Senior Vice President, Chief Financial Officer

March 13, 2019

Ten Year Financial Summary 2009-2018

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*								
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	$ 24,045	31,406	28,408	25,891	26,074	30,235	31,577	28,522	31,409	**46,927**
Interest	1,180	1,730	2,047	1,911	1,913	2,523	2,258	2,281	3,847	**9,407**
General and administrative	13,290	14,679	13,558	13,615	13,845	16,154	17,484	17,427	16,945	**23,524**
Provision for credit and loan losses	3,648	1,325	886	213	438	639	375	963	2,898	**2,025**
Impairment of assets held for sale	1,265	1,237	462	—	—	—	50	44	24	**25**
Depreciation	181	159	130	126	112	125	136	154	161	**279**
Business acquisition expenses	—	—	—	—	—	570	575	509	932	**336**
Total expenses	19,564	19,130	17,083	15,865	16,308	20,011	20,878	21,378	24,807	**35,596**
Earnings before income tax expense	4,481	12,276	11,325	10,026	9,766	10,224	10,699	7,144	6,602	**11,331**
Income tax expense	1,392	4,033	3,740	3,649	3,228	3,345	1,940	578	391	**104**
Net earnings	3,089	8,243	7,585	6,377	6,538	6,879	8,759	6,566	6,211	**11,227**
Non-controlling interests	—	—	—	—	—	—	—	—	201	**871**
Net earnings attributable to shareholders	$ 3,089	8,243	7,585	6,377	6,538	6,879	8,759	6,566	6,010	**10,356**
Earnings per common share: Basic and diluted	0.33	0.88	0.85	0.76	0.80	0.83	1.05	0.79	0.72	**1.24**
Dividends per common share	$ 0.26	0.28	0.30	0.31	0.32	0.33	0.35	0.36	0.36	**0.36**
Finance receivables and loans	$ 89,907	102,313	89,124	108,477	109,775	136,346	134,259	138,115	217,975	**335,652**
Other assets	8,030	10,811	9,368	16,115	11,034	18,278	20,301	20,451	33,045	**38,131**
Total assets	$ 97,937	113,124	98,492	124,592	120,809	154,624	154,560	158,566	251,020	**373,783**
Due to clients	$ 4,517	5,113	3,519	3,874	5,115	6,639	9,402	4,082	4,630	**3,156**
Bank indebtedness	36,798	44,596	27,222	54,572	43,368	63,995	54,094	62,484	138,140	**222,862**
Notes payable	9,254	10,142	14,611	14,492	14,809	16,808	13,201	11,370	15,862	**18,079**
Convertible debentures	—	—	—	—	—	—	—	—	—	**15,955**
Other liabilities	4,013	8,713	5,285	4,258	4,086	5,850	4,797	4,948	12,255	**18,546**
Total liabilities	54,582	68,564	50,637	77,196	67,378	93,292	81,494	82,884	170,887	**278,598**
Shareholders' equity	43,355	44,560	47,855	47,396	53,431	61,332	73,066	75,682	76,449	**89,818**
Non-controlling interests in subsidiaries	—	—	—	—	—	—	—	—	3,684	**5,367**
Total equity	43,355	44,560	47,855	47,396	53,431	61,332	73,066	75,682	80,133	**95,185**
Total liabilities and equity	$ 97,937	113,124	98,492	124,592	120,809	154,624	154,560	158,566	251,020	**373,783**
Shares outstanding at Dec. 31	# 9,409	9,066	8,719	8,221	8,221	8,308	8,308	8,308	8,308	**8,429**
Book value per share at Dec. 31	$ 4.61	4.92	5.49	5.76	6.50	7.38	8.79	9.11	9.20	**10.66**
Share price - high	$ 6.70	8.14	8.25	7.15	9.25	10.75	12.05	9.95	9.55	**10.45**
- low	5.25	5.25	6.50	6.50	6.84	7.85	9.00	8.70	8.40	**8.22**
- close at Dec. 31	5.25	7.50	6.87	7.00	7.86	9.35	9.60	8.99	9.20	**9.09**
Return on average equity	% 6.7	18.2	16.8	13.6	13.1	12.1	13.1	9.0	8.0	**12.8**

* *the Company adopted IFRS effective January 1, 2011, with a transition date of January 1, 2010. The financial statement amounts presented above for 2009 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

March 13, 2019
Toronto, Canada

Independent Auditors' Report to the Shareholders

To the Shareholders of Accord Financial Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Financial Reporting Standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report 2018".

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

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

We obtained the information included in Management's Discussion and Analysis to be filed with the relevant Canadian

Securities Commissions and the "Annual Report 2018" as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

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

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

We also:

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

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

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

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

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

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

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

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

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

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is James Loewen

March 13, 2019
Toronto, Canada

Consolidated Statements of Financial Position

	December 31, 2018	December 31, 2017
Assets		
Cash	$ 16,345,848	$ 12,457,000
Finance receivables and loans, net (note 5)	335,651,770	217,975,156
Income taxes receivable	327,553	1,023,144
Other assets	1,133,367	863,886
Assets held for sale (note 6)	46,882	71,882
Deferred tax assets, net (note 15)	1,207,699	640,249
Capital assets (note 8)	923,080	679,828
Intangible assets (note 7)	4,115,886	4,227,011
Goodwill (note 9)	14,031,320	13,081,651
	$ 373,783,405	$ 251,019,807
Liabilities		
Due to clients	$ 3,156,045	$ 4,629,555
Bank indebtedness (note 10)	222,861,724	138,140,342
Loan payable (note 11)	5,695,568	—
Accounts payable and other liabilities (note 4(b))	10,693,554	10,999,747
Income taxes payable	129,083	408,854
Notes payable (note 12(a))	18,078,919	15,862,033
Convertible debentures (note 13)	15,954,642	—
Deferred income	1,514,199	682,813
Deferred tax liabilities, net (note 15)	514,700	163,954
	278,598,434	170,887,298
Equity		
Capital stock (note 14)	8,114,733	6,896,153
Contributed surplus (note 14(c))	1,072,753	297,825
Retained earnings	71,558,552	63,661,034
Accumulated other comprehensive income (note 19)	9,071,661	5,593,426
Shareholders' equity	89,817,699	76,448,438
Non-controlling interests in subsidiaries (note 20)	5,367,272	3,684,071
Total equity	95,184,971	80,132,509
	$ 373,783,405	$ 251,019,807

See accompanying notes to consolidated financial statements.

