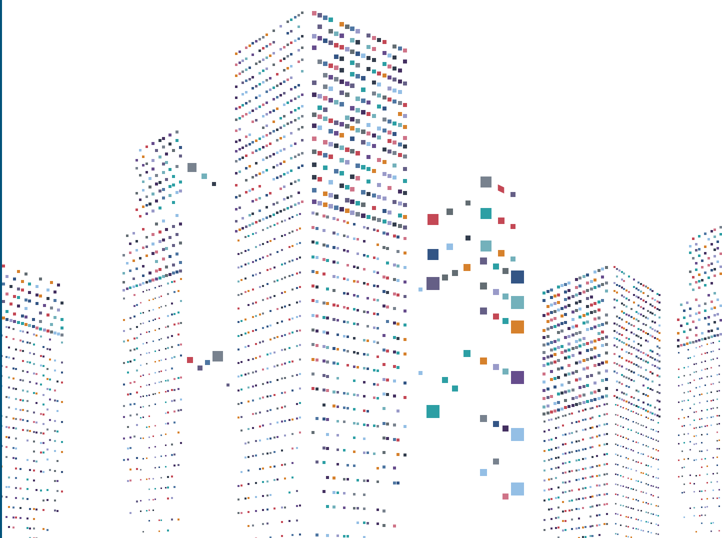
Annual Report **2019**

Simplified | Dynamic | Streamlined

ACCORD

FINANCIAL

Simplified | Dynamic | Streamlined



As the pace of change accelerates, unlocking opportunity takes more than ambition; it takes financial strength, deep insight, and a relentless pursuit of simplicity. Every one of our clients presents a unique challenge and opportunity, but our promise never wavers – to simplify access to capital so our clients can thrive.

After a period of evolution, acquisitions and growth, Accord has emerged as North America's most dynamic commercial finance company. This means we challenge the status quo; we keep a close eye on changes and trends within our markets, as well as seismic shifts in technology, culture and demographics, with a view to make relevant connections and identify new opportunities.

Our strategic focus is to align Accord's complementary businesses around a singular vision and deliver seamless service to the different markets we serve. We're 100% focused on being the best in North America at supporting promising companies with the capital they need to reach their potential. This starts with streamlined service from first point of contact through the life of each client relationship.

After successfully completing a five-year transformation into a streamlined commercial finance powerhouse, we took the opportunity to capture Accord's new spirit in a redesigned logo and visual system.

The vertical chevron echoes the "A" in Accord, which has been the cornerstone of our logo since 1978. This dynamic icon communicates a renewed sense of confidence, energy and progress. As we simplify access to capital, the skyward orientation reflects our promise to help clients thrive. The font is simple and sophisticated, and like Accord, positioned for the future.

The logo also stands alone with no slogan. After 42 years of outstanding performance, the strength of our brand needs no description.

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We Help | Clients Thrive

EXPERIENCE

We're driven by seeing our clients thrive. That's why Accord has assembled the industry's foremost team of experts who are committed to building long lasting relationships and passionate about finding solutions to unlock our clients' potential. Unrivalled experience allows us to continually enhance our range of solutions and tailor our services to client needs in real time. Forty-two years of success allows us to serve a broad base of the continent's most vital industries with confidence.

DEDICATION

In an on-demand economy, where money is a commodity, Accord stands out as a trusted partner. Just like our clients, we're constantly evolving, thinking of new ways to create superior client experiences. We work hard to understand our clients' specific needs and integrate into their lives seamlessly—quickly, simply and through the channels they use—offering tailored solutions designed to help them unlock their potential. And exceptional financial strength means we deliver on our commitments.

INSIGHTS

With forty-two years of continuous learning behind us, Accord offers a unique level of insight into industry and company-specific challenges. We use that insight, combined with obsessive market sensitivity, to keep our solutions and pricing at the leading edge of the industry. And we always keep an open mind, tailoring flexible solutions to the distinct challenges and opportunities our clients face. Backed by financial strength, deep insights unlock real potential.

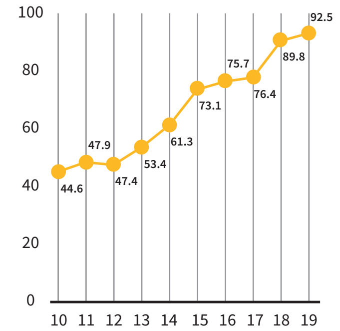
SERVICE

Everything we do is focused on helping our clients succeed. We work hard to understand each client's specific needs – we listen, collaborate, innovate and deliver. From the moment of first contact, Accord offers frictionless service integrated seamlessly at every touchpoint. And we never stop improving, continuously finding new ways to streamline and simplify. The combination of strength and integrity means we honor our commitments; our word is our bond, we never waver.

Simplified

"Having worked with Accord on a number of transactions over several years, we have found them to be a creative and flexible partner in serving our clients' financing needs. An example of this was a transaction involving the sale of a company in the industrial services sector, which needed its defaulted bank debt to be refinanced prior to being sold. Accord provided the flexible capital needed to complete the refinancing in a timely fashion, which relieved the threat to our client of the bank acting on its default, and resulted in a highly successful sale of the company."

~ **Rich Messina**, President
The Benchmark Company



Shareholders' Equity

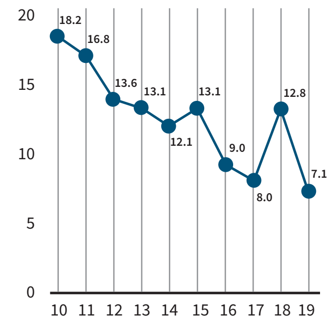
(in millions of dollars)

Shareholders' equity increased to a record $92.5 million at December 31, 2019. Book value per share was $10.77 at December 31, 2019.

Dynamic

"We are excited about this new relationship with Accord 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



Return on Average Equity

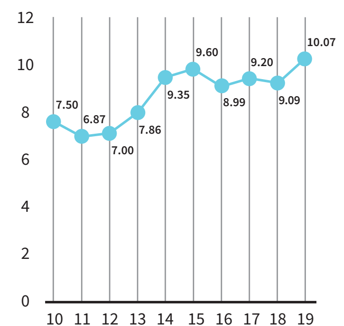
(as a percent per annum of average equity)

Return on average equity ("ROE") decreased to 7.1% in 2019 on reduced earnings.

Streamlined

"Eska and Accord have been business partners since April 2012, and we continue to enjoy a successful and beneficial relationship. Operationally, the Accord team collaborates with our own internal finance team to deliver best in class collections, credit analysis and problem resolution. Reporting requirements are streamlined and automated, avoiding burdensome administration and supporting our business efficiencies. The Accord management team is knowledgeable, professional and supportive of Eska's goals and provides solutions which are flexible and relevant to our business and change as we do."

~ **Mario Ricci**, CFO
Eska Inc.



Share Price

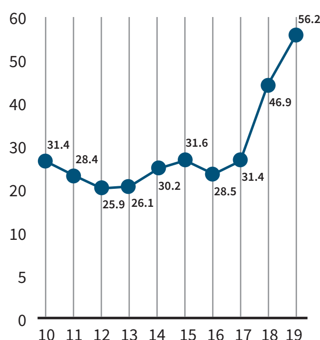
(at close on December 31)

Accord's share price closed 2019 at $10.07.

Three Year Financial Highlights Summary

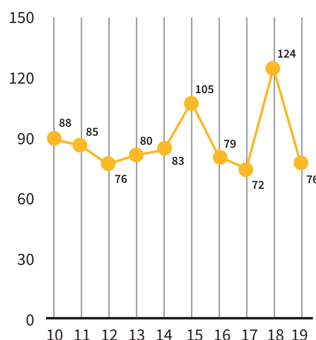
	2019	2018	2017
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Revenue	$ 56,175	$ 46,927	$ 31,409
Net earnings attributable to shareholders	6,444	10,356	6,010
Adjusted net earnings	4,939	10,840	7,005
Return on average equity	7.1%	12.8%	8.0%
Adjusted return on average equity	5.4%	13.4%	9.3%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	$ 378,243	$ 270,900	$ 181,052
Total assets	406,214	373,783	251,020
Shareholders' equity	92,515	89,818	76,448
Common Share Data (per common share)			
Earnings per share - basic and diluted	$ 0.76	$ 1.24	$ 0.72
Adjusted earnings per share - basic and diluted	0.58	1.30	0.84
Dividends paid	0.36	0.36	0.36
Share price - high	10.42	10.45	9.55
- low	8.37	8.22	8.40
- close at December 31	10.07	9.09	9.20
Book value per share at December 31	10.77	10.66	9.20

The Company's financial statements have been prepared in accordance with IFRS. The Company uses a number of other financial measures to monitor its performance and believes that these measures may be useful to investors in evaluating the Company's operating performance and financial position. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency between companies using these measures and are, therefore, considered to be non-IFRS measures. The non-IFRS measures presented in the Three Year Financial Highlights Summary, Ten Year Financial Summary, Letter to Our Shareholders and in the Management's Discussion and Analysis are summarized on pages 4, 5, and 6 of this Annual Report. 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 4, 5 and 6.



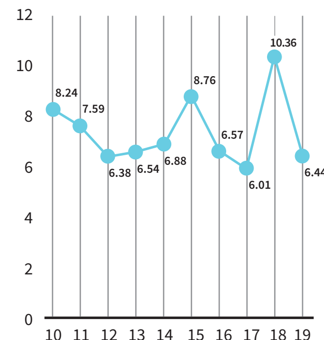
Revenue
(in millions of dollars)

Revenue reached a record $56.2 million in 2019, up 20% from 2018.



Diluted Earnings per Share

2019 diluted earnings per share were 76 cents, while adjusted diluted EPS were 58 cents.



Net Earnings
(in millions of dollars)

Net earnings decreased to $6.4 million in 2019. Adjusted net earnings were $4.9 million.

Letter to Our Shareholders

Simon Hitzig

Ken Hitzig

This time last year we had just closed the books on 2018, Accord's best year ever. I wrote about our long-time pattern of evolution, specifically Accord's five-year transformation into a multi-faceted, dynamic commercial finance company, positioned to confidently lend up and down a company's balance sheet. After years of acquisitions, product development and key hires, we powered through 2019 with all the puzzle pieces in place.

Our focus for 2019 was to pull our complementary businesses into a unified commercial finance powerhouse aligned around a singular mission: to simplify access to capital so our clients can thrive. Given Accord's dramatic evolution, from receivables finance to broad-based commercial finance, our presentation to key markets was less than consistent, and certainly not simple. We made terrific strides in this regard, embarking on a three-year plan to modernize key functions, built out core teams, and streamline the way we engage with our most important markets. While still in the early stages, our "collection of boutiques" is combining neatly into a cohesive platform, with the aim to deliver seamless service from first point of contact through the life of each client relationship.

While I am pleased to report this progress in executing our business strategy, our 2019 financial results fell short of expectations. We booked a significant account write-down in the fourth quarter, which brought full year earnings lower compared to 2018. The provision for losses is one of three key figures we keep a close eye on, I'll touch on all three here.

The overall loan portfolio saw strong growth, with total funds employed of $373 million at year end. Average funds employed over the year reached an all-time high of $378 million; this is the key number, along with average yield, that drives revenue. Not surprisingly, revenue also hit an all-time high of $56 million. This top line performance was strong proof that our strategic plan is working.

Less prominent in our financial statements is Accord's steadily improving operating efficiency. We closely monitor our general and administrative expenses as a percentage of total revenues, which provides a measure of how efficient we are at managing a growing business. Better operating efficiency means we convert a greater percentage of revenue to shareholder earnings as the portfolio grows. Three years ago, in 2016, we spent 62% of revenue on overhead. In 2019 that number declined to 48%. Scale is important in this business, and we continue to make progress on that front.

And finally, with the significant account write-down in the fourth quarter, Accord's provision for loan losses clocked in at 1.9% of our average portfolio, which exceeds our internal benchmark of 1.0%. This number is not only conspicuous, driving full-year earnings down 38% year-over-year, but also very disappointing. We take pride in our conservative approach to underwriting, and this year failed to deliver as promised. We are working hard to mitigate the loss and maximize our recovery from this challenging account in 2020. As always, this involves careful assessment of our collateral measured against other more creative ways of exiting our positions. We will report back at the end of the first quarter of 2020.

As we work through this challenging loan, we took the opportunity to recalibrate several key processes, including tighter checks and balances in the loan approval process, and enhanced early warning protocol when clients under perform. Even with forty-two years of excellent loan loss experience behind us, we found ways to improve.

These three metrics tell a story about the past and future. The loan losses tell a story about what happened to an account that went sideways in the fourth quarter. In contrast, portfolio growth is a harbinger of positive news to come. We enter 2020 with a strong and growing portfolio, which drives revenue. And operating efficiency continues a long-term trend in the right direction. Accord's platform is positioned for continued growth, with revenues set to grow faster than overhead.

