ACCORD
FINANCIAL

Forward Together

Annual Report 2020

Forward Together

Small- and medium-sized businesses are the engine of the economy, supporting employment, driving innovation, and sustaining economic growth. Through 2020 and into 2021, Accord Financial has brought every tool in its arsenal to keep the engine running, while the economy moves towards a recovery.

Each industry faces its own set of challenges, and every business has its own unique path to success. Financial support is never the end in itself; it paves the way for investment – in supplies, inventory, equipment, working capital – setting the stage for the next phase of growth.

With Accord's unwavering support, our clients add value to their clients, develop innovative products, provide outstanding service, drive costs down, hire the next generation of talent, and deliver the promise of progress. Entrepreneurs, through their passion and commitment, lead the way.

With forty-three years of experience, Accord knows what it takes to navigate to a competitive advantage; to not only survive, but ultimately to thrive. As the pace of change accelerates, unlocking opportunity takes more than ambition; it takes financial strength, deep insight, and a relentless focus on the future. With the economy ready to gear up, Accord holds the key.

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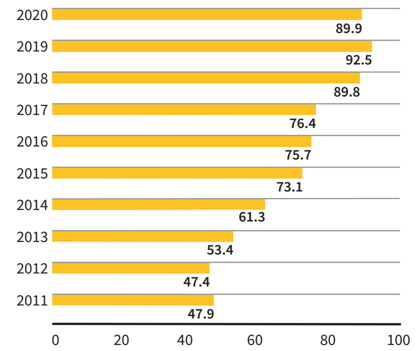
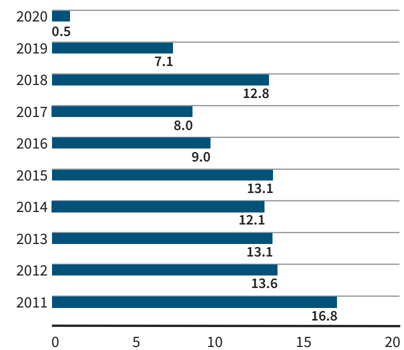


Shareholders' Equity

(in millions of dollars)

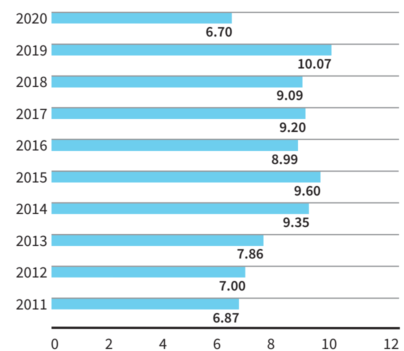
Shareholders' equity decreased to $89.9 million at December 31, 2020. Book value per share was $10.50 at December 31, 2020.



Return on Average Equity

(as a percent per annum of average equity)

Return on average equity ("ROE") decreased to 0.5% in 2020 from 7.1% in 2019 on Covid-19 impacted earnings.



Share Price

(at close on December 31)

Accord's share price closed 2020 at $6.70.

Forward Together: Client Success Stories

Short-Term Need, Long-Term Relationship

"When looking for a lender, we knew we needed not only a company that can assist with our short-term needs, but also a long-term relationship with a lender we can trust. What separated Accord from the rest was not only the way they focused on the future success of our company, but also their ability to work collaboratively as a team, which in turn made it easy for us to work with them."

~ **Mike Frost**, President & Owner
LTI Printing

Customer-Service Oriented

"SkinCure Oncology has appreciated working with the Accord team for a number of years. We have found the Accord team to be professional, customer service oriented and most importantly a team of integrity."

~ **Kerwin Brandt**, CEO
SkinCure Oncology

New Equipment

"As a rapidly growing company, the need for new equipment doesn't stop. Accord saw an opportunity to assist and stepped up with great customer service to finance capital assets that were critical in meeting our capacity needs. They continue to be a great partner."