On behalf of the Board

Ken Hitzig
Chairman of the Board

Simon Hitzig
President and Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2018	2017
Revenue		
Interest (note 5)	$ 37,842,708	$ 25,305,315
Other income (note 5)	9,084,643	6,103,744
	46,927,351	31,409,059
Expenses		
Interest	9,407,145	3,847,168
General and administrative	23,524,060	16,944,632
Provision for credit and loan losses (note 5)	2,025,469	2,898,079
Impairment of assets held for sale (note 6)	25,000	24,264
Depreciation	278,514	160,931
Business acquisition expenses:		
Transaction and integration costs	(74,519)	544,963
Amortization of intangible assets	410,229	386,734
	35,595,898	24,806,771
Earnings before income tax expense	11,331,453	6,602,288
Income tax expense (note 15)	104,000	391,000
Net earnings	11,227,453	6,211,288
Net earnings attributable to non-controlling interests in subsidiaries	871,539	201,285
Net earnings attributable to shareholders	$ 10,355,914	$ 6,010,003
Basic and diluted earnings per common share (note 16)	$ 1.24	$ 0.72

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2018	2017
Net earnings attributable to shareholders	$ 10,355,914	$ 6,010,003
Other comprehensive income (loss):		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations (note 19)	3,478,235	(2,354,969)
Comprehensive income	$ 13,834,149	$ 3,655,034

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 20)	Total
Balance at January 1, 2017	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 in 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 adjustment 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
Comprehensive income	—	—	—	10,355,914	3,478,235	—	13,834,149
Common shares issued	120,829	1,218,580	—	—	—	—	1,218,580
Equity component of convertible debentures, net of tax	—	—	755,283	—	—	—	755,283
Capital injection in BondIt	—	—	—	456,265	—	438,372	894,637
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	871,539	871,539
Stock-based compensation expense related to stock option grants	—	—	19,645	—	—	—	19,645
Dividends paid	—	—	—	(3,001,825)	—	—	(3,001,825)
Translation adjustments on non-controlling interests	—	—	—	—	—	379,450	379,450
Impact of IFRS 9 remeasurement	—	—	—	87,164	—	(6,160)	81,004
Balance at December 31, 2018	8,428,542	$ 8,114,733	$ 1,072,753	$ 71,558,552	$ 9,071,661	$ 5,367,272	$ 95,184,971

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2018	2017
Cash (used in) provided by:		
Operating activities		
Net earnings	$ 11,227,453	$ 6,211,288
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	1,207,388	550,423
Deferred income	62,930	(100,555)
Amortization of intangible assets	410,229	386,734
Depreciation	278,514	160,931
Loss on disposal of capital assets	2,941	32,686
Gain on disposal of assets held for sale	—	(30,490)
Impairment of assets held for sale	25,000	24,264
Accretion of convertible debentures	60,530	—
Stock-based compensation expense related to stock option grants	19,645	102,121
Deferred tax recovery	(128,188)	(543,141)
Current income tax expense	232,188	934,141
	13,398,630	7,728,402
Changes in operating assets and liabilities:		
Finance receivables and loans, gross	(105,847,980)	(82,598,706)
Due to clients	(1,523,506)	568,207
Other assets	(489,884)	87,439
Accounts payable and other liabilities	272,841	(266,399)
Disposal of asset held for sale	—	1,150,000
Income tax paid, net	(152,245)	(1,930,280)
	(94,342,144)	(75,261,337)
Investing activities		
Net cash acquired on acquisition of BondIt Media Capital (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	(501,268)	(409,167)
	(501,268)	(1,329,515)
Financing activities		
Bank indebtedness	76,904,952	76,928,715
Loan payable	5,779,357	—
Notes payable issued, net	2,068,618	1,682,029
Common shares issued	18,000	—
Convertible debentures issued, net of transaction costs	16,921,708	—
Common member units issued by BondIt Media Capital	924,254	—
Dividends paid	(3,001,825)	(2,990,776)
	99,615,064	75,619,968
Effect of exchange rate changes on cash	(882,804)	654,978
Increase (decrease) in cash	3,888,848	(315,906)
Cash at January 1	12,457,000	12,772,906
Cash at December 31	$ 16,345,848	$ 12,457,000
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 8,562,377	$ 3,678,727

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2018 and 2017

1. Description of the business

Accord Financial Corp. (the "Company") is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing 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.

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(a), 3(d) and 5), the determination of the value of intangible assets and goodwill on acquisition (notes 3(f), 3(g), 4, 7 and 9), as well as the deferred tax assets and liabilities (notes 3(h) and 15). 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);
- Senior executive long-term incentive plan ("LTIP") liability *; and
- Guarantee of managed receivables*

**a component of accounts payable and other liabilities*

These consolidated financial statements were approved for issue by the Company's Board of Directors ("Board") on March 13, 2019.

3. Significant accounting policies

(a) Adoption of new accounting policy

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

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

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

These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of any allowance for expected credit losses (ECL). Consistent with IAS 39, loans measured at amortized cost under IFRS 9 include the Company's finance receivables and loans. In addition, and also consistent with IAS 39, bank indebtedness, loan payable, notes payable and due to clients are accounted for at amortized cost under IFRS 9.