During 2019, Accord made progress on key measures of shareholder value. Earnings per share in 2019 of $0.76 boosted book value per share up to $10.77 compared to $10.66 a year ago. Accord's share price closed the year at $10.07 on the Toronto Stock Exchange. Four quarterly dividends of nine cents per share were paid in 2019 extending our unbroken string of dividend payments to 33 years.

Here are some of the 2019's financial highlights:

- Year-end funds employed increased 10% from $339 million at Dec. 31, 2018 to $373 million at Dec. 31, 2019.
- Average funds employed rose 39% to $378 million in 2019 from $271 million in 2018.
- Total revenue was up 20% to $56.2 million in 2019 versus $46.9 million in 2018.
- Pre-tax earnings came in at $6.9 million compared to $11.3 million the previous year.
- Shareholders' net earnings were $6.4 million in 2019 down from the $10.4 million earned in 2018.
- Earnings per share decreased to $0.76 in 2019 versus $1.24 in 2018.
- Shareholders' equity was $92.5 million at Dec. 31, 2019 compared with $89.8 million a year earlier.
- Our efficiency ratio was 48% in 2019 versus 51% in 2018.
- Earnings before interest, taxes, depreciation and amortization increased by 27% to $26.1 million from $20.6 million the prior year.

We set the bar high in 2019 and fell short. Adversity, effectively navigated, makes us stronger. So we enter 2020 with confidence; we learned a few things, adjusted where we needed, and look forward to an outstanding year ahead.

Simon Hitzig
President & CEO

Ken Hitzig
Chairman of the Board

Toronto, Canada
March 6, 2020

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

Year ended December 31, 2019 compared with year ended December 31, 2018

Stuart Adair

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, 2019 compared with the year ended December 31, 2018 and, where presented, the year ended December 31, 2017. 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 6, 2020, should be read in conjunction with the Company's 2019 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 26) and the Letter to Our Shareholders all of which form part of this 2019 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") as issued by the International Accounting Standards Board ("IASB"). Please refer to the Critical Accounting Policies and Estimates section below and note 2 to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements. 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 2019 Annual Report are defined as follows:

i) **Return on average equity (“ROE”)** – this is a profitability measure that presents net earnings attributable to shareholders (“shareholders’ net earnings”) as an annualized percentage of the average shareholders’ equity employed in the period to earn the income. The Company includes all components of shareholders’ equity to calculate the average thereof;

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

iii) **Book value per share** – book value is defined as 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 9 presents certain profitability measures. In addition to ROE and adjusted ROE, the return on average assets is also presented. This is net earnings expressed as a percentage of average assets. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and general and administrative expenses (“G&A”) and depreciation expressed as a percentage of average assets and also expressed as a percentage of revenue (our efficiency ratio). These ratios are presented over a three-year period, which enables readers to see at a glance trends in the Company’s profitability, yield and operating efficiency;

vi) **Financial condition and leverage ratios** – Table 2 on page 12 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages provide information on trends in the Company’s financial condition and leverage; and

RESULTS OF OPERATIONS

Years ended December 31 (in thousands unless otherwise stated)	2019 Actual	2019 % of Revenue	2018 Actual	2018 % of Revenue	% change from 2018 to 2019
Average funds employed (millions)	$ 378		$ 271		39%
Revenue					
Interest income	$ 49,003	87.2%	$ 37,843	80.6%	29%
Other income	7,172	12.8%	9,084	19.4%	-21%
	56,175	100.0%	46,927	100.0%	20%
Expenses					
Interest	17,089	30.4%	9,407	20.0%	82%
General and administrative	26,151	46.6%	23,524	50.1%	11%
Provision for credit and loan losses	7,105	12.7%	2,025	4.3%	251%
Impairment of assets held for sale	—	—	25	0.1%	-100%
Depreciation	727	1.3%	279	0.6%	161%
Business acquisition expenses (recovery):					
Transaction and integration costs	(2,118)	-3.8%	(74)	-0.2%	n/m
Amortization of intangible assets	300	0.5%	410	0.9%	-27%
	49,254	87.7%	35,596	75.8%	38%
Earnings before income tax expense	6,921	12.3%	11,331	24.2%	-39%
Income tax expense	1,579	2.8%	104	0.3%	n/m
Net earnings	$ 5,342	9.5%	$ 11,227	23.9%	-52%
Net (loss) earnings attributable to non-controlling interests in subsidiaries	(1,102)	-2.0%	871	1.8%	-226%
Net earnings attributable to shareholders	$ 6,444	11.5%	$ 10,356	22.1%	-38%
Adjusted net earnings	$ 4,939	8.8%	$ 10,840	23.1%	-54%
Earnings per common share*	$ 0.76		$ 1.24		-39%
Adjusted earnings per common share*	$ 0.58		$ 1.30		-55%

* basic and diluted
n/m - not meaningful

vii) **Credit quality** – Table 3 on page 14 presents information on the quality of the Company's total portfolio, namely, its finance receivables and loans and managed receivables. It presents the Company's year-end allowances for losses as a percentage of its total portfolio and its annual net write-offs. It also presents net write-offs as a percentage of revenue. The percentage of managed receivables past due more than 60 days is also presented in Table 3.

ACCORD'S BUSINESS

Accord is one of North America's leading independent commercial 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 and trade finance, to film and media finance. Accord's business also includes credit protection and receivables management, as well as supply chain financing for importers. Its clients operate in a wide variety of industries, examples of which are set out in note 23(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 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 lending) 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))

	2019	2018	2017
Revenue	$ 56,175	$ 46,927	$ 31,409
Net earnings attributable to shareholders	6,444	10,356	6,010
Basic and diluted earnings per share	0.76	1.24	0.72
Dividends per share	0.36	0.36	0.36
Total assets	406,214	373,783	251,020
Long-term financial liabilities	$ 36,261	$ 28,168	$ —

RESULTS OF OPERATIONS

Year ended December 31, 2019 compared with year ended December 31, 2018

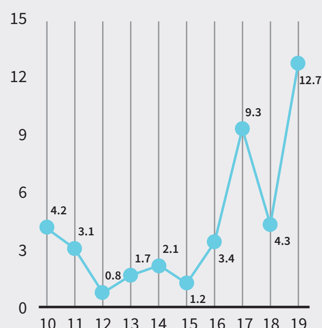
Shareholders' net earnings in 2019 decreased by 38% or $3,912,000 to $6,444,000 compared to the $10,356,000 earned in 2018 but were $434,000 or 7% higher than the $6,010,000 earned in 2017. Shareholders' net earnings compared to 2018 declined mainly as a result of higher provision for losses, G&A and income tax expenses. Shareholders' net earnings compared to 2017 mainly rose on higher revenue. Basic and diluted earnings per common share ("EPS") declined by 39% to 76 cents compared to the 124 cents earned last year but were 6% above the 72 cents earned in 2017. The Company's ROE decreased to 7.1% in 2019 compared to 12.8% last year and 8.0% in 2017.

Adjusted net earnings decreased by 54% to $4,939,000 in 2019 compared to last year's $10,840,000 and were 29% lower than 2017's $7,005,000. Adjusted EPS were 58 cents in 2019, 55% lower than the 130 cents earned in 2018 and 31% below the 84 cents earned in 2017. Adjusted ROE was 5.4% in 2019 compared to 13.4% in 2018 and 9.3% in 2017. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Years ended Dec. 31 (in thousands)	2019	2018	2017
Shareholders' net earnings	$ 6,444	$ 10,356	$ 6,010
Adjustments, net of tax:			
Stock-based compensation expense (recovery)	(124)	233	188
Restructuring expenses	—	—	122
Business acquisition expenses (recovery)	(1,381)	251	685
Adjusted net earnings	$ 4,939	$ 10,840	$ 7,005

Revenue increased by 20% or $9,248,000 to $56,175,000 in 2019 compared to $46,927,000 in 2018 and was 79% higher than the $31,409,000 in 2017. Interest income rose by $11,160,000 or 29% to $49,003,000 in 2019 compared to $37,843,000 in 2018 on a 39% rise in average funds employed, partly offset by a 7% decrease in average loan yields. Other income declined by $1,912,000 to $7,172,000 compared to 2018 as management fees earned by CapX from managing a legacy equipment finance fund declined as the fund winds down, and receivables management fees decreased. Interest income in 2019 increased by $23,698,000 or 94% compared to 2017 on a 109% rise in average funds employed, partly offset by a 7% decline in average loan yields. Other income increased by $1,068,000 compared to 2017 on a full year of management fees earned by CapX for managing a legacy equipment finance fund compared to approximately three months of fees in 2017. Average funds employed in 2019 increased to $378 million compared to $271 million last year and were 109% higher than the $181 million in 2017.

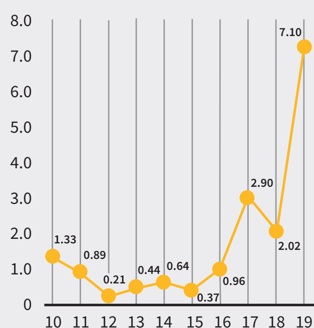
Total expenses increased by $13,658,000 or 38% to $49,254,000 compared to $35,596,000 in 2018. Interest expense, the provision for credit and loan losses, G&A and depreciation increased by $7,682,000, $5,080,000,



Provision for Credit and Loan Losses

(as a percentage of revenue)

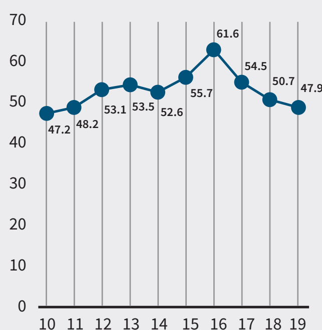
The provision rose to 12.7% of revenue in 2019 from 4.3% last year.



Provision for Credit and Loan Losses

(in millions of dollars)

The provision increased to $7.1 million in 2019 from $2.0 million in 2018.



Operating Expenses

(G&A and depreciation)

Operating expenses declined to 47.9% of revenue in 2019 from 50.7% last year.

$2,627,000 and $448,000, respectively. Transaction and integration costs, amortization of intangibles, and impairment of assets held for sale declined by $2,044,000, $110,000 and $25,000, respectively.

Interest expense rose by 82% to $17,089,000 in 2019 from $9,407,000 last year on 50% higher average borrowings and increased interest rates. Interest rates rose as the Company borrowed at higher rates under its credit facility, as well as having a full year of higher rate borrowings on its loan payable, term notes payable and majority of convertible debenture debt, all of which were taken out at various times in 2018.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A mainly increased on higher personnel costs, which rose by $2,189,000 as a result of increased head count to support the Company's growth, as well as severance costs of $438,000. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses increased by $5,080,000 to $7,105,000 compared to $2,025,000 last year. The provision comprised:

Years ended Dec. 31 (in thousands)	2019	2018
Net write-offs	$ 5,952	$ 818
Reserves expense related to increase in total allowances for losses	1,153	1,207
	$ 7,105	$ 2,025

The provision for credit and loan losses as a percentage of revenue rose to 12.7% in 2019 from 4.3% in 2018. Net write-offs increased by $5,134,000 to $5,952,000 in 2019 compared to $818,000 in the prior year. Net write-offs in 2019 included two write-offs totalling $5,792,000. The non-cash reserves expense decreased by $54,000 to $1,153,000. The Company's allowance for losses and its portfolio are discussed in detail below and also in the Statements. In years where funds employed are growing significantly, this non-cash item will tend to adversely impact shareholders' net earnings. 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 or one-off losses as seen in 2019.

No impairment charge was taken against assets held for sale during 2019 (2018 – $25,000).

Depreciation expense increased by $448,000 to $727,000 in 2019. On January 1, 2019 the Company adopted IFRS 16, Leases, and capitalized four office leases

as “right-of-use” assets. Depreciation of $436,000 (2018 – nil) was charged on the right-of use assets in 2019.

Business acquisition expenses consist of transaction and integration costs related to the CapX acquisition (in October 2017) and amortization of intangibles. In 2019, there was a recovery of $1,818,000 (2018 – expense $336,000). Transaction and integration costs saw a recovery of $2,118,000 (2018 – recovery $74,000) resulting from a reduction in the fair value of CapX contingent consideration payable, while the amortization of intangible assets relating to Varion and CapX decreased to $300,000 in 2019 compared to $410,000 last year (see note 9 to the statements).

Income tax expense rose by $1,475,000 to $1,579,000 compared to $104,000 in 2018. U.S. tax regulations released in December 2018 impacted tax planning such that the Company saw an increase in its effective tax rate in 2019. Towards the end of 2019, the Company implemented a tax structure that should lower its effective tax rate in 2020 and future years. The Company’s effective income tax rate increased to 20.9% in 2019 compared to 0.9% last year.