~ **Debra K Kessler**, Chief Financial Officer
Stella & Chewy's

Overcoming Challenges

"I was impressed by Accord's ability to exceed all expectations I had in a lender. Accord took the time to listen and understand our financial needs, providing supportive solutions in a timely manner. The team was very straight forward from the beginning, and I was very impressed with their ability to deliver exactly what they committed to. By partnering with Accord, we were able to overcome challenges, drive success and create a lasting relationship."

~ **Kevin Delaplane**
Union Capital Associates, LP

Entrepreneurial Growth & Support

"Accord Financial has been a fundamental partner in our company's growth. Their management team is very open to entrepreneurship and has helped us reach our goals. We are very satisfied with their top-notch service and support!"

~ **Ricky Singh**, CEO
A2Z Wholesale and Distribution

Forward Together

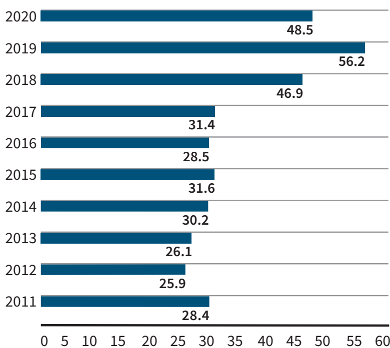
"Since the beginning of the Covid crisis last year, my childcare business was hit particularly hard because of the limited capacity measures that were implemented. I knew I would need financial support for my business to survive. I'm so thankful that I was referred to Accord – they made it easy for me to get the financing I desperately needed to keep my doors open. And I won't miss a beat when it comes time to reopen."

~ **Jeanine Halstead**, Owner
Stardom Childcare

Three Year Financial Highlights Summary

	2020	2019	2018
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Revenue	$ 48,501	$ 56,175	$ 46,927
Net earnings attributable to shareholders	417	6,444	10,356
Adjusted net earnings	2,032	4,939	10,840
Return on average equity	0.5%	7.1%	12.8%
Adjusted return on average equity	2.2%	5.4%	13.4%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	$ 347,493	$ 378,243	$ 270,900
Total assets	384,913	406,214	373,783
Shareholders' equity	89,850	92,515	89,818
Common Share Data **(per common share)**			
Earnings per share - basic and diluted	$ 0.05	$ 0.76	$ 1.24
Adjusted earnings per share - basic and diluted	0.24	0.58	1.30
Dividends paid	0.24	0.36	0.36
Share price - high	10.15	10.42	10.45
- low	3.51	8.37	8.22
- close at December 31	6.70	10.07	9.09
Book value per share at December 31	10.50	10.77	10.66

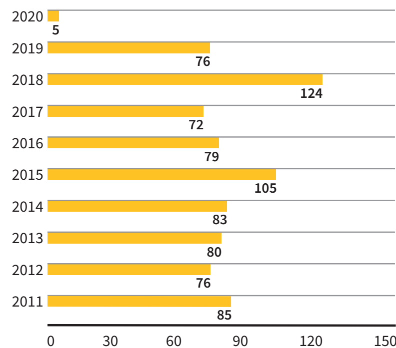
The Company's financial statements have been prepared in accordance with IFRS. The Company uses a number of other financial measures to monitor its performance and believes that these measures may be useful to investors in evaluating the Company's operating performance and financial position. These measures 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)

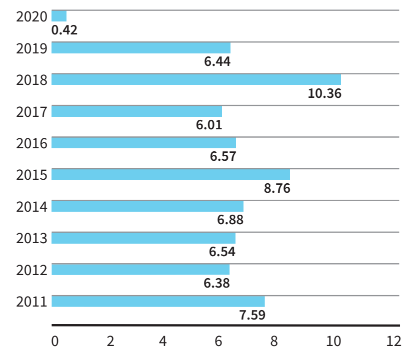
Revenue declined 14% to $48.5 million in 2020 from $56.2 million in 2019.