Financial assets are classified and measured at fair value through other comprehensive income ("FVOCI") if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Any other financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss ("FVTPL").

Impairment – under IFRS 9 allowances for ECL are recognized on all financial assets that are classified either at amortized cost or FVOCI and for all loan commitments and financial guarantees that are not measured at FVTPL. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment. ECL allowances are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. We recognize lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1. The calculation of ECL allowances for losses is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Company expects to receive. The key inputs in the measurement of ECL allowances are as follows: (i) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve month period after the reporting date. Due to the inclusion of relative credit deterioration criteria and consideration of forward-looking information, lifetime credit losses are generally recognized earlier under IFRS 9 than IAS 39.

Changes in the required ECL allowances, including the impact of financial instruments migrating between Stage 1 and Stage 2, are recorded in the provision for credit and loan losses in the consolidated statements of income. Significant judgment is required in the application of SICR. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watchlist." Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

Under IFRS 9, financial instruments on which repayment of principal or payment of interest is contractually 30 days in arrears are generally presumed as having a SICR, while financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears are generally presumed in default or impaired, unless the presumptions can be rebutted when reasonable and supportable information demonstrates that a more lagging default criterion is appropriate, such as reasons based on industry norms, seasonal fluctuations and non-credit related delays. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses.

Reconciliation of allowances for losses under IAS 39 and IFRS 9

Specific allowances for impaired instruments recognized under IAS 39 have generally been replaced by Stage 3 allowances for ECL under IFRS 9, while the collective allowances for non-impaired financial instruments have generally been replaced by Stage 1 and Stage 2 allowances for ECL under IFRS 9. The following table reconciles the Company's closing allowances for credit and loan losses in accordance with IAS 39 at December 31, 2017 to the opening ECL allowances determined in accordance with IFRS 9 upon adoption on January 1, 2018:

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

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

The overall reduction in allowances for losses of $122,034 upon adoption of IFRS 9 incorporated the re-estimate of allowance rates which are typically reviewed each reporting period based upon updated historic loss experience, current macro-economic factors and other forward-looking information. Since the Company's business operations are in the U.S. and Canada, it considers the following forward looking indicators which could affect its clients

businesses and impact credit risk:
(i) global market activity;
(ii) general economic conditions in Canada and the U.S.;
(iii) expected interest rate changes in Canada and U.S.;
(iv) inflation and GDP growth in Canada and U.S.; and
(v) changes in government and economic policies.

Changes in the carrying amounts of financial instruments that resulted from the adoption of IFRS 9 were recognized in the opening January 1, 2018 retained earnings. In the Company's case, however, there were no differences between the classification and carrying amounts of the financial instruments under IAS 39 and IFRS 9. The remeasurement of the allowances for ECL, net of tax, resulted in a credit to retained earnings of $87,164 and a debit to non-controlling interests in subsidiaries of $6,160 upon adoption of IFRS 9. Please refer to the consolidated statements of changes in equity.

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

(b) Basis of consolidation

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

(c) Revenue recognition

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

(d) Finance receivables and loans

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

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

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

(e) 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 ("CGU"). If the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

(g) Intangible assets

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

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

The Company's LTIP (note 14(f)) contemplates that grants thereunder may be settled in common shares and/or cash. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the Company's adjusted return on average equity over the three-year vesting period of an award. The fair value of the LTIP awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

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

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

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

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

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

(o) Convertible debentures

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

(p) Assets held for sale

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

(q) Financial instruments - disclosures

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

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

(r) 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.

(s) Future accounting policies

IFRS 16, Leases, will replace IAS 17, Leases, existing guidance on accounting for leases and is effective for fiscal years beginning January 1, 2019. The Company plans to use the modified retrospective method under which the Company will not restate 2018 comparatives. 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 will affect the accounting for the Company's office leases where payments under such leases were previously expensed as part of operating expenses. Under IFRS 16, a significant right-of-use asset and a lease liability will be recognized at the date of implementation resulting in an increase in both assets and liabilities. The right-of-use asset will be amortized on a straight-line basis over the lease term of the underlying lease asset, while the lease liability will be amortized using the effective interest rate method whereby payments under the lease will include both a principal and an interest component. Under IFRS 16, a portion of these lease payments will be treated as interest expense and the right-of-use asset will be amortized. The Company has a number of office leases that will be recorded as right-of-use assets and lease liabilities under IFRS 16. The Company will elect to use the exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also lease contracts of certain office equipment that are considered low value. The Company estimates at January 1, 2019, that it will record a right-of-use asset of approximately $2,000,000 and a similar corresponding lease liability. The Company does not expect adoption of IFRS 16 to have a material impact on the Company's net earnings.

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 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 2018, the Company did not incur any business acquisition expenses (2017 – $90,764) relating to the purchase of BondIt.

(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 included 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 was 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 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 7)	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 2018, the Company had a recovery of business acquisition expenses of $74,519 (2017 – expense $454,199) relating to the purchase of CapX. The recovery resulted from a $685,032 (US$510,000) reduction in contingent consideration estimated to be paid as part of the acquisition of CapX. At December 31, 2018, estimated contingent consideration remaining to be paid totalled $5,308,531 (US$3,892,741) and was included in accounts payable and other liabilities.