TABLE 1 – PROFITABILITY, YIELD AND EFFICIENCY RATIOS

(as a percentage)	**2019**	2018	2017
Return on average assets	**1.6**	3.5	3.0
Return on average equity	**7.1**	12.8	8.0
Adjusted return on average equity	**5.4**	13.4	9.3
Net revenue / average assets	**9.6**	12.6	13.8
Operating expenses* / average assets	**6.6**	8.0	8.4
Operating expenses* / revenue (efficiency ratio)	**47.9**	50.7	54.5

**G&A and depreciation*

Table 1 highlights the Company’s profitability in terms of returns on its average assets and equity. In 2019, the return on average assets, ROE and adjusted ROE, expressed as percentages, declined to 1.6%, 7.1% and 5.4%, respectively, as earnings decreased.

Net revenue as a percentage of average assets declined to 9.6% compared to 12.6% in 2018. The ratio of operating expenses to average assets decreased to 6.6% in 2019 compared with 8.0% last year, while the efficiency ratio (operating expenses as a percentage of revenue) decreased to 47.9% from 50.7% in 2018.

Canadian operations reported a 203% decrease in shareholders’ net earnings in 2019 compared to 2018 (see note 19 to the Statements) mainly as a result of a higher interest expense. Shareholders’ net earnings declined by $3,193,000 to a net loss of $1,619,000 compared to net earnings of $1,574,000 last year. Revenue increased by $2,277,000 or 10% to $25,473,000. Expenses rose by $6,228,000 to $27,221,000. Interest expense increased by $6,638,000 or 78% to $15,124,000, while depreciation was higher by $160,000. G&A, provision for credit and loan losses, business acquisition expenses (amortization of intangibles) and impairment of assets held for sale declined by $247,000, $184,000, $114,000 and $25,000, respectively. Income tax expense decreased by $758,000 to a recovery of $129,000.

U.S. operations reported a 8% decrease in shareholders’ net earnings compared to 2018 (see note 19 to the Statements). Shareholders’ net earnings declined by $719,000 to $8,063,000 compared to $8,782,000 last year. Revenue increased by $8,078,000 or 34% to $31,972,000. Expenses rose by $8,537,000 or 58% to $23,303,000. The provision for credit and loan losses rose by $5,264,000 to $6,241,000, G&A increased by $2,874,000 to $15,417,000, interest expense rose by $2,151,000 to $3,235,000, while depreciation was higher by $288,000 at $393,000. Business acquisition expenses declined by $2,040,000 to a recovery of $1,983,000 for the reason noted above. Income tax expense increased by $2,233,000 to $1,708,000. In U.S. dollars, net earnings were 15% lower at US$5,708,000 compared to 2018. Net loss attributable to non-controlling interests in subsidiaries totalled $1,102,000 compared to net earnings of $871,000 in 2018.

FOURTH QUARTER 2019

Quarter ended December 31, 2019 compared with quarter ended December 31, 2018

Shareholders’ net loss for the quarter ended December 31, 2019 was $658,000 compared to shareholder’s net earnings

SUMMARY OF QUARTERLY RESULTS

Quarters ended (in thousands unless otherwise stated)	2019 Dec. 31	Sept. 30	June 30	Mar. 31	2018 Dec. 31	Sept. 30	June 30	Mar. 31
Average funds employed (millions)	**$ 395**	**$ 383**	**$ 388**	**$ 347**	$ 317	$ 283	$ 255	$ 229
Revenue	**$ 14,297**	**$ 15,299**	**$ 13,991**	**$ 12,588**	$ 12,951	$ 13,120	$ 10,823	$ 10,033
Expenses								
Interest	**4,392**	**4,385**	**4,273**	**4,038**	3,295	2,655	1,991	1,466
General and administrative	**7,227**	**6,502**	**6,187**	**6,235**	6,594	5,810	5,714	5,406
Provision for credit and loan losses	**6,094**	**719**	**265**	**27**	(834)	1,234	186	1,439
Impairment of assets held for sale	**—**	**—**	**—**	**—**	—	—	25	—
Depreciation	**183**	**184**	**182**	**178**	118	62	52	47
Business acquisition expenses	**(1,609)**	**(554)**	**172**	**174**	(449)	254	263	268
	16,287	**11,236**	**11,079**	**10,652**	8,724	10,015	8,231	8,626
Earnings (loss) before income tax	**(1,990)**	**4,063**	**2,912**	**1,936**	4,227	3,105	2,592	1,407
Income tax expense (recovery)	**(688)**	**1,079**	**723**	**465**	(103)	274	109	(176)
Net earnings (loss)	**(1,302)**	**2,984**	**2,189**	**1,471**	4,330	2,831	2,483	1,583
Non-controlling interests in net earnings (loss)	**(644)**	**(253)**	**(33)**	**(172)**	169	215	120	367
Net earnings (loss) attributable to shareholders	**$ (658)**	**$ 3,237**	**$ 2,222**	**$ 1,643**	$ 4,161	$ 2,616	$ 2,363	$ 1,216
Adjusted net earnings (loss)	**$ (2,136)**	**$ 2,862**	**$ 2,397**	**$ 1,816**	$ 3,883	$ 2,842	$ 2,674	$ 1,441
Earnings (loss) per common share ** (cents)	**(8)**	**38**	**26**	**19**	50	31	28	15
Adjusted earnings (loss) per common share (cents)**	**(25)**	**34**	**28**	**22**	46	34	32	17

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

*** Basic and diluted*

of $4,161,000 last year. Shareholders' net loss was mainly as a result of a higher provision for loan losses. Loss before income tax was $1,990,000 compared to earnings before income tax of $4,227,000 last year. Basic and diluted loss per common share ("LPS") was 8 cents compared to EPS of 50 cents in the fourth quarter of 2018.

Adjusted net loss was $2,136,000 in the fourth quarter of 2019 compared to adjusted net earnings of $3,883,000 last year. Adjusted LPS was 25 cents compared to adjusted EPS of 46 cents in 2018. The following table provides a reconciliation of shareholders' net (loss) earnings to adjusted net (loss) earnings:

Quarters ended Dec. 31 (in thousands)	2019	2018
Net (loss) earnings	**$ (658)**	$ 4,161
Adjustments, net of tax:		
Stock-based compensation expense (recovery)	**(256)**	64
Business acquisition expenses (recovery)	**(1,222)**	(342)
Adjusted net (loss) earnings	**$ (2,136)**	$ 3,883

Revenue rose by $1,346,000 or 10% to $14,297,000 in the current quarter compared to $12,951,000 in the fourth quarter of 2018. Interest income rose by $1,325,000 or 12% to $12,183,000 in the fourth quarter of 2019 compared to $10,858,000 in the fourth quarter of 2018 on a 25% increase in average funds employed partly offset by a 10% decrease in average loan yields. Other income rose by $20,000 to $2,113,000 in the current quarter compared to $2,093,000 in the fourth quarter of 2018. Average funds employed in the fourth quarter of 2019 increased by 25% to $395 million compared to $317 million last year.

Total expenses for the fourth quarter of 2019 increased by $7,563,000 or 87% to $16,287,000 compared to $8,724,000 last year. The provision for credit and loan losses, interest, G&A and depreciation increased by $6,928,000, $1,097,000, $633,000 and $65,000, respectively. Business acquisition costs (transaction and integration costs and amortization of intangibles) declined by $1,160,000.

Interest expense rose by 33% to $4,392,000 in the current quarter from $3,295,000 last year on 29% higher average borrowings and increased interest rates. Interest rates rose for reasons noted above.

G&A increased by 10% to $7,227,000 in the current quarter compared to $6,594,000 last year. G&A rose on higher personnel costs, which increased by $669,000, mainly as a result of increased head count required to support the Company's growth.

The provision for credit and loan losses increased to $6,094,000 in the fourth quarter of 2019 compared to a recovery of credit and loan losses of $834,000 last year. The provision comprised:

Quarters ended Dec. 31 (in thousands)	2019	2018
Net write-offs	$ 5,233	$ 42
Reserves expense (recovery) related to increase (decrease) in total allowances for losses	861	(876)
	$ 6,094	$ (834)

There were net write-offs of $5,233,000 in the current quarter compared to $42,000 last year, while the non-cash reserves expense increased to $861,000 from a reserves recovery of $876,000 last year. Net write-offs in the fourth quarter of 2019 included a write-off totalling $5,019,000.

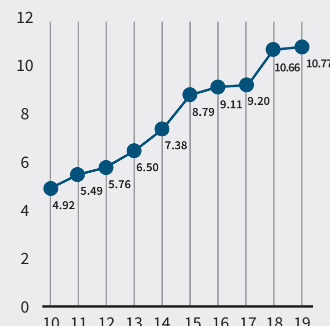
Depreciation expense increased by $65,000 to $183,000 in the fourth quarter of 2019. Depreciation of $108,000 (2018 – nil) was charged on the Company's right-of-use assets in the current quarter.

Business acquisition expenses saw a recovery of $1,609,000 (2018 – recovery $449,000) in the fourth quarter of 2019. Transaction and integration costs saw a recovery of $1,683,000 (2018 – recovery $552,000) for the reason noted above, while the amortization of intangible assets relating to ASBF and CapX decreased to $74,000 (2018 – $103,000).

Income tax recovery was $688,000 on a pre-tax loss of $1,990,000 in the current quarter compared to a recovery of $103,000 in the fourth quarter of 2018.

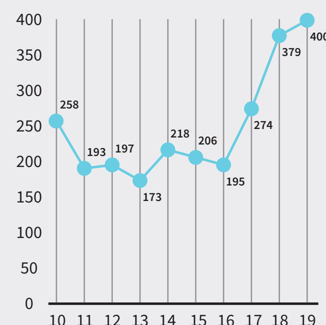
REVIEW OF FINANCIAL POSITION

Shareholders' equity at December 31, 2019 totalled $92,515,000, 3% higher than the $89,818,000 at December 31, 2018. The increase in shareholders' equity since December 31, 2018 resulted from increases in retained earnings, capital stock and contributed surplus, which were partially offset by a decline in accumulated other comprehensive income. Book value per common share was $10.77 at December 31, 2019 compared to $10.66 at December 31, 2018. Please also see the consolidated statements of changes in equity on page 34 of this Annual Report.



Book Value per Share
(in dollars)

Book value per share rose to a record high $10.77 at December 31, 2019.



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

The Company's total portfolio rose by 6% to a record $400 million at December 31, 2019 from $379 million last year-end.

Total assets rose by 9% to $406,214,000 at December 31, 2019 compared to $373,783,000 at December 31, 2018. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 63% of total assets at December 31, 2019 compared to 62% at December 31, 2018 (see note 19 to the Statements).

TABLE 2 – FINANCIAL CONDITION AND LEVERAGE

(as a percentage)	2019	2018	2017
Tangible equity/assets	20	20	25
Total equity/assets	24	25	32
Debt*/total equity	307	276	193
(in thousands)			
Receivables and loans			
Loans	$ 373,157	$ 339,102	$ 220,104
Managed receivables	27,338	40,145	53,478
Total Portfolio	$ 400,495	$ 379,247	$ 273,582

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

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, increased by 10% to $373,157,000 at December 31, 2019 compared to $339,102,000 at December 31, 2018. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Receivable loans	$ 103,842	$ 134,422
Other loans	167,978	135,307
Lease receivables	101,337	69,373
Finance receivables and loans, gross	373,157	339,102
Less allowance for losses	4,520	3,450
Finance receivables and loans, net	$ 368,637	$ 335,652

The Company's receivable loans decreased by 23% to $103,842,000 at December 31, 2019 compared to $134,422,000 at December 31, 2018. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, rose by 24% to $167,978,000 at December 31, 2019 compared to $135,307,000 at December 31, 2018. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 46% to $101,337,000 at December 31, 2019 compared to $69,373,000 at December 31, 2018. Net of the allowance for losses thereon, Loans increased by 10% to $368,637,000 at December 31, 2019 compared to $335,652,000 at December 31, 2018. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 75 clients in a wide variety of industries, as well as ASBF's and CapX's lease receivables and equipment and related loans to approximately 230 clients. The Company's largest client comprised 6% of gross Loans.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $27 million at December 31, 2019 compared to $40 million at December 31, 2018. Managed receivables comprise the receivables of approximately 70 clients at December 31, 2019. The 25 largest clients comprised 85% of total volume in 2019. 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, 2019, the 25 largest customers accounted for 73% of total managed receivables, of which the largest five comprised 45%. The Company reviews and monitors the retail industry and the credit risk related to its managed receivables very closely.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, rose by 6% to $400 million at December 31, 2019 compared to $379 million at December 31, 2018.