Diluted Earnings per Share

(in cents)

2020 diluted earnings per share were 5 cents, while adjusted diluted EPS were 24 cents.



Net Earnings

(in millions of dollars)

Net earnings decreased to $0.42 million in 2020 from $6.44 million in 2019. Adjusted net earnings in 2020 were $2.0 million.

Letter to Our Shareholders

In a recent virtual meeting with all Accord staff I described 2020 as one of the best years in the Company's history. While you wouldn't know it from the numbers, let me explain.

Growth Interrupted

After three years of strong growth, Accord began 2020 with $373 million in total funds employed. As Covid-19 dragged the economy into a tailspin, we adopted a cautious approach to onboarding new clients, and at the same time, many of our asset-based lending clients reduced their borrowings owing to reduced business activity combined with generous government funding. Economic activity in the United States and Canada plunged more than 30% in the second quarter, while Accord's portfolio shrank by 14%, touching $317 million by June 30th.

In the early days of Covid-19 we focused on battling the enormous headwinds shoulder to shoulder with our clients – supporting many with innovative solutions, and placing a number of hard-hit companies on our watch list. As expected, many of these accounts were wound down during the year, and we recorded appropriate credit and loan losses. While we've now exited the weakest accounts, given the persistent economic uncertainty, we continue to carry a large allowance for credit and loan losses. The allowance now stands at $6.9 million, up 50% from $4.6 million at the end of 2019 (with a similar sized portfolio).

As we worked through the challenging environment, by mid-summer we began to see "green shoots" of renewed growth taking root all around Accord. The road to recovery took shape as the second half unfolded, and by year end Accord's total funds employed reached $360 million, just a shade below where the year began.

Back to the Starting Line

The long round trip, from peak to trough, and back to our previous growth path, left us with little to show for our efforts. Accord's financial performance for the full year 2020 was an outlier; after several years of top line growth and operational retooling, profit was sideswiped by the economic turmoil. Given the extreme economic disruption, we take some solace in the fact that the Company finished the year with a small profit, extending our streak of annual profits to thirty-nine years. I'm proud of the support we offered our clients, but I wish we could have delivered better results for our shareholders.

The decline in average funds employed versus 2019 delivered lower revenue, which along with lower yields led to weaker top line results in 2020. Credit and loan write-offs, combined with the increase in allowance for losses, were also major drivers of weak financial performance. In addition, Accord incurred some one-time restructuring charges, mainly severance costs related to our Canadian operations, where we significantly downsized the parts of the business that focus on the retail sector, which had been in the works prior to Covid.

Accord closed out 2020 with a clean slate; the portfolio is performing, our allowance for losses remains conservative, and our team has been streamlined for success. And growth is gathering steam again.

Accord's Best Year

In an unexpected paradox, in a year when we were forced to work apart, our team came together like never before. Not only across our teams, in fact, we also got closer to our clients and more in tune with our key markets.

In that regard, Accord's deep connection with Canadian small businesses led us to launch one of the most innovative financing solutions in the country. In mid-December, after several months of discussions with Export Development Canada (EDC), we launched AccordExpress, a program designed to bridge small businesses through to the economic recovery. Supported by the EDC Business Credit

Simon Hitzig

Ken Hitzig

Availability Program Guarantee, AccordExpress combines industry-leading technology with a unique credit process to approve loans up to $250,000 within two business days. James Jang, President of Accord's small business division, described "Entrepreneurs are the engine of the Canadian economy, supporting employment, driving innovation, and sustaining economic growth. AccordExpress is designed to keep the engine running, while the economy moves towards a recovery." Only from Accord.