5. Finance receivables and loans and managed receivables

(a) Finance receivables and loans

Finance receivables and loans at December 31 were as follows:

	2018	2017
Receivable loans	$ 134,422,542	$ 96,852,291
Other loans*	135,306,707	105,950,408
Lease receivables	69,372,521	17,301,457
Finance receivables and loans, gross	339,101,770	220,104,156
Less allowance for losses	3,450,000	2,129,000
Finance receivables and loans, net	$ 335,651,770	$ 217,975,156

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

The Company's finance receivables and loans are generally collateralized by: (i) a first charge on substantially all of the borrowers' assets; or (ii) leased assets or factored receivables which the Company owns. Collateral securing the finance receivables and loans primarily comprises receivables, inventory and equipment, as well as, from time-to-time, other assets such as real estate and guarantees.

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

Interest income earned on finance receivables and loans in 2018 totalled $37,842,708 (2017 – $25,305,315).

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

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
2019	$ 215,562	$ 164,801
2020	60,313	35,246
2021	39,619	16,055
2022	17,648	2,637
2023	5,853	1,269
Thereafter	107	96
	$ 339,102	$ 220,104

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

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
Current	$ 333,031	$ 214,048
Past due but not impaired:		
Past due less than 90 days	1,983	4,827
Past due 90 to 180 days	3,263	20
Past due 180 days or more	765	10
Impaired loans	60	1,199
	$ 339,102	$ 220,104

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

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

The internal credit risk ratings are defined as follows:

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

Medium risk: finance receivables and loans that are typical for the Company's risk appetite, credit standards and retain an average probability of default.

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

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

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

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
Low risk	$ 122,212	$ 80,821
Medium risk	205,689	127,992
High risk	11,141	10,092
Impaired	60	1,199
	$ 339,102	$ 220,104

Finance receivables and loans at December 31, 2018 classified under the three stage credit criteria of IFRS 9 were as follows:

Stage 1	$ 332,015,402	97.9%
Stage 2	7,026,573	2.1%
Stage 3	59,795	—
	$ 339,101,770	100.0%

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

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

	2018	2017
Allowance for losses at Jan. 1 under IAS 39	$ 2,129,000	$ 1,516,000
Remeasurement on adoption of IFRS 9	(132,034)	—
Allowance for losses at Jan. 1 under IFRS 9 (2017 under IAS 39)	1,996,966	1,516,000
Specific charge-offs reclassified to allowance for losses	35,000	—
Allowance assumed on acquisition of BondIt	—	40,229
Allowance assumed on acquisition of CapX	—	44,487
Provision for loan losses	1,427,099	2,810,210
Charge-offs	(243,681)	(2,296,348)
Recoveries	89,972	37,561
Foreign exchange adjustment	144,644	(23,139)
Allowance for losses at December 31	$ 3,450,000	$ 2,129,000

The allowance for losses on finance receivables and loans at December 31, 2018 comprised a Stage 1 and Stage 2 allowance as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018 under IFRS 9	$1,965,824	$ 31,142	$1,996,966
Transfers from Stage 1 to Stage 2, net	(109,900)	109,900	—
Reserve expense* related to increase in allowance for losses	680,382	593,008	1,273,390
Specific charge-off reclassified to allowance for losses	35,000	—	35,000
Foreign exchange adjustment	97,718	46,926	144,644
Allowance for losses at Dec. 31, 2018	$2,669,024	$ 780,976	$3,450,000

* *a component of the provision for loan losses*

There was no Stage 3 allowance for losses at December 31, 2018 as impaired finance receivables and loans are written down to the present value of their estimated net recoverable amount.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted on terms that are usual and customary to the Company's asset-based lending activities. The Company controls the credit risk associated with its finance receivables and loans, and managed receivables, as discussed below, in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 21(a).

At December 31, 2018, the Company held cash collateral of $1,516,588 (2017 – $1,645,691) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

(b) Managed receivables

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At December 31, 2018, the gross amount of these managed receivables was $40,145,156 (2017 – $53,477,791). Fees from the Company's receivables management and credit protection business during 2018 totalled $2,663,068 (2017 – $3,200,474). This is included in other income.

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

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
Current	$ 23,561	$ 34,177
Past due but not impaired:		
Past due less than 90 days	16,143	18,551
Past due more than 90 days	441	750
	$ 40,145	$ 53,478

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

(in thousands)	Dec. 31, 2018	Dec. 31, 2017
Low risk	$ 7,963	$ 12,779
Medium risk	28,416	27,261
High risk	3,766	13,438
	$ 40,145	$ 53,478

There were no impaired managed receivables at December 31, 2018 and 2017.

Managed receivables at December 31, 2018 classified under the three stage credit criteria of IFRS 9 were as follows:

Stage 1	$ 39,677,983	98.8%
Stage 2	467,173	1.2%
Stage 3	—	—
	$ 40,145,156	100.0%

Stage 1 managed receivables comprise those accounts in good standing where there has been no significant increase in credit risk ("SICR") since initial recognition. Stage 2 managed receivables comprise those accounts that have experienced a SICR since initial recognition. The Company refers to these managed receivables as its "watch list" accounts. There were no Stage 3 managed receivables as any outstanding client claims for payments under the Company's guarantees are an actual liability that is accrued for and included in accounts payable and other liabilities.

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

The activity in the allowance for losses on the guarantee of managed receivables account during 2018 and 2017 was as follows:

	2018	2017
Allowance for losses at Jan. 1, 2018 under IAS 9	$ 130,000	$ 131,000
Remeasurement on adoption of IFRS 9	10,000	—
Allowance for losses at Jan. 1, 2018 under IFRS 9 (2017 under IAS 39)	140,000	131,000
Provision for credit losses	598,375	87,869
Charge-offs	(664,823)	(99,004)
Recoveries	448	10,135
Allowance for losses at December 31	$ 74,000	$ 130,000

The allowance for losses on the guarantee of managed receivables at December 31, 2018 comprised Stage 1 and Stage 2 allowances as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018 under IFRS 9	$ 88,600	$ 51,400	$140,000
Reserve recovery* related to decrease in allowance for losses	(56,657)	(9,343)	(66,000)
Allowance for losses at Dec. 31, 2018	$ 31,943	$ 42,057	$ 74,000

* *a component of the provision for credit losses*

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

6. Assets held for sale

Assets held for sale and movements therein during 2018 and 2017 were as follows:

	2018	2017
Assets held for sale at January 1	$ 71,882	$ 1,215,656
Disposal	—	(1,119,510)
Impairment charge	(25,000)	(24,264)
Assets held for sale at December 31	$ 46,882	$ 71,882

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, 2018 and 2017 was based upon appraisals thereof.