As described in note 23(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, equipment finance businesses, ASBF

and CapX, and credit protection business, is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel and management. In the case of credit in excess of $1.0 million (US$1.0 million in the case of AFIU and CapX, and US$500,000 for BondIt), credit is approved by the Company's Chairman and Vice Chairman of its Board. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is approved by the Company's credit committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are usually term loans with payments spread out evenly over the term of the lease or loan, which can be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at any time. Of the total managed receivables that the Company guarantees payment, 3.5% were past due more than 60 days at December 31, 2019. 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 rating systems to assess the 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 collateral 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 4 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) and also by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. 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 on-going 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 equipment leases or loans.

As detailed in note 4, the Company had past due finance receivables and loans of $7,795,000 at December 31, 2019, of which $6,477,000 related to BondIt, the Company's media finance subsidiary, while the balance thereof related to ASBF. Repayments of BondIt's media finance loans are often delayed for non-credit related reasons such as production delays. At December 31, 2019, the Company also had impaired finance receivables and loans of $6,770,000. The impaired loans, which have been written down to net realizable value (fair value less costs of realization) where necessary, are mainly collateralized by receivables, inventory and equipment,

the estimated net realizable value of which was $8,034,000 at December 31, 2019. During 2019, lease receivables totalling $6,970,000 were also transferred to assets held for sale upon default of the leases and recovery of the Company's assets. As the Company's finance receivables and loans are generally collateralized, past due or impaired accounts do not necessarily lead to a significant ECL allowance depending on the net realizable value of the collateral security which often results in a low LGD or no LGD in respect of these accounts.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$2.5 million for U.S. group companies) is approved by the Company's Credit Committee on a case-by-case basis. Note 23(a) to the Statements provides details of the Company's credit exposure by industrial sector.

TABLE 3 – CREDIT QUALITY

(as a percentage)	**2019**	2018	2017
Managed receivables past due more than 60 days	**3.5**	3.6	3.6
Reserves*/portfolio	**1.1**	0.9	0.8
Reserves*/net write-offs	**77**	431	96
Net write-offs/revenue	**10.6**	1.7	7.5

**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 write-offs of our managed receivables decreased to $60,000 in 2019 compared to $664,000 in 2018, of which $503,000 related to one customer. Net write-offs of managed receivables were 3 basis points of volume in 2019 compared to 22 basis points in 2018. Net write-offs in the Company's asset-based lending business increased to $5,892,000 in 2019 compared to $154,000 last year. Net write-offs in 2019 included two write-offs totalling $5,792,000. Overall, the Company's total net write-offs in 2019, as set out in the Results of Operations section above, rose to $5,952,000 compared with $818,000 in 2018. 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's allowance for losses on Loans, calculated under the expected credit loss ("ECL") criteria of IFRS 9, totalled $4,520,000 at December 31, 2019 compared to $3,450,000 at December 31, 2018. The allowance for losses on the guarantee of managed receivables totalled $44,000 at December 31, 2019 compared to $74,000 at December 31, 2018. 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 in 2019 and 2018 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Assets held for sale totalled $6,970,000 at December 31, 2019 and comprised certain repossessed assets securing defaulted equipment leases with a number of clients. These assets are currently being marketed for sale and will be disposed of as market conditions permit. The net realizable value (fair value less costs to sell) of these assets at December 31, 2019, which are based upon appraisals thereof, totalled $8,774,000 exceeding the carrying value of the defaulted finance receivables and loans. Assets held for sale at December 31, 2008 totalled $47,000. See note 5 to the Statements.

Cash decreased to $6,776,000 at December 31, 2019 compared to $16,346,000 at December 31, 2018. The Company endeavors to minimize cash balances as much as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

The Company adopted IFRS 16, Leases, effective

January 1, 2019, which replaced IAS 17, Leases. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at January 1, 2019 for four of the Company's office leases which resulted in an increase in both assets and liabilities. Right-of-use assets and lease liabilities totalling $2,027,000 were recorded at that date, with no impact on retained earnings. The Company's right-of-use assets totalled $1,544,000 at December 31, 2019 and is included in its property and equipment balance of $2,337,000 (2018 – $923,000, which excluded right-of-use assets). See detailed discussion on the adoption of IFRS 16 below and notes 3(a) and 6 to the Statements.

Intangible assets, net of accumulated amortization, totalled $3,639,000 at December 31, 2019 compared to $4,116,000 at December 31, 2018. 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. operations 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 ASBF acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 9 to the Statements.

Goodwill totalled $13,455,000 at December 31, 2019 compared to $14,031,000 at December 31, 2018. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and CapX in 2017, respectively. BondIt and CapX goodwill is carried in the Company's U.S. operations, together with goodwill of US$962,000 from a much earlier acquisition. Goodwill of $1,883,000 was also acquired as part of the ASBF 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 7 to the Statements for information regarding the Company's annual goodwill impairment reviews.

Other assets, income taxes receivable, net deferred tax assets and property and equipment at December 31, 2019 and 2018 were not significant.

Total liabilities increased by $31,248,000 to $309,846,000 at December 31, 2019 compared to $278,598,000 at December 31, 2018. The increase mainly resulted from higher bank indebtedness, convertible debentures issued and increased loan payable.

Amounts due to clients decreased by $752,000 to $2,404,000 at December 30, 2019 compared to $3,156,000 at December 31, 2018. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by $19,919,000 to $242,781,000 at December 31, 2019 compared to $222,862,000 at December 31, 2018. Bank indebtedness mainly increased to fund the rise in Loans. In the third quarter of 2018, the Company increased its bank credit facility to $292 million for a three-year term maturing on July 25, 2021 with a syndicate of six banks. In July 2019, the Company's banking syndicate approved a $75 million increase in the facility taking the Company's credit limit to $367 million. The Company did not meet its interest coverage ratio covenant under the bank credit facility at December 31, 2019 and has received a waiver thereof from its banking syndicate. In addition to the waiver, the Company's banking syndicate has reset the Company's interest coverage ratio test for the quarters ended March 31, June 30 and September 30, 2020. The Company was in compliance with all other loan covenants during 2019 and was in compliance with all loan covenants in 2018. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable increased by $5,531,000 to $11,227,000 at December 31, 2019 compared to $5,696,000 at December 31, 2018. A revolving line of credit totalling

$12,990,000 (US$10,000,000) was established during the second quarter of 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. The line was renewed in December 2019 for a term maturing on October 19, 2021. BondIt failed a specific covenant test at December 31, 2019 and 2018 which the lender subsequently waived. See note 10 to the Statements.

Accounts payable and other liabilities decreased by $4,523,000 to $6,170,000 at December 31, 2019 compared to $10,693,000 at December 31, 2018. The decrease since December 31, 2018 mainly resulted from the $5,309,000 reduction in contingent consideration payable related to the CapX acquisition.

Notes payable increased by $860,000 to $18,939,000 at December 31, 2019 compared to $18,079,000 at December 31, 2018. The increase in notes payable since last year-end resulted from new notes issued, as well as accrued interest. Please see Related Party Transactions section below and note 11(a) to the Statements.

Convertible debentures with a face value of $18,400,000 were issued by the Company in December 2018. These debentures are listed for trading on the Toronto Stock Exchange ("TSX"). On January 18, 2019, the underwriters of the convertible debenture issue exercised their over-allotment option and a further 1,090 debentures were issued with a face value of $1,090,000. On July 23, 2019, the Company issued a further 1,160 convertible debentures with a face value of $1,160,000 by way of private placement, bringing the total face value of the TSX listed debentures issued to $20,650,000, being the maximum that could be issued under the debentures trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value and overall gross proceeds from the TSX listed debentures was $20,626,800. On September 13, 2019, under a supplemental trust indenture, 5,000 unlisted convertible debentures were issued with similar terms to the TSX listed debentures, bringing the total face value of debentures issued to $25,650,000. All unsecured convertible debentures carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of $13.50 per common share. Net of transaction costs and the above-noted discount, a total of $23,781,000 was raised. Please see note 12 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At December 31, 2019, the debt component was $22,928,000 (2018 – $15,955,000), while the equity component was $1,005,000 (2018 – $755,000), net of deferred taxes.

As described above, the Company adopted IFRS 16 on January 1, 2019 pursuant to which lease liabilities totalling $2,027,000 for four of the Company's office leases were recognized as a liability. Outstanding lease liabilities totalled $1,598,000 at December 31, 2019. Please see detailed discussion in notes 3(a) and 13 to the Statements.

Income taxes payable, deferred income and net deferred tax liabilities at December 31, 2019 and 2018 were not significant.

Capital stock totalled $9,481,000 at December 31, 2019 compared to $8,115,000 at December 31, 2018. There were 8,588,913 common shares outstanding at December 31, 2019 (2018 – 8,428,542). Please see note 14 to the Statements and the consolidated statements of changes in equity on page 34 of this report for details of changes in capital stock during 2019 and 2018. At the date of this MD&A, March 6, 2020, 8,568,913 common shares were outstanding.

Contributed surplus totalled $1,323,000 at December 31, 2019 compared to $1,073,000 at December 31, 2018. As noted above, included in contributed surplus is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax, at December 31, 2019 (2018 – $755,000). Please refer to note 12 to the Statements. Please see the consolidated statements of changes in equity on page 34 of this report for details of changes in contributed surplus during 2019 and 2018.

Retained earnings totalled $74,994,000 at December 31, 2019 compared to $71,558,000 at December 31, 2018. In 2019, retained earnings increased by $3,436,000. The increase comprised shareholders' net earnings of $6,444,000 less dividends paid of $3,052,000 (36 cents per common share) plus other comprehensive income of $44,000 recognized on the dissolution of a foreign subsidiary. Please see the consolidated statements of changes in equity on page 34 of this report for details of changes in retained earnings during 2019 and 2018.

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 $6,717,000 at December 31, 2019 compared to $9,072,000 at December 31, 2018. Please refer to note 20 to the Statements and the consolidated statements of changes in equity on page 34 of this report, which details movements in the AOCI account during 2019 and 2018. The $2,355,000 decrease in AOCI balance in 2019 mainly resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.3637 at December 31, 2018 to $1.2990 at December 31, 2019. This reduced the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries by $2,355,000.

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 reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to total equity and its total equity and tangible equity to total assets. These ratios are presented for the last three years as percentages in Table 2. As noted above, the ratios at December 31, 2019 indicate the Company's continued financial strength.

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

The Company had credit lines totalling approximately $380 million at December 31, 2019 and had borrowed $254 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt or equity decrease the usage of, and dependence on, these lines. Note 23(b) details the Company's financial assets and liabilities at December 31, 2019 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances totalling $6,776,000 at December 31, 2019 compared to $16,346,000 at December 31, 2018. 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, issuer bid repurchases, interest and dividend

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT DECEMBER 31, 2019

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	Total
Debt obligations	$ 260,798	$ 12,149	$ 22,928	$ —	$295,875
Operating lease obligations	491	963	217	207	1,878
Purchase obligations	81	—	—	—	81
	$ 261,370	$ 13,112	$ 23,145	$ 207	$297,834

payments and will provide sufficient liquidity and capital resources for future growth over the next twelve months.

FISCAL 2019 CASH FLOWS

Year ended December 31, 2019 compared with the year ended December 31, 2018

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $9,394,000 in 2019 compared to $13,399,000 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 $47,560,000 in 2019 compared to $94,342,000 last year. The net cash outflow in 2019 largely resulted from financing loans of $51,672,000. In 2018, the net cash outflow largely resulted from financing loans of $105,848,000. 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 35 of this report.

Cash outflows from investing activities totalled $176,000 (2018 – $501,000) in 2019 and comprised property and equipment additions.

Net cash inflow from financing activities totalled $37,937,000 in 2019 compared to $99,615,000 last year. The net cash inflow in 2019 resulted from an increase in bank indebtedness of $27,626,000, the issue of convertible debentures, net of transaction costs, totalling $6,823,000, a rise in loan payable of $5,890,000, notes payable issued, net, of $1,048,000, and common shares issued of $160,000. Partially offsetting these inflows were dividend payments totalling $3,052,000, lease liabilities payments of $377,000 and a distribution paid to non-controlling interests of $181,000. In 2018, the net cash inflow resulted from an increase in bank indebtedness of $76,905,000, issue of convertible debentures of $16,922,000, net of transaction costs, an increase in loan payable of $5,779,000, notes payable issued, net, of $2,069,000, common units issued by BondIt of $924,000 and the issue of the Company's common shares of $18,000, which inflows were partly offset by dividend payments totalling $3,002,000.

The effect of exchange rate changes on cash comprised a gain of $230,000 in 2019 compared to a loss of $883,000 in 2018.

Overall, there was a net cash outflow of $9,569,000 in 2019 compared to a net cash inflow of $3,889,000 in 2018.

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. The short-term notes comprise: (i) notes due on, or within a week of, demand ($3,607,000) which bear interest at rates that vary with bank prime rate or Libor; and (ii) numerous BondIt notes ($3,183,000) which are repayable on various dates, the latest of which is December 31, 2020, and bear interest at rates between 7% and 12%. The long-term notes, which total $12,149,000 and mature on July 31, 2021, were entered into for a three-year term commencing August 1, 2018. They carry a fixed interest rate of 7%.