There were no assets disposed of in 2018. 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 gain was included in other income.

7. Intangible assets

Intangible assets and movements therein during 2018 and 2017 were as follows:

2018	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost					
January 1, 2018	$ 1,179,097	$ 1,914,563	$ 1,343,938	$ 1,712,171	$ 6,149,769
Foreign exchange adjustment	—	162,352	—	145,188	307,540
December 31, 2018	$ 1,179,097	$ 2,076,915	$ 1,343,938	$ 1,857,359	$ 6,457,309
Accumulated amortization					
January 1, 2018	$ (1,104,817)	$ (18,409)	$ (799,532)	$ —	$ (1,922,758)
Amortization expense	(74,280)	(131,813)	(204,136)	—	(410,229)
Foreign exchange adjustment	—	(8,436)	—	—	(8,436)
December 31, 2018	$ (1,179,097)	$ (158,658)	$ (1,003,668)	$ —	$ (2,341,423)
Book value					
January 1, 2018	$ 74,280	$ 1,896,154	$ 544,406	$ 1,712,171	$ 4,227,011
December 31, 2018	$ —	$ 1,918,257	$ 340,270	$ 1,857,359	$ 4,115,886

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

8. Capital assets

	Dec. 31, 2018	Dec. 31, 2017
Cost	$ 2,218,978	$ 2,576,823
Less accumulated depreciation	1,295,898	1,896,995
	$ 923,080	$ 679,828

9. Goodwill

	2018	2017
January 1	$ 13,081,651	$ 3,173,777
BondIt acquisition (note 4(a))	—	3,126,168
CapX acquisition (note 4(b))	—	7,129,633
Foreign exchange adjustment	949,669	(347,927)
December 31	$ 14,031,320	$ 13,081,651

At December 31, 2018, goodwill of US$8,908,713 (2017 – US$8,908,713) 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.

Goodwill was allocated to the following cash generating units ("CGUs") at December 31, 2018 and 2017:

	2018	2017
U.S. operations	$ 12,148,813	$ 11,199,144
Canadian operations	1,882,507	1,882,507
	$ 14,031,320	$ 13,081,651

During 2018 and 2017, the Company conducted annual impairment reviews on each CGU and determined that there was no impairment to the carrying value of goodwill. The Company estimates the fair value less costs to sell of each CGU and compares this to the carrying value of the CGU to determine if there has been an impairment of goodwill. In the Company's case the estimated fair value of each CGU is determined to be a multiple of the "expected" earnings of the CGU, where "expected" earnings are a conservative estimate of future year's earnings. This provides a similar result to extrapolating and discounting budgeted earnings for the CGUs. The estimated fair value of each CGU is then compared to the carrying value of the CGU, including goodwill, to determine if the goodwill is impaired. The fair value estimate would be considered Level 3 under the fair value hierarchy as defined in note 3(q).

The most sensitive assumption used in the impairment testing was the multiple applied to "expected" earnings of each CGU in determining the fair value thereof. In 2018 and 2017 a multiple of 10.5 was used. Management believes a reasonable decrease in this multiple would not cause an impairment in the goodwill of its CGUs.

10. Bank indebtedness

A revolving line of credit totalling approximately $292 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line of credit was entered into for a three-year term on July 26, 2018 and superceded earlier lines of credit. The line is collateralized primarily by finance receivables and loans. At December 31, 2018, the amounts outstanding under the line of credit totalled $222,861,724, while amounts owing under previous bank lines of credit at December 31, 2017 totalled $138,140,342. The Company was in compliance with all loan covenants under its bank line(s) of credit during 2018 and 2017.

11. Loan payable

A revolving line of credit totalling $13,637,000 (US$10,000,000) was established by BondIt in April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit matures in October 2019 and is collateralized by all of BondIt's assets. At December 31, 2018, the amount outstanding under this line of credit totalled $5,695,568 (December 31, 2017 – nil). Under this revolving credit facility, BondIt failed one specific covenant test at December 31, 2018 which the lender subsequently waived. BondIt expects that the credit facility will be amended to avoid a similar technical default in the future.

12. Related parties

(a) Notes payable

Notes payable comprise unsecured short-term notes (due in less than one year), as well as long-term notes (due after one year) which were entered into for a three-year term on August 1, 2018 and mature on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand ($3,819,669); and (ii) numerous BondIt notes ($2,045,550) which are repayable on various dates the latest of which is August 2, 2019. Notes payable are to individuals or entities

and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable at December 31 were as follows:

	2018	2017
Short-term notes:		
Related parties	$ 3,377,550	$ 14,037,950
Third parties	2,487,669	1,824,083
	5,865,219	15,862,033
Long-term notes:		
Related parties	12,213,700	—
	$18,078,919	$ 15,862,033

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

Interest expense on the notes payable was as follows:

	2018	2017
Related parties	$ 864,237	$ 358,106
Third parties	132,794	102,980
	$ 997,031	$ 461,086

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[1] during 2018 and 2017 was as follows:

	2018	2017
Salaries and directors' fees	$ 4,042,340	$ 2,670,348
Stock-based compensation[2]	327,325	181,409
	$ 4,369,665	$ 2,851,757

[1] Key management personnel comprise the Chairman and Vice Chairman of the Company's Board, the President of the Company, the Presidents of its six operating subsidiaries and the Company's Chief Financial Officer.

[2] Stock-based compensation comprises the expense related to the Company's SARs, stock option and LTIP grants. Please see note 14(g).

13. Convertible debentures

In December 2018, the Company issued 18,400 7.0% convertible unsecured debentures with a face value of $1,000 each for total proceeds of $18.4 million. Interest is payable semi-annually on June 30 and December 31 each year commencing on June 30, 2019. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of $13.50 per common share.

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

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

On the date of issuance, the Company used the residual method to calculate the split between the debt component of these debentures and its equity component, which is included in contributed surplus. The gross proceeds of $18.4 million were allocated towards the debt component of these debentures by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debentures. The equity component is initially determined to be the difference between the gross proceeds and the debt component. Transaction costs were allocated to the debt and equity components on a pro-rata basis.

The allocation of the gross proceeds from the issuance of the convertible debentures was as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	$17,282,632	$1,117,368	$18,400,000
Transaction costs	(1,388,520)	(89,772)	(1,478,292)
Net proceeds	15,894,112	1,027,596	16,921,708
Deferred taxes	—	(272,313)	(272,313)
Accretion in carrying value of debenture liability	14,019	—	14,019
Accrued interest	46,511	—	46,511
	$15,954,642	$ 755,283	$16,709,925

At December 31, 2018 all debentures remained outstanding.

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

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2018 and 2017, there were no first preferred shares outstanding.

(b) Issued and outstanding

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

(c) Contributed surplus

	2018	2017
January 1	$ 297,825	$ 195,704
Stock-based compensation expense related to stock option grants (note 14(f))	19,645	102,121
Equity component of convertible debentures (note 13)	755,283	—
December 31	$ 1,072,753	$ 297,825

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2018, dividends totalling $3,001,825 (2017 – $2,990,776) or $0.36 (2017 – $0.36) per common share were declared and paid.

On March 1, 2019, the Company paid a quarterly dividend totalling $758,569 or $0.09 per common share.

(e) Stock option plans

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

The Company has also established a non-executive directors' stock option plan ("NEDSOP"). Under the terms of the plan, an aggregate of 500,000 common shares 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	2018	2017
$9.56	October 28, 2015	80,000	100,000
$9.28	July 27, 2016	80,000	100,000
Outstanding		160,000	200,000
Earned and exercisable		160,000	150,000

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

The fair value of the options granted 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

(f) Senior executive long-term incentive plan

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted consolidated net earnings. Vesting of the LTIP is subject to

achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

(g) Stock-based compensation

During 2018, the Company recorded a stock-based compensation expense totalling $326,519 (2017 – $227,179), of which $306,874 (2017 – $131,808) was in respect of LTIP awards and $19,645 (2017 – $102,121) was in respect of NEDSOP grants. There was no expense in respect of SARs grants (2017 – recovery of $6,750).

15. Income taxes

The Company's income tax expense comprises:

	2018	2017
Current income tax expense	$ 232,188	$ 934,141
Deferred tax recovery	(128,188)	(543,141)
Income tax expense	$ 104,000	$ 391,000

During 2018 and 2017, 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:

	2018	%
Income tax expense computed at statutory rates	$ 3,002,835	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(2,671,247)	(23.6)
Non-controlling interests in subsidiaries	(183,074)	(1.6)
Other	(44,514)	(0.4)
Income tax expense	$ 104,000	0.9

	2017	%
Income tax expense computed at statutory rates	$ 1,749,606	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(1,378,978)	(20.9)
Other	20,372	0.3
Income tax expense	$ 391,000	5.9

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

	2018	2017
Deferred tax assets:		
Unused tax losses	$ 4,201,559	$ 785,020
Allowances for losses	217,555	224,083
LTIP liability	48,000	65,000
Capital assets	16,000	—
Other	30,194	66,598
	4,513,308	1,140,701
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	(3,240,151)	(87,997)
Acquired intangibles	(64,094)	(213,707)
Lease receivables	—	(163,000)
Capital assets	—	(28,000)
Other	(1,364)	(7,748)
	(3,305,609)	(500,452)
	$ 1,207,699	$ 640,249

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

	2018	2017
Deferred tax assets:		
Allowances for losses	$ (117,000)	$ —
Unused tax losses	(107,068)	—
LTIP liability	(44,000)	—
	(268,068)	—
Deferred tax liabilities:		
Convertible debenture accretion	259,313	—
Acquired intangibles	256,455	163,954
Lease receivables	236,000	—
Capital assets	31,000	—
	782,768	163,954
	$ 514,700	$ 163,954

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, 2018 and 2017, 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.

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

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

The following is a reconciliation of common shares used in the calculation for the years ended December 31:

	2018	2017
Basic weighted average number of common shares outstanding	8,328,655	8,307,713
Effect of dilutive stock options	2,194	—
Diluted weighted average number of common shares outstanding	8,330,849	8,307,713

All outstanding stock options were excluded from the calculations of diluted weighted number of shares outstanding for the year ended December 31, 2017, because they were considered anti-dilutive for earnings per common share purposes. Details of stock options outstanding are set out in note 14(e). All convertible debentures, issued in December 2018, were similarly excluded from the calculation in 2018.

17. 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, 2018, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company and thus had not accrued a loss (2017 – nil).

(b) At December 31, 2018, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $508,170 (2017 – $1,018,475). In addition, at December 31, 2018 the Company was contingently liable with respect to a letter of guarantee issued on behalf of a client in the amount of $13,637 (2017 – $12,545). These amounts have been considered in determining the allowance for losses on finance receivables and loans.