Notes payable totalled $18,939,000 at December 31, 2019 compared with $18,079,000 at December 31, 2018. Of these notes payable, $15,476,000 (2018 – $15,591,000) was owing to related parties and $3,463,000 (2018 – $2,488,000) to third parties. Interest expense on these notes in 2019 totalled $1,305,000 (2018 – $997,000). Please refer to note 11(a) to the Statements.

The following parties had notes payable with the Company at December 31, 2019:

Short term demand notes payable			
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$	880,000
Hitzig Bros., Hargreaves & Co. LLC.*	Directors	US$	700,000
Ken Hitzig	Director	C$	250,000
Tom Henderson	Director	US$	162,993

Term notes payable (due July 31, 2021)		
Hitzig Bros., Hargreaves & Co. Inc.*	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) of Accord has an ownership interest in the company*

Accord pays a rate of interest related to Canadian prime (currently it pays 2.95% or 3.45%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 2.75%). These rates of interest are below the rates that the Company pays on its main syndicated bank facility with The Bank of Nova Scotia ("BNS") resulting in interest savings to the Company.

Upon renewal of the BNS facility in July 2018, the Company entered into three-year unsecured notes payable maturing July 31, 2021. These notes are solely with related parties and pay a rate of interest of 7%. The Company's credit facility allows these three-year notes to be included in its tangible net worth (TNW) for the purpose of leveraging its bank line (up to 3.5 times TNW). This created additional borrowing capacity that Accord can utilize at lower credit facility rates of interest, which was the main business purpose thereof.

BondIt also utilizes loan participations to provide capital for and reduce the risk of loss on client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt loans. At December 31, 2019, BondIt loan participations totalled US$6,101,000 (2018 – US$3,080,000), of which US$990,000 (2018 – US$748,000) was provided by related parties. Specifically, US$800,000 (2018 – US$748,000) was provided by Hitzig Bros., Hargreaves & Co. LLC, while US$190,000 (2018 – nil) was provided by BondIt management and a company related to BondIt management. Please refer to note 11(b).

FINANCIAL INSTRUMENTS

All financial assets and liabilities, with the exception of cash, derivative financial instruments, and the guarantee of managed receivables, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our equipment finance business, lease liabilities, convertible debentures and term notes payable, are short-term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2019, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between January 31, 2020 and July 31, 2020 and which oblige the Company to sell Canadian dollars and buy US$650,000 at exchange rates between 1.3090 and 1.3288. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$650,000 to the client. These contracts are discussed further in note 18 to the Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting estimates represent those estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial results. The following are accounting estimates

that the Company considers critical to the financial results of its business segments:

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, 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 provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against ECL on accounts which have not experienced a significant increase in credit risk ("SICR") and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve-month period after the reporting date. Stage 1 accounts are considered to be in good standing. 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 the Company judges that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net 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(e), 4 and 23(a) to the Statements.

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

ADOPTION OF NEW ACCOUNTING POLICY

Effective January 1, 2019, the Company adopted a new accounting standard as issued by the IASB comprising IFRS 16, Leases, which replaced IAS 17, Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 was applied using the modified retrospective method

pursuant to which the Company will not have to restate 2018 comparatives.

The adoption of IFRS 16 resulted in a fundamental change to the accounting treatment of leases. IFRS 16 eliminated the current dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is now a single, on-balance sheet accounting model that is similar to finance lease accounting. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at the date of implementation resulting in an increase in both assets and liabilities. Lessees also recognize depreciation expense on the right-of-use assets and interest expense on the lease liabilities in the income statement. The Company elected to use 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. On adoption of IFRS 16, the Company recognized right-of-use assets in respect of four of its office leases totalling $2,027,000 and related lease liabilities in the same amount. There was no impact on the Company's retained earnings. Adoption of IFRS 16 did not have a material impact on the Company's net earnings. For further details, please refer to note 3(a) 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 2019 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 them 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, 2019 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, 2019 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 23 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 are currently similar to its floating rate borrowings, the Company is currently economically hedged against 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 significant gain position. No assurances can be made that changes in foreign currency rates will not have a significant adverse effect on the Company's business, financial condition or results of operations.

External financing

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

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

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

OUTLOOK

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

The Company is benefitting from the continued substantial growth in its funds employed, which have

grown 166% from the $140 million at the end to 2016 to finish 2019 at $373 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 ASBF in 2014, and BondIt and CapX in the second half of 2017.

Revenue in 2019 increased 20% from 2018 and will continue to grow as more funds are deployed. Average funds employed in 2019 were 39% higher than 2018's average. Growth in funds employed is expected to continue and will result in improved revenues in the future which bodes well for future financial results, 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 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, which include 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 newest group companies are also expected to grow their funds employed. BondIt's funds employed are seeing growth, while CapX, which started from scratch in the fourth quarter of 2017, had grown funds employed to $111 million at the end of 2019, which growth is expected to continue. Our credit protection and receivables management business faces intense competition from multinational credit insurers which is expected to continue and its business is likely to decline further in 2019 although it continues to be profitable.

To support this growth, in July 2019 the Company's banking syndicate approved a $75 million increase in its bank facility bringing the credit line up to $367 million. This should provide the Company with the majority of funding needed to support further growth in the next twelve months. In addition, since December 2018, the Company has raised $25.6 million through convertible debenture offerings, including $7.2 million raised in 2019. The Company will continue to review alternative sources of financing to augment its balance sheet if and when necessary.

U.S. tax regulations released in December 2018 impacted tax planning such that the Company saw an increase in its effective tax rate and income tax expense in 2019. This significantly impacted net earnings in 2019. The Company implemented an alternative tax strategy towards the end of 2019 which should help 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 employees, 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

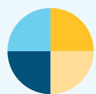
Toronto, Canada
March 6, 2020

Ten Year Financial Summary 2010-2019

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.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$	31,406	28,408	25,891	26,074	30,235	31,577	28,522	31,409	46,927	**56,175**
Interest		1,730	2,047	1,911	1,913	2,523	2,258	2,281	3,847	9,407	**17,089**
General and administrative		14,679	13,558	13,615	13,845	16,154	17,484	17,427	16,945	23,524	**26,151**
Provision for credit and loan losses		1,325	886	213	438	639	375	963	2,898	2,025	**7,105**
Impairment of assets held for sale		1,237	462	—	—	—	50	44	24	25	**—**
Depreciation		159	130	126	112	125	136	154	161	279	**727**
Business acquisition expenses		—	—	—	—	570	575	509	932	336	**(1,818)**
Total expenses		19,130	17,083	15,865	16,308	20,011	20,878	21,378	24,807	35,596	**49,254**
Earnings before income tax expense		12,276	11,325	10,026	9,766	10,224	10,699	7,144	6,602	11,331	**6,921**
Income tax expense		4,033	3,740	3,649	3,228	3,345	1,940	578	391	104	**1,579**
Net earnings	$	8,243	7,585	6,377	6,538	6,879	8,759	6,566	6,211	11,227	**5,342**
Non-controlling interests		—	—	—	—	—	—	—	201	871	**(1,102)**
Net earnings attributable to shareholders	$	8,243	7,585	6,377	6,538	6,879	8,759	6,566	6,010	10,356	**6,444**
Earnings per common share: Basic and diluted		0.88	0.85	0.76	0.80	0.83	1.05	0.79	0.72	1.24	**0.76**
Dividends per common share	$	0.28	0.30	0.31	0.32	0.33	0.35	0.36	0.36	0.36	**0.36**
Finance receivables and loans, net	$	102,313	89,124	108,477	109,775	136,346	134,259	138,115	217,975	335,652	**368,637**
Other assets		10,811	9,368	16,115	11,034	18,278	20,301	20,451	33,045	38,131	**37,577**
Total assets	$	113,124	98,492	124,592	120,809	154,624	154,560	158,566	251,020	373,783	**406,214**
Bank indebtedness	$	44,596	27,222	54,572	43,368	63,995	54,094	62,484	138,140	222,862	**242,781**
Loan payable		—	—	—	—	—	—	—	—	5,696	**11,227**
Notes payable		10,142	14,611	14,492	14,809	16,808	13,201	11,370	15,862	18,079	**18,939**
Convertible debentures		—	—	—	—	—	—	—	—	15,955	**22,928**
Other liabilities		13,826	8,804	8,132	9,201	12,489	14,199	9,030	16,885	16,006	**13,971**
Total liabilities		68,564	50,637	77,196	67,378	93,292	81,494	82,884	170,887	278,598	**309,846**
Shareholders' equity		44,560	47,855	47,396	53,431	61,332	73,066	75,682	76,449	89,818	**92,515**
Non-controlling interests in subsidiaries		—	—	—	—	—	—	—	3,684	5,367	**3,853**
Total equity		44,560	47,855	47,396	53,431	61,332	73,066	75,682	80,133	95,185	**96,368**
Total liabilities and equity	$	113,124	98,492	124,592	120,809	154,624	154,560	158,566	251,020	373,783	**406,214**
Shares outstanding at Dec. 31	#	9,066	8,719	8,221	8,221	8,308	8,308	8,308	8,308	8,429	**8,589**
Book value per share at Dec. 31	$	4.92	5.49	5.76	6.50	7.38	8.79	9.11	9.20	10.66	**10.77**
Share price - high	$	8.14	8.25	7.15	9.25	10.75	12.05	9.95	9.55	10.45	**10.42**
- low		5.25	6.50	6.50	6.84	7.85	9.00	8.70	8.40	8.22	**8.37**
- close at Dec. 31		7.50	6.87	7.00	7.86	9.35	9.60	8.99	9.20	9.09	**10.07**
Return on average equity	%	18.2	16.8	13.6	13.1	12.1	13.1	9.0	8.0	12.8	**7.1**

COMPLETE SPECTRUM OF FINANCING SOLUTIONS

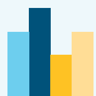


Asset-based lending

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

Equipment Financing

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



Credit protection & receivables management

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

Supply Chain Finance

Since 1978, Accord has been a leader in cross-border trade, simplifying supply chain finance for importers and exporters. Our unique AccordOctet program provides trade financing for North American companies sourcing goods anywhere in the world, while our alliance with Factors Chain International facilitates seamless credit and collection services through a network of close to 400 members and trade firms in 90 countries worldwide.

Small Business Finance

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

Media finance

Accord provides media finance through affiliate BondIt Media Capital, a world renowned film, television and media financier founded in 2014. Since inception, BondIt has participated in the debt financing of over 270 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.

Management's Report to the Shareholders

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

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

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

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

Stuart Adair

Toronto, Canada
March 6, 2020

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, 2019 and December 31, 2018;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

BASIS FOR OPINION

We conducted our audit in accordance with IFRS. 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 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; and
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2019".

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 filed with the relevant Canadian Securities Commissions 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.

KPMG LLP

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

Toronto, Canada
March 6, 2020

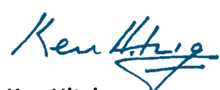
Consolidated Statements of Financial Position

	December 31, 2019	December 31, 2018
Assets		
Cash	$ 6,776,422	$ 16,345,848
Finance receivables and loans, net (note 4)	368,637,083	335,651,770
Income taxes receivable	996,039	327,553
Other assets	2,426,949	1,133,367
Assets held for sale (note 5)	6,970,369	46,882
Deferred tax assets, net (note 15)	975,714	1,207,699
Property and equipment (note 6)	2,337,365	923,080
Intangible assets (note 9)	3,639,468	4,115,886
Goodwill (note 7)	13,454,926	14,031,320
	$ 406,214,335	$ 373,783,405
Liabilities		
Due to clients	$ 2,403,717	$ 3,156,045
Bank indebtedness (note 8)	242,781,300	222,861,724
Loan payable (note 10)	11,226,897	5,695,568
Accounts payable and other liabilities	6,170,491	10,693,554
Income taxes payable	337,764	129,083
Notes payable (note 11(a))	18,938,887	18,078,919
Convertible debentures (note 12)	22,927,941	15,954,642
Lease liabilities (note 13)	1,597,664	—
Deferred income	1,210,471	1,514,199
Deferred tax liabilities, net (note 15)	2,251,060	514,700
	309,846,192	278,598,434
Equity		
Capital stock (note 14)	9,481,382	8,114,733
Contributed surplus (note 14(d))	1,322,575	1,072,753
Retained earnings	74,994,381	71,558,552
Accumulated other comprehensive income (note 20)	6,716,581	9,071,661
Shareholders' equity	92,514,919	89,817,699
Non-controlling interests in subsidiaries (note 21)	3,853,224	5,367,272
Total equity	96,368,143	95,184,971
	$ 406,214,335	$ 373,783,405

Contingent liabilities (note 17)

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	2019	2018
Revenue		
Interest (note 4)	$ 49,002,838	$ 37,842,708
Other income (note 4)	7,172,247	9,084,643
	56,175,085	46,927,351
Expenses		
Interest	17,089,579	9,407,145
General and administrative	26,150,907	23,524,060
Provision for credit and loan losses (note 4)	7,105,154	2,025,469
Impairment of assets held for sale	—	25,000
Depreciation	726,618	278,514
Business acquisition expenses (recovery):		
Transaction and integration costs	(2,117,768)	(74,519)
Amortization of intangible assets	300,117	410,229
	49,254,607	35,595,898
Earnings before income tax expense	6,920,478	11,331,453
Income tax expense (note 15)	1,579,000	104,000
Net earnings	5,341,478	11,227,453
Net (loss) earnings attributable to non-controlling interests in subsidiaries	(1,102,241)	871,539
Net earnings attributable to shareholders	$ 6,443,719	$ 10,355,914
Basic and diluted earnings per common share (note 16)	$ 0.76	$ 1.24

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2019	2018
Net earnings attributable to shareholders	$ 6,443,719	$ 10,355,914
Other comprehensive (loss) income:		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange (loss) gain on translation of self-sustaining foreign operations (note 20)	(2,355,080)	3,478,235
Comprehensive income	$ 4,088,639	$ 13,834,149

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 21)	Total
Balance at January 1, 2018	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**	**$95,184,971**
Comprehensive income	**—**	**—**	**—**	**6,443,719**	**(2,355,080)**	**—**	**4,088,639**
Common shares issued	**160,371**	**1,366,649**	**—**	**—**	**—**	**—**	**1,366,649**
Equity component of convertible debentures, net of tax	**—**	**—**	**249,822**	**—**	**—**	**—**	**249,822**
Net loss attributable to non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**(1,102,241)**	**(1,102,241)**
Dividends paid	**—**	**—**	**—**	**(3,051,812)**	**—**	**—**	**(3,051,812)**
Distribution to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(181,213)**	**(181,213)**
Translation adjustment on non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(230,594)**	**(230,594)**
Other comprehensive income recognized on dissolution of foreign subsidiary	**—**	**—**	**—**	**43,922**	**—**	**—**	**43,922**
Balance at December 31, 2019	**8,588,913**	**$ 9,481,382**	**$ 1,322,575**	**$74,994,381**	**$ 6,716,581**	**$ 3,853,224**	**$96,368,143**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	**2019**	2018
Cash (used in) provided by:		
Operating activities		
Net earnings	**$ 5,341,478**	$ 11,227,453
Items not affecting cash:		
Allowances for losses, net of write-offs and recoveries	**1,152,676**	1,207,388
Deferred income	**(156,176)**	62,930
Amortization of intangible assets	**300,117**	410,229
Depreciation of property and equipment	**726,618**	278,514
Loss on disposal of property and equipment	**—**	2,941
Gain on disposal of assets held for sale	**(39,793)**	—
Impairment of assets held for sale	**—**	25,000
Accretion of convertible debentures	**490,345**	60,530
Stock-based compensation expense related to stock option grants	**—**	19,645
Deferred tax expense (recovery)	**1,763,711**	(128,188)
Current income tax (recovery) expense	**(184,711)**	232,188
	9,394,265	13,398,630
Changes in operating assets and liabilities:		
Finance receivables and loans, gross	**(51,672,039)**	(105,847,980)
Due to clients	**(710,806)**	(1,523,506)
Other assets	**(1,346,667)**	(489,884)
Accounts payable and other liabilities	**(3,168,097)**	272,841
Disposal of assets held for sale	**86,675**	—
Income tax paid, net	**(143,202)**	(152,245)
	(47,559,871)	(94,342,144)
Investing activities		
Additions to property and equipment, net	**(176,364)**	(501,268)
Financing activities		
Bank indebtedness	**27,626,269**	76,904,952
Loan payable	**5,890,496**	5,779,357
Notes payable issued, net	**1,047,589**	2,068,618
Issuance of common shares	**160,341**	18,000
Convertible debentures issued, net of transaction costs	**6,822,847**	16,921,708
Dividends paid	**(3,051,812)**	(3,001,825)
Common member units issued by BondIt	**—**	924,254
Distribution paid to non-controlling interests in subsidiary	**(181,213)**	—
Lease liabilities	**(377,398)**	—
	37,937,119	99,615,064
Effect of exchange rate changes on cash	**229,690**	(882,804)
(Decrease) increase in cash	**(9,569,426)**	3,888,848
Cash at January 1	**16,345,848**	12,457,000
Cash at December 31	**$ 6,776,422**	$ 16,345,848
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	**$ 14,529,344**	$ 8,562,377

See accompanying notes to consolidated financial statements.

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, the Company's functional and presentation currency, and are prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(e) and 4), the determination of the value of goodwill on acquisition and annual impairment testing (note 7) and the value of intangible assets (note 9), as well as the net realizable value of deferred tax assets and liabilities. Management believes that these estimates are reasonable and appropriate. The audited 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")*; and
- Guarantee of managed receivables*

* *a component of accounts payable and other liabilities*

These audited consolidated financial statements were approved for issue by the Company's Board of Directors ("Board") on March 6, 2020.

3. Significant accounting policies

(a) Adoption of new accounting policy

Effective January 1, 2019, the Company adopted a new accounting standard as issued by IASB. IFRS 16, Leases, which replaced IAS 17, Leases, and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 affects the accounting for the Company's office leases where payments under such leases were previously expensed as part of operating expenses. On January 1, 2019, the Company assessed whether its lease contracts conveyed the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has recognized four office leases as right-of-use assets and lease liabilities under IFRS 16. The Company has elected to use the modified retrospective exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also for lease contracts for certain office equipment that are considered low value and, accordingly, has not recognized right-of-use assets and lease liabilities in respect of these leases. Upon adoption of IFRS 16, the Company used the modified retrospective method under which it did not restate 2018 comparatives.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. A right-of-use asset is initially measured at cost, which comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-to-use assets, which are included in property and equipment, are depreciated to the end of their useful life using the straight-line method over the lease term as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 8 years for the four office leases recognized as right-of-use assets. In addition, the right-of-use asset is adjusted for impairment, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement of the leases and are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate to determine the discount rates. A lease liability is measured at amortized cost using the effective interest method whereby payments under the lease include both a principal and an interest component. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company recognized right-of-use assets and lease liabilities at January 1, 2019 which resulted in an increase in both assets and liabilities. Right-of-use assets and lease liabilities totalling $2,027,000

were recorded at January 1, 2019, with no impact to retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates at January 1, 2019. The discount rates applied ranged from 6.00% to 7.25%.

The following table shows the Company's operating lease obligations at December 31, 2018 that were capitalized at the present value of the lease obligations on initial application of IFRS 16 on January 1, 2019.

(in thousands)	
Undiscounted operating lease commitments at December 31, 2018	$ 2,485
Less: Low value and short-term leases elected for exemption on adoption of IFRS 16	(100)
Undiscounted operating lease commitments at January 1, 2019 for leases recognized pursuant to IFRS 16	2,385
Discount using incremental borrowing rates of 6.00% to 7.25%	(358)
Lease liabilities recognized on adoption of IFRS 16 on January 1, 2019	$ 2,027

(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. (doing business as Accord Small Business Finance ("ASBF")) 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 ASBF 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 financial assets are measured at amortized cost as the following conditions are met:

i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest.

The Company's leasing operations have standard lease contracts that are non-cancellable direct financing leases and provide for monthly lease payments, usually for periods of one to five years. The present value of the minimum lease payments and residual values expected to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of execution costs, and the cost of the leased asset is unearned revenue, which is recorded as a reduction in the asset value, with the net amount being shown as the net investment in leases (specifically, the Company's lease receivables). The unearned revenue is then recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return on the net investment throughout the lease term.

(e) Allowances for losses

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, under which allowances for expected credit losses ("ECL") are recognized on all financial assets that are classified either at amortized cost or fair value through other comprehensive income ("FVOCI") and for all loan commitments and financial guarantees that are not measured at fair value through profit and loss ("FVTPL"). ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, 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.

The Company's 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. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve-month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company 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." 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 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 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. No allowance for ECL is provided for Stage 3 accounts,

rather the financial instrument is written down to its estimated net realizable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for 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.

(f) Property and equipment

Property and equipment 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
Right-of-use assets	Straight line	Over lease term

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

(g) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill 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.

(h) Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method,

as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

(i) Income taxes

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

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

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

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

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

(j) Foreign subsidiaries

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

(k) Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at 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.

(l) Earnings per common share

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

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

(n) Derivative financial instruments

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

(o) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, and the guarantee of managed receivables which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date. The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

(p) 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.

(q) 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").

(r) 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.

4. Finance receivables and loans and managed receivables

(a) Finance receivables and loans

Finance receivables and loans at December 31 were as follows:

	2019	2018
Receivable loans	$ 103,841,877	$ 134,422,542
Other loans*	167,978,086	135,306,707
Lease receivables	101,337,120	69,372,521
Finance receivables and loans, gross	373,157,083	339,101,770
Less allowance for losses	4,520,000	3,450,000
Finance receivables and loans, net	$ 368,637,083	$ 335,651,770

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

The Company's finance receivables and loans are generally collateralized by a first charge on substantially all of the borrowers' assets, or are leased assets or factored receivables which the Company owns. Collateral securing the Company's 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 ASBF and CapX as described in note 3(d). Lease receivables at December 31, 2019 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans in 2019 totalled $49,002,838 (2018 – $37,842,708).

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Less than 1 year	$ 201,259	$ 215,562
1 to 2 years	54,357	60,313
2 to 3 years	44,838	39,619
3 to 4 years	57,631	17,648
4 to 5 years	15,071	5,853
Thereafter	1	107
	$ 373,157	$ 339,102

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Current	$ 358,592	$ 333,031
Past due but not impaired:		
Past due less than 90 days	1,162	1,983
Past due 90 to 180 days	3,949	3,263
Past due 180 days or more	2,684	765
Impaired loans	6,770	60
	$ 373,157	$ 339,102

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 as we often see across our lines of business.

At December 31, 2019, the estimated net realizable value of the collateral securing the impaired loans

totalled $8,034,000. During 2019, lease receivables totalling $6,970,000 were also transferred to assets held for sale upon default of the leases and recovery of the Company's assets.

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

Medium risk: finance receivables and loans that are typical for the Company's risk appetite and credit standards and retain an average expected credit loss.

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 expected credit loss. 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, 2019	Dec. 31, 2018
Low risk	$ 139,684	$ 122,212
Medium risk	180,670	205,689
High risk	46,033	11,141
Impaired	6,770	60
	$ 373,157	$ 339,102

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Stage 1	$ 341,093	$ 332,015
Stage 2 (SICR)	25,294	7,027
Stage 3 (Impaired)	6,770	60
	$ 373,157	$ 339,102

Stage 1 finance receivables and loans comprise those accounts in good standing where there has been no 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 "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 2019 and 2018 was as follows:

	2019	2018
Allowance for losses at January 1	$ 3,450,000	$ 1,996,966
Specific write-offs reclassified to allowance for losses	—	35,000
Provision for loan losses	7,075,574	1,427,099
Write-offs	(6,311,397)	(243,681)
Recoveries	418,502	89,972
Foreign exchange adjustment	(112,679)	144,644
Allowance for losses at December 31	$ 4,520,000	$ 3,450,000

The activity in the allowance for losses on finance receivables and loans during 2019 by stage of allowance was as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2019	$2,669,024 $	780,976	$3,450,000
Transfers from Stage 1 to Stage 2, net	(114,956)	114,956	—
Reserve expense* related to increase in allowance for losses	433,199	749,480	1,182,679
Foreign exchange adjustment	(76,251)	(36,428)	(112,679)
Allowance for losses at Dec. 31, 2019	$2,911,016	$1,608,984	$4,520,000

** a component of the provision for loan losses*

The activity in the allowance for losses on finance receivables and loans during 2018 by stage of allowance was as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018	$ 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 write-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, 2019 and 2018 as impaired finance receivables and loans have been written down to the present value of their estimated net recoverable amounts.

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 23(a).

At December 31, 2019, the Company held cash collateral of $2,736,397 (2018 – $1,516,588) 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, 2019, the gross amount of these managed receivables was $27,338,317 (2018 – $40,145,156).

Fees from the Company's receivables management and credit protection business during 2019 totalled $2,222,537 (2018 – $2,663,068). This is included in other income.

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Current	$ 19,537	$ 23,561
Past due but not impaired:		
Past due less than 90 days	7,387	16,143
Past due more than 90 days	414	441
	$ 27,338	$ 40,145

The past due managed receivables do not necessarily represent a SICR or an impairment which are rebutted as the collection period in the retail industry is often past due.