18. 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:

2019	$ 561,413
2020	505,727
2021	523,036
2022	469,225
2023	127,330
Thereafter	298,350
	$ 2,485,081

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 2018 and 2017 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, 2018 and 2017 comprise an effective 49% interest of BondIt’s common member units and a 10% interest in CapX common units. Please see the consolidated statements of changes in equity for movements in non-controlling interests in 2018 and 2017.

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 ($339 million) and managed receivables ($40 million) represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company will usually either: (i) own the factored receivables or leased assets that it finances; or (ii) will take collateral security over the other assets that it lends against. The Company also makes unsecured small business loans; these totalled $1,812,233 at December 31, 2018.

It does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables. In its asset-based lending business, the Company makes loans that are, in most cases, secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate. The Company provides a loss allowance on all of its finance receivables and loans based on the assessed credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during 2018 and 2017.

At December 31, 2018, the Company had impaired loans of $60,000 (December 31, 2017 – $1,199,000), while at December 31, 2018, it held collateral for these loans with an estimated value of $314,000 (December 31, 2017 – $1,155,000). These impaired loans were mainly secured by receivables in 2018, while in 2017 they were secured by receivables and real estate.

In its asset-based lending businesses, AFIC and AFIU, 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 Chairman and Vice Chairman of its Board. Credit in excess of $2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by its Investment Committee, with amounts in excess of US$2,500,000 also being approved by the Company's Chairman and Vice Chairman. CapX credit in excess of US$4,000,000 is also approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, a primary focus continues to be on the credit-worthiness and collectability of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that

the Company guarantees payment, 3.6% were past due more than 60 days at December 31, 2018 and 2017. In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 5 which presents tables that summarize the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk), as well as an aged analysis thereof and also the three stage credit criteria of IFRS 9. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

In the Company's credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At December 31, 2018, the Company had guaranteed accounts receivable in excess of $5 million for one customer.

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

	2018	
(in thousands)	**Gross finance receivables and loans**	**% of total**
Manufacturing	**$ 80,465**	**24**
Financial services	**69,065**	**20**
Professional services	**48,064**	**14**
Wholesale and distribution	**41,298**	**12**
Transportation	**28,308**	**8**
Retail	**22,007**	**7**
Construction	**20,006**	**6**
Media	**14,656**	**4**
Other	**15,233**	**5**
	$ 339,102	**100**

	2017	
(in thousands)	Gross finance receivables and loans	% of total
Financial services	$ 43,834	20
Manufacturing	42,085	19
Wholesale and distribution	31,943	14
Professional services	29,342	13
Retail	26,172	12
Transportation	13,422	6
Media	10,887	5
Real estate	7,900	4
Other	14,519	7
	$ 220,104	100

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

(in thousands)	2018 Managed receivables	2018 % of total
Retail	$ 31,580	79
Wholesale and distribution	4,418	11
Other	4,147	10
	$ 40,145	100

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

As set out in notes 3(a), 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 in accordance with IFRS 9. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

(b) Liquidity risk

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

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	$ 16,346	$ —	$ —	$ —	$ —	$ —	$ 16,346
Finance receivables and loans	215,562	60,313	39,619	17,648	5,853	107	339,102
All other assets	1,440	—	—	—	—	—	1,440
	$ 233,348	$ 60,313	$ 39,619	$ 17,648	$ 5,853	$ 107	$ 356,888
Financial liabilities							
Due to clients	$ 3,156	$ —	$ —	$ —	$ —	$ —	$ 3,156
Bank indebtedness	222,862	—	—	—	—	—	222,862
Loan payable	5,696	—	—	—	—	—	5,696
Notes payable	5,865	—	12,214	—	—	—	18,079
Convertible debentures	—	—	—	—	15,955	—	15,955
All other liabilities	9,074	1,676	—	—	—	—	10,750
	$ 246,653	$ 1,676	$ 12,214	$ —	$ 15,955	$ —	$ 276,498

The Company's financial assets and liabilities at December 31, 2017 by maturity date were as follows:

(in thousands)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	$ 12,457	$ —	$ —	$ —	$ —	$ —	$ 12,457
Finance receivables and loans	164,801	35,246	16,055	2,637	1,269	96	220,104
All other assets	1,886	—	—	—	—	—	1,886
	$ 179,144	$ 35,246	$ 16,055	$ 2,637	$ 1,269	$ 96	$ 234,447
Financial liabilities							
Due to clients	$ 4,629	$ —	$ —	$ —	$ —	$ —	$ 4,629
Bank indebtedness	138,140	—	—	—	—	—	138,140
Notes payable	15,862	—	—	—	—	—	15,862
All other liabilities	6,710	3,286	1,285	—	—	—	11,281
	$ 165,341	$ 3,286	$ 1,285	$ —	$ —	$ —	$ 169,912

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately $306,000,000 have been established with a syndicate of banks, as well as a non-bank lender, bearing interest varying with the bank prime rate or Libor. At December 31, 2018, the Company had borrowed $228,557,292 (2017 – $138,140,342) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under its bank lines of credit during 2018 and 2017, although BondIt failed a coventant test with its non-bank lender at December 31, 2018, which was subsequently waived. See note 11. Notes payable of $3,819,669 are due on, or within a week of demand, while BondIt notes totalling $2,045,550 are repayable at various dates the latest of which is August 2, 2019. Long-term notes payable of $12,213,700 entered into on August 1, 2018 mature on July 31, 2021 (see note 12(a)). Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. At December 31, 2018, 86% (2017 – 89%) of these notes were due to related parties and 14% (2017 – 11%) to third parties. The Company's convertible debenture liability was $15,955,000 at December 31, 2018. These debentures mature on December 31, 2023. Due to clients, principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At December 31, 2018, the Company had gross finance receivables and loans totalling $339,101,770 (2017 – $220,104,156), which substantially exceeded its total liabilities of $278,598,434 at that date (2017 – $170,887,298).