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Low risk	$ 4,059	$ 7,963
Medium risk	21,910	28,416
High risk	1,369	3,766
	$ 27,338	$ 40,145

There were no impaired managed receivables at the above dates.

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

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Stage 1	$ 27,162	$ 39,678
Stage 2 (SICR)	176	467
Stage 3 (Impaired)	—	—
	$ 27,338	$ 40,145

Stage 1 managed receivables comprise those accounts in good standing where there has been no 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 "watchlist" accounts. There were no Stage 3 (impaired) managed receivables at the above dates as any outstanding client claims for payment 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 2019 and 2018 was as follows:

	2019	2018
Allowance for losses at January 1	$ 74,000	$ 140,000
Provision for loan losses	29,580	598,375
Write-offs	(77,330)	(664,823)
Recoveries	17,750	448
Allowance for losses at December 31	$ 44,000	$ 74,000

The activity in the allowance for losses on the guarantee of managed receivables during 2019 by stage of allowance was follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2019	$ 31,943	$ 42,057	$ 74,000
Reserve expense (recovery)* related to increase (decrease) in allowance for losses	8,537	(38,537)	(30,000)
Allowance for losses at Dec. 31, 2019	$ 40,480	$ 3,520	$ 44,000

** a component of the provision for credit losses*

The activity in the allowance for losses on the guarantee of managed receivables during 2018 by stage of allowance was follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018	$ 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 2019 and 2018.

5. Assets held for sale

Assets held for sale and movements therein during 2019 and 2018 were as follows:

	2019	2018
Assets held for sale at January 1	$ 46,882	$ 71,882
Additions	6,970,369	—
Disposal	(46,882)	—
Impairment charge	—	(25,000)
Assets held for sale at December 31	$ 6,970,369	$ 46,882

During 2019, the Company obtained title to or repossessed certain long-lived assets securing defaulted finance receivables and loans from a number of clients. These assets are currently being actively marketed for sale and will be disposed of as market conditions permit. The estimated net realizable value (being fair value less costs to sell) of the assets at the above dates was based upon appraisals of the assets and totalled $8,774,000. As the estimated net realizable value exceeded the carrying value of

the defaulted finance receivables and loans on an account by account basis no write down to the carrying values was required upon repossession.

The assets disposed of in 2019 were sold for $86,675 resulting in a gain on sale of $39,793 compared to the carrying value of the assets. The gain was included in other income.

6. Property and equipment

(in thousands)	Dec. 31, 2019	Dec. 31, 2018
Cost	$ 4,148	$ 2,219
Accumulated depreciation	(1,764)	(1,296)
Foreign exchange adjustment	(47)	—
	$ 2,337	$ 923

Property and equipment includes the Company's right-of-use assets. Upon adoption of IFRS 16 on January 1, 2019, the Company recognized right-of-use assets in respect of four of its office leases each of which had a remaining lease term of over one year at that date. The Company's right-of-use assets and movements therein during 2019 were as follows:

(in thousands)	2019
Right-of-use assets recognized on January 1, 2019	$ 2,027
Depreciation expense	(436)
Foreign exchange adjustment	(47)
Right-of-use assets at December 31, 2019	$ 1,544

7. Goodwill

	2019	2018
Goodwill at January 1	$14,031,320	$ 13,081,651
Foreign exchange adjustment	(576,394)	949,669
Goodwill at December 31	$13,454,926	$ 14,031,320

At December 31, 2019 and 2018 goodwill of US$8,908,713 was carried in AFIU. A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period-end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at December 31, 2019 and 2018:

	2019	2018
U.S. operations	$11,572,419	$12,148,813
Canadian operations	1,882,507	1,882,507
	$13,454,926	$14,031,320

Goodwill is tested for impairment annually. During 2019 and 2018, 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 (being the recoverable amount) of each of its CGUs and compares this to the carrying value of the CGU to determine if there has been an impairment of goodwill. In the Company's case the estimated fair value of each CGU is determined to be a multiple of the "expected" earnings of the CGU, where "expected" earnings are 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(r).

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 2019, a multiple of 10.0 was used, while in 2018 a multiple of 10.5 was used. Management believes a reasonable decrease in the multiple would not cause an impairment in the goodwill of its CGUs.

8. Bank Indebtedness

During 2019 the Company's banking syndicate approved a $75 million increase in its line of credit to approximately $367 million. The line of credit, established with a syndicate of six banks, bears 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 the Company's finance receivables and loans.
At December 31, 2019, the amount outstanding under the line of credit totalled $242,781,300 (2018 – $222,861,724). The Company did not meet its interest coverage ratio covenant under the facility at

December 31, 2019 and has received a waiver thereof from its banking syndicate. In addition to the waiver, the Company's banking syndicate has reset the Company's interest coverage ratio test for the quarters ended March 31, June 30 and September 30, 2020.

The Company was in compliance with all other loan covenants under its bank line of credit during 2019 and was in compliance with all loan covenants in 2018.

9. Intangible assets

Intangible assets and movements therein during 2019 and 2018 were as follows:

2019	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost					
January 1, 2019	$ 1,179,097	$ 2,076,915	$ 1,343,938	$ 1,857,359	$ 6,457,309
Foreign exchange adjustment	—	(98,538)	—	(88,121)	(186,659)
December 31, 2019	$ 1,179,097	$ 1,978,377	$ 1,343,938	$ 1,769,238	$ 6,270,650
Accumulated amortization					
January 1, 2019	$ (1,179,097)	$ (158,658)	$ (1,003,668)	$ —	$ (2,341,423)
Amortization expense	—	(134,939)	(165,178)	—	(300,117)
Foreign exchange adjustment	—	10,358	—	—	10,358
December 31, 2019	$ (1,179,097)	$ (283,239)	$ (1,168,846)	$ —	$ (2,631,182)
Book value					
January 1, 2019	$ —	$ 1,918,257	$ 340,270	$ 1,857,359	$ 4,115,886
December 31, 2019	$ —	$ 1,695,138	$ 175,092	$ 1,769,238	$ 3,639,468

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

10. Loan payable

A revolving line of credit totalling $12,990,000 (US$10,000,000) was established by BondIt Media Capital (“BondIt”), a subsidiary of AFIU, in April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line was renewed in December 2019 for a period expiring in October 2021 and is collateralized by all of BondIt’s assets. At December 31, 2019, the amount outstanding under this line of credit totalled $11,226,897 (2018 – $5,695,568). Under this revolving credit facility, BondIt failed a specific covenant test at December 31, 2019 and 2018 which the lender subsequently waived.

11. 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 ($3,607,337); and (ii) numerous BondIt notes ($3,182,550) which are repayable on various dates the latest of which is December 31, 2020. 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:

	2019	2018
Short-term notes:		
Related parties	**$ 3,326,849**	$ 3,377,550
Third parties	**3,463,038**	2,487,669
	6,789,887	5,865,219
Long-term notes:		
Related parties	**12,149,000**	12,213,700
	$ 18,938,887	$ 18,078,919

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 between 7% 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:

	2019	2018
Related parties	**$ 1,058,727**	$ 864,237
Third parties	**245,793**	132,794
	$ 1,304,520	$ 997,031

(b) BondIt loan participations

BondIt utilizes loan participations to provide capital for and reduce the risk of loss on certain client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt client loans. At December 31, 2019, participations in BondIt client loans totalled US$6,101,000 (2018 – US$3,080,000), of which US$990,000 (2018 – US$748,000) was provided by related parties. These participations are not included in the Company's Statements of Financial Position.

(c) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[1] during 2019 and 2018 was as follows:

	2019	2018
Salaries and directors' fees	**$ 4,013,883**	$ 4,042,340
Stock-based compensation[2]	**(152,699)**	327,325
	$ 3,861,184	$ 4,369,665

[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 (recovery) related to the Company's stock option and LTIP grants. Please see note 14(h).

12. Convertible debentures

In December 2018, the Company issued 18,400 7.0% convertible unsecured debentures with a face value of $1,000 each for proceeds of $18,400,000. On January 17, 2019, the underwriters of the debenture issue exercised their overallotment option and a further 1,090 convertible debentures were issued for proceeds of $1,090,000. On July 23, 2019, the Company issued a further 1,160 convertible debentures with a face value of $1,160,000 by way of private placement, bringing the total face value of the debentures issued to $20,650,000, which is the maximum issuable under the debenture trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value. These debentures are listed on the Toronto Stock Exchange. On September 13, 2019, the Company issued 5,000 7.0% unlisted convertible unsecured debentures with a face value of $1,000 each for proceeds of $5,000,000. Interest on all the convertible debentures is payable semi-annually on June 30 and December 31 each year. The debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of $13.50 per common share.

The debentures 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, the debentures may be redeemed at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon provided that the market price of the Company's common shares 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 thereon.

The Company used the residual method to calculate the allocation between the debt and equity components of the debentures. The gross proceeds of $25,626,800 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 then allocated to the debt and equity components on a pro-rata basis. The equity component is carried net of deferred taxes and is included in contributed surplus. The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at December 31, 2019 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	$ 24,152,897	$ 1,473,903	$ 25,626,800
Transaction costs	(1,739,323)	(106,414)	(1,845,737)
Net proceeds	22,413,574	1,367,489	23,781,063
Deferred taxes	—	(362,384)	(362,384)
Accretion in carrying value of debenture liability	514,367	—	514,367
	$ 22,927,941	$ 1,005,105	$ 23,933,046

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at December 31, 2018 were 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, 2019, all debentures remained outstanding.

13. Lease liabilities

The following table presents the contractual undiscounted cash flows for office lease obligations at December 31, 2019:

(in thousands)

Less than one year	$ 491
One to five years	1,181
Thereafter	206
Total undiscounted lease obligations	1,878
Less: Short-term lease commitments elected for exemption under IFRS 16	(26)
Less: Future interest	(254)
Lease liabilities at December 31, 2019	$ 1,598

During 2019, principal and interest payments for the four leases recognized under IFRS 16 totalled $377,398 and $112,979, respectively, for total lease payments of $490,377. No variable lease payments are included in the measurement of the Company's lease liabilities. See note 3(a) for details regarding the adoption of IFRS 16.

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

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares.

Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2019 and 2018, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2019 and 2018 are set out in the consolidated statements of changes in equity.

(c) Share repurchase program

On December 4, 2019, the Company received approval from the TSX to commence a normal course issuer bid (the "2019 Bid") for up to 429,445 of its common shares at prevailing market prices on the TSX. The 2019 Bid commenced on December 9, 2019 and will terminate on December 8, 2020 or the date on which a total of 429,445 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2019 Bid will be cancelled. To December 31, 2019, the Company had not repurchased and cancelled any common shares under the 2019 Bid.

(d) Contributed surplus

The Company's contributed surplus and movements therein during 2019 and 2018 are set out in the consolidated statements of changes in equity.

(e) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2019, dividends totalling $3,051,812 (2018 – $3,001,825) or $0.36 (2018 – $0.36) per common share were declared and paid. On January 30, 2020, the Company declared a quarterly dividend of $0.09 per common share, which was paid on March 2, 2020 to shareholders of record at the close of business on February 14, 2020.

(f) Stock option plans

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

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

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

Outstanding options granted under the NEDSOP at December 31, 2019 and 2018 were as follows:

Exercise price	Grant date	Number of options
$9.56	October 28, 2015	80,000
$9.28	July 27, 2016	80,000
Outstanding, earned and exercisable		160,000

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 was determined using the Black-Scholes option pricing model with the following assumptions on the grant date:

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

(g) Senior executive long-term incentive plan

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

may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

(h) Stock-based compensation

During 2019, the Company recorded a stock-based compensation recovery totalling $174,597 (2018 – expense of $326,519). The stock-based compensation recovery in 2019 related to outstanding LTIP awards. During 2018 stock-based compensation in respect of LTIP awards was $306,874, while there was also a $19,645 expense in respect of the Company's NEDSOP grants.

15. Income taxes

The Company's income tax expense comprises:

	2019	2018
Current income tax (recovery) expense	$ (184,711)	$ 232,188
Deferred tax expense (recovery)	1,763,711	(128,188)
Income tax expense	$ 1,579,000	$ 104,000

During 2019 and 2018, 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:

	2019	%
Income tax expense computed at statutory rates	$ 1,833,927	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(702,999)	(10.2)
Non-controlling interests in subsidiaries	232,190	3.4
Other	215,882	3.1
Income tax expense	$ 1,579,000	22.8

	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 interest in subsidiaries	(183,074)	(1.6)
Other	(44,514)	(0.4)
Income tax expense	$ 104,000	0.9

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

	2019	2018
Deferred tax assets:		
Unused tax losses	$ 6,296,351	$ 4,201,559
Allowances for losses	419,079	217,555
Leasing timing difference	37,000	—
Property and equipment	24,000	16,000
LTIP liability	—	48,000
Other	22,545	30,194
	$ 6,798,975	$ 4,513,308
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	(5,715,600)	(3,240,151)
Property and equipment	(57,000)	—
Acquired intangibles	—	(64,094)
Other	(50,661)	(1,364)
	(5,823,261)	(3,305,609)
	$ 975,714	$ 1,207,699

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

	2019	2018
Deferred tax assets:		
Allowances for losses	$ (39,000)	$ (117,000)
Unused tax losses	—	(107,068)
LTIP liability	—	(44,000)
	(39,000)	(268,068)
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	1,327,101	—
Convertible debentures accretion	402,835	259,313
Acquired intangibles	284,124	256,455
Lease receivables	276,000	236,000
Property and equipment	—	31,000
	2,290,060	782,768
	$ 2,251,060	$ 514,700

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, 2019 and 2018, 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:

	2019	2018
Basic weighted average number of common shares outstanding	8,463,891	8,328,655
Effect of dilutive stock options	3,254	2,194
Diluted weighted average number of common shares outstanding	8,467,145	8,330,849

All convertible debentures were excluded from the calculations of the diluted weighted average number of common shares outstanding during 2019 and 2018 because they were anti-dilutive for earnings per common share purposes.

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 upon information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At December 31, 2019 and 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.

(b) At December 31, 2019, the Company was liable with respect to letters of credit issued on behalf of clients in the amount of $220,830 (2018 – $508,170). In addition, at December 31, 2019, the Company was contingently liable with respect to letters of guarantee issued on behalf of clients in the amount of $1,026,210 (2018 – $13,637). These amounts were considered in determining the allowance for losses on finance receivables and loans.

18. Derivative financial instruments

At December 31, 2019, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between January 31, 2020 and July 31, 2020 and which oblige the Company to sell Canadian dollars and buy US$650,000 at exchange rates ranging from 1.3090 to 1.3288. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$650,000 to the clients. At December 31, 2018, the Company had no outstanding forward foreign exchange contracts. The favorable and unfavorable fair values of these contracts were recorded on the Company's consolidated statements of financial position in other assets and accounts payable and other liabilities, respectively. The fair value of the contracts was classified as Level 2 under IFRS 7. During 2019 and 2018 there was no movement between the three-level fair value hierarchy described in note 3(r).

19. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. An operating segment is a component in the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Companies other subsidiaries, whose operating results are regularly reviewed by the Company's Chief Operating Decision Makers ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment results that are reported to the CODM include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. There were no significant changes to property and equipment, except as described in note 6, and goodwill during the periods under review.

2019 (in thousands)	Canada	United States	Intercompany	Consolidated
Identifiable assets	$ 184,198	$ 254,632	$ (32,616)	$ 406,214
Revenue				
Interest income	$ 21,281	$ 28,992	$ (1,270)	$ 49,003
Other income	4,192	2,980	—	7,172
	25,473	31,972	(1,270)	56,175
Expenses				
Interest	15,124	3,235	(1,270)	17,089
General and administrative	10,734	15,417	—	26,151
Provision for credit and loan losses	864	6,241	—	7,105
Depreciation	334	393	—	727
Business acquisition expenses (recovery)	165	(1,983)	—	(1,818)
	27,221	23,303	(1,270)	49,254
(Loss) earnings before income tax expense	(1,748)	8,669	—	6,921
Income tax (recovery) expense	(129)	1,708	—	1,579
Net (loss) earnings	(1,619)	6,961	—	5,342
Net (loss) attributable to non-controlling interests in subsidiaries	—	(1,102)	—	(1,102)
Net (loss) earnings attributable to shareholders	$ (1,619)	$ 8,063	$ —	$ 6,444

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

20. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the years ended December 31, 2019 and 2018 are set out in the consolidated statements of changes in equity.

21. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at December 31, 2019 and 2018 comprise an effective 49% interest in BondIt's common member units and a 10% interest in CapX's common units. Please see the consolidated statements of changes in equity for movements in non-controlling interests during 2019 and 2018.

22. Fair values of financial assets and liabilities

Financial assets or liabilities, other than lease receivables and loans to clients in our equipment finance business, lease liabilities, convertible debentures and term notes payable, are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company's financial instruments resulting in a favorable or unfavorable variance compared to carrying value. For the Company's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. Under the fair value hierarchy, finance receivables and loans would be classified as Level 3 in 2019 and 2018.

23. 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 ($373 million) and managed receivables ($27 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) take collateral security over the other assets that it lends against. The Company also makes unsecured small business loans; these totalled $1,365,503 at December 31, 2019. The Company does not take title to the managed receivables as it does not lend against them, although 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 2019 and 2018.

At December 31, 2019, the Company had impaired loans of $6,770,000 (2018 – $60,000), while at that date, it held collateral for these loans with an estimated net realizable value of $8,034,000 (2018 – $314,000). These impaired loans were mainly secured by receivables, inventory and/or equipment.

In its asset-based lending businesses (AFIC and AFIU), media financing business (BondIt), equipment finance businesses (ASBF and CapX), and credit protection and receivables management operations (AFL), credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1.0 million (US$1.0 million in case of AFIU and CapX, and US$500,000 for BondIt), the Company's Chairman and Vice Chairman of its Board. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. In its asset-based lending operations, 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 mainly 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, 3.5% were past due more than 60 days at December 31, 2019 (2018 – 3.6%). 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 4 which presents the Company's finance receivables and loans and managed receivables by their internal credit risk rating (low risk, medium risk, high risk) and by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. 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, 2019, the Company had not guaranteed accounts receivable in excess of $5 million for any customer.

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

	2019	
Industrial sector (in thousands)	**Gross finance receivables and loans**	**% of total**
Manufacturing	**$ 87,195**	**23**
Professional services	**70,416**	**19**
Financial services	**63,723**	**17**
Wholesale and distribution	**31,965**	**9**
Retail	**28,819**	**8**
Media	**24,561**	**6**
Transportation	**19,666**	**5**
Construction	**17,875**	**5**
Other	**28,937**	**8**
	$ 373,157	**100**

	2018	
Industrial sector (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

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

	2019	
Industrial sector (in thousands)	**Managed receivables**	**% of total**
Retail	**$ 22,698**	**83**
Wholesale and distribution	**1,567**	**6**
Other	**3,073**	**11**
	$ 27,338	**100**

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

As set out in notes 3(e) and 4, the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables 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, 2019 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	$ 6,777	$ —	$ —	$ —	$ —	$ —	$ 6,777
Finance receivables and loans	201,259	54,357	44,838	57,631	15,071	1	373,157
All other assets	3,422	—	—	—	—	—	3,422
	$ 211,458	$ 54,357	$ 44,838	$ 57,631	$ 15,071	$ 1	$ 383,356
Financial liabilities							
Due to clients	$ 2,404	$ —	$ —	$ —	$ —	$ —	$ 2,404
Bank indebtedness	242,781	—	—	—	—	—	242,781
Loan payable	11,227	—	—	—	—	—	11,227
Notes payable	6,790	12,149	—	—	—	—	18,939
Convertible debentures	—	—	—	22,928	—	—	22,928
All other liabilities	6,464	—	—	—	—	—	6,464
	$ 269,666	$ 12,149	$ —	$ 22,928	$ —	$ —	$ 304,743

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

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 that, as far as possible, 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 $380,000,000 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, 2019, the Company had borrowed $254,008,197 (2018 – $228,557,292) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. As detailed in note 8, the Company did not meet its interest coverage ratio covenant under its bank credit facility at December 31,

2019 but has received a waiver thereof. The Company's banking syndicate has also reset the Company's interest coverage ratio test for the quarters ended March 31, June 30 and September 30, 2020. The Company was compliant with all other loan covenants under its bank credit facility during 2019 and was in compliance with all loan covenants under its bank lines of credit in 2018. BondIt failed a covenant test with its non-bank lender at December 31, 2019 and 2018, which were subsequently waived. See note 10.

Notes payable of $3,607,337 are due on, or within a week of demand, while BondIt notes totalling $3,182,550 are repayable at various dates the latest of which is December 31, 2020. Long-term notes payable of $12,149,100 entered into on August 1, 2018 mature on July 31, 2021 (see note 11(a)). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At December 31, 2019, 82% (2018 – 86%) of these notes were due to related parties and 18% (2018 – 14%) to third parties. The Company's convertible debenture liability was $22,927,941 at December 31, 2019. 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, 2019, the Company had gross finance receivables and loans totalling $373,157,083 (2018 – $339,101,770) which substantially exceeded its total liabilities of $309,846,192 at that date (2018 – $278,598,434). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

(c) Market risk

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

(i) Currency risk

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At December 31, 2019, the Company's unhedged foreign currency positions in its Canadian operations totalled $11,037,000 (2018 – $49,000), of which $10,677,000 resulted from the dissolution of a foreign subsidiary on December 31, 2019. This position was subsequently closed in early January 2020 resulting in a small foreign exchange gain. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the Company's foreign currency holdings against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

Interest rate risk pertains to the risk of loss due to the volatility of interest rates. The Company's lending and borrowing rates 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. As the Company's floating rate finance receivables and loans are currently similar to its floating and short-term fixed rate (usually 30 days) borrowings, the Company's exposure to interest rate risk is not significant. However, as the Company's equipment finance business continues to grow the Company expects it will deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with fixed rate lease receivables and term loan maturities in our equipment finance businesses.

The following table summarizes the interest rate sensitivity gap at December 31, 2019:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 4,421	$ —	$ —	$ —	$ 2,355	$ 6,776
Finance receivables and loans, net	230,413	18,844	106,114	16,308	(3,042)	368,637
Assets held for sale	—	6,970	—	—	—	6,970
All other assets	—	861	—	—	22,970	23,831
	234,834	26,675	106,114	16,308	22,283	406,214
Liabilities						
Due to clients	—	—	—	—	2,404	2,404
Bank indebtedness	22,314	221,365	—	—	(898)	242,781
Loans payable	11,227	—	—	—	—	11,227
Notes payable	3,607	3,183	12,149	—	—	18,939
Convertible debentures	—	—	22,928	—	—	22,928
All other liabilities	—	337	—	—	11,230	11,567
Equity	—	—	—	—	96,368	96,368
	37,148	224,885	35,077	—	109,104	406,214
	$ 197,686	$(198,210)	$ 71,037	$ 16,308	$ (86,821)	$ —

Based on the Company's interest rate positions at December 31, 2019, a sustained 100 basis point rise in interest rates across all currencies and maturities would reduce net earnings by approximately $5,000 over a one-year period. A decrease of 100 basis points in interest rates would increase net earnings to a similar extent.

24. 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. At December 31, 2019, as a percentage, these ratios were 307% (2018 – 276%) and 24% (2018 – 25%), respectively. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at December 31, 2019, 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 at least US$5,000,000. There were no changes in the Company's approach to capital management from previous periods.

25. Subsequent events

At March 6, 2020, there were no subsequent events occurring after December 31, 2019 that required disclosure or adjustments to the financial statements.

Corporate Information

Annual Meeting

The Annual Meeting of Shareholders will be held

Wednesday, May 6, 2020 at

4:00 pm at
The Toronto Board of Trade,
First Canadian Place,
Toronto, Ontario

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, Wake Forest, North Carolina [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
Irene Eddy, Senior Vice President, Capital Markets
Cathy Osborne, Senior Vice President, Human Resources
Jim Bates, Secretary

Subsidiaries

Accord Financial Ltd.
Jim Bates, President
Accord Financial Inc.
Jason Rosenfeld, 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 Listings

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

Registrar & Transfer Agent

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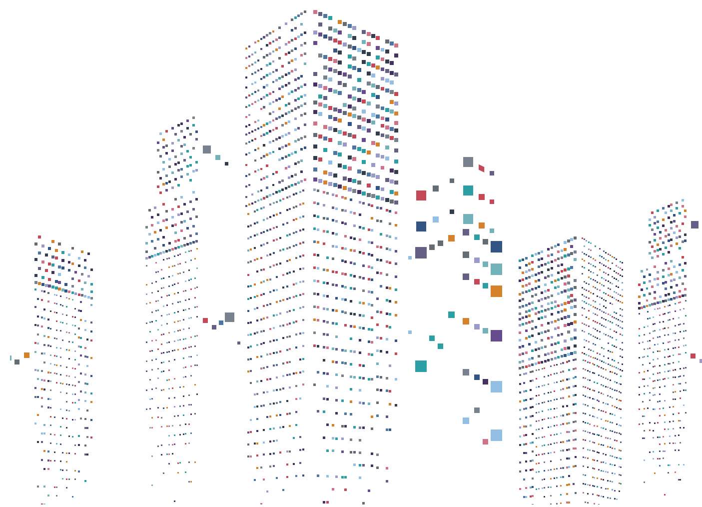

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