The Company's receivable loans are secured by client's account receivable which normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

(c) Market risk

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

(i) Currency risk

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At December 31, 2018, the Company's unhedged foreign currency positions in its Canadian operations totalled $49,000 (2017 – $208,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the foreign currencies against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

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

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's floating rate finance receivables and loans exceed its floating and short-term fixed rate (usually 30 days)

borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity. This gap has been declining recently, as a result of the Company's equipment finance businesses, where Varion and CapX lease receivables and equipment term loans to clients are usually at fixed effective interest rates for up to five years, while related bank borrowings are currently at floating rates. The Company also recently entered into long-term notes payable and issued convertible debentures, which mature on July 31, 2021 and December 31, 2023 (see note 12(a) and note 13), respectively. The Company expects it will deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with lease receivables and term loan maturities in our equipment finance businesses.

The following table shows the interest rate sensitivity gap at December 31, 2018:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 14,350	$ —	$ —	$ —	$ 1,996	$ 16,346
Finance receivables and loans, net	233,099	19,981	55,853	30,169	(3,450)	335,652
All other assets	—	328	—	—	21,457	21,785
	247,449	20,309	55,853	30,169	20,003	373,783
Liabilities						
Due to clients	—	—	—	—	3,156	3,156
Bank indebtedness	45,550	178,991	—	—	(1,679)	222,862
Loans payable	5,695	—	—	—	—	5,695
Notes payable	3,819	2,046	12,214	—	—	18,079
Convertible debentures	—	—	—	15,955	—	15,955
All other liabilities	—	129	—	—	12,722	12,851
Equity	—	—	—	—	95,185	95,185
	55,064	181,166	12,214	15,955	109,384	373,783
	$192,385	$(160,857)	$43,639	$14,214	$(89,381)	$ —

Based on the Company's interest rate positions as at December 31, 2018, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $315,000 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, loan payable, notes payable and convertible debentures. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (b) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (c) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. As a percentage, these ratios were 276% (2017 – 193%) and 25% (2017 – 32%), respectively, at December 31, 2018. 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, 2018, the Company is required to maintain a debt to TNW ratio of less than 3.5 on its syndicated bank facility. BondIt, which has entered into a loan facility with a non-bank lender, is required to maintain a TNW of $5,000,000. There were no changes in the Company's approach to capital management from 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 2018 and 2017. 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, 7 and 9.

2018 (in thousands)	Canada	United States	Intercompany	Consolidated
Identifiable assets	$ 146,844	$ 231,051	$ (4,112)	$ 373,783
Revenue				
Interest income	$ 18,771	$ 19,235	$ (163)	$ 37,843
Other income	4,425	4,659	—	9,084
	23,196	23,894	(163)	46,927
Expenses				
Interest	8,486	1,084	(163)	9,407
General and administrative	10,981	12,543	—	23,524
Provision for credit and loan losses	1,048	977	—	2,025
Impairment of assets held for sale	25	—	—	25
Depreciation	174	105	—	279
Business acquisition expenses	279	57	—	336
	20,993	14,766	(163)	35,596
Earnings before income tax expense	2,203	9,128	—	11,331
Income tax expense (recovery)	629	(525)	—	104
Net earnings	1,574	9,653	—	11,227
Net earnings attributable to non-controlling interests in subsidiaries	—	871	—	871
Net earnings attributable to shareholders	$ 1,574	$ 8,782	$ —	$ 10,356

2017 (in thousands)	Canada	United States	Consolidated
Identifiable assets	$ 129,850	$ 121,170	$ 251,020
Revenue			
Interest income	$ 15,265	$ 10,040	$ 25,305
Other income	5,181	923	6,104
	20,446	10,963	31,409
Expense			
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

25. Subsequent events

On January 17, 2019, the underwriters of the Company's convertible debenture issue exercised their over-allotment option and a further 1,090 convertible debentures were issued for $1,090,000, bringing the total proceeds of the offering to $19,490,000. There were no other subsequent events occurring after December 31, 2018 that required disclosure or adjustment to the financial statements.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2]

Simon Hitzig, Toronto, Ontario

David Beutel, Toronto, Ontario [1,3]

Tom Henderson, Greenville, South Carolina

Gary Prager, Atlanta, Georgia [1,3]

Robert S. Sandler, White Plains, New York [2,3]

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

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

Officers

Ken Hitzig, Chairman of the Board

Tom Henderson, Vice Chairman

Simon Hitzig, President & CEO

Stuart Adair, Senior Vice President, Chief Financial Officer

Jim Bates, Secretary

Fred Moss, Vice President

Subsidiaries

Accord Financial Ltd.
Jim Bates, President

Accord Financial Inc.
Fred Moss, President

Accord Financial, Inc.
Terry Keating, President

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

Accord CapX LLC
Jeff Pfeffer, President

BondIt Media Capital
Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

Bank of Montreal

The Bank of Nova Scotia

Branch Banking and Trust

Canadian Imperial Bank of Commerce

HSBC Bank Canada

M&T Bank

The Toronto-Dominion Bank

Stock Exchange Listing

Toronto Stock Exchange
Symbol: ACD

Registrar & Transfer Agent

Computershare Trust Company of Canada

Annual Meeting

The Annual Meeting of Shareholders will be held **Tuesday, April 30th, 2019** at 4:15 pm at The Toronto Board of Trade, First Canadian Place, Toronto, Ontario

602-40 Eglinton Avenue East • Toronto • Ontario • Canada M4P 3A2 • **Tel (800) 967-0015**
Fax (416) 961-9443 • **www.accordfinancial.com**

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

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