While responding to our markets with unique solutions, equally importantly, we accelerated our strategic plan, bringing our Company onto a unified platform, stronger together, and armed with a singular vision. Almost every functional area of Accord is included in the plan, with a commitment to raise the bar in how we operate, aiming to integrate seamlessly with clients, referral networks and financial partners. In 2020 Accord:

- Reorganized the executive team, bolstering and formalizing an all-star team at the corporate level, raising the bar in sales & marketing, operations, human resources and finance
- Brought every employee from all six offices onto the same communication platform, allowing us to collaborate seamlessly, share knowledge in real time, and manage data securely in the cloud
- Implemented a world class human resources platform, which united every employee from coast to coast on a single system designed to manage key HR functions including recruiting, onboarding, employee engagement and performance management
- Rolled out a leading financial planning and analysis system to consolidate accounting data from multiple platforms in real time, and facilitate dynamic modeling and business forecasting
- Overhauled our portfolio management and oversight processes, bringing together two cross-divisional teams of experts to apply a 360-degree perspective to portfolio risk management

As 2020 came to a close we added a new focus on client-facing activities: business development, product development, marketing, and service. The strategic plan provides a road map for elevating performance in these areas; we are now on the road to execution.

Capping off the year, in the fourth quarter we wrapped our mission, vision, values and culture in an outstanding new brand design. Accord's very first logo was designed by Don Watt, who was part of the team that designed the Canadian flag. That logo perfectly captured the innovative and ambitious spirit of the Company when it was founded. The new design reignites that same spirit, and signals to all our stakeholders that we remain dynamic, ready to embrace change for another forty-three years.

Fiscal 2020 presented Accord's toughest challenge since the start-up years in the late 1970s. Despite the headwinds we made significant progress in positioning Accord for the next phase of growth. As the economy reopens, Accord is ready to roll.

Simon Hitzig
President & CEO
March 10, 2021

Ken Hitzig
Chairman of the Board

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

Year ended December 31, 2020 compared with year ended December 31, 2019

FINANCIAL HIGHLIGHTS

Years ended December 31
(in thousands except average funds employed, earnings per common share and book value per share)

	2020	2019
Average funds employed (millions)	$ 347	$ 378
Revenue	48,501	56,175
(Loss) earnings before income tax	(4,062)	6,921
Net earnings attributable to shareholders	417	6,444
Adjusted net earnings	2,032	4,939
Earnings per common share (basic and diluted)	0.05	0.76
Adjusted earnings per common share (basic and diluted)	0.24	0.58
Book value per share (December 31)	$ 10.50	$ 10.77

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, 2020 compared with the year ended December 31, 2019 and, where presented, the year ended December 31, 2018. 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 10, 2021, should be read in conjunction with the Company's 2020 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 28) and the Letter to Our Shareholders all of which form part of this 2020 Annual Report.

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

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

NON-IFRS FINANCIAL MEASURES

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to

Stuart Adair

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 2020 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 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 10 presents certain profitability measures. In addition to ROE and adjusted ROE, the return on average assets is also presented. This is the net earnings expressed as a percentage of average assets. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and general and administrative expenses ("G&A") expressed as a percentage of average assets. These ratios are presented over a three-year period, which enables readers to see at a glance trends in the Company's profitability, yield and operating efficiency;

RESULTS OF OPERATIONS

Years ended December 31 (in thousands unless otherwise stated)	2020	% of Revenue	2019	% of Revenue	% change from 2019 to 2020
Average funds employed (millions)	$ 347		$ 378		-8%
Revenue					
Interest income	$ 42,705	88.0%	$ 49,003	87.2%	-13%
Other income	5,796	12.0%	7,172	12.8%	-19%
	48,501	100.0%	56,175	100.0%	-14%
Expenses					
Interest	14,596	30.1%	17,089	30.4%	-15%
General and administrative	26,458	54.6%	26,151	46.6%	1%
Provision for credit and loan losses	9,403	19.4%	7,105	12.7%	32%
Impairment of assets held for sale	1,087	2.2%	—	—	n/m
Depreciation	721	1.5%	727	1.3%	-1%
Business acquisition expenses (recovery):					
Transaction and integration costs	—	—	(2,118)	-3.8%	-100%
Amortization of intangible assets	298	0.6%	300	0.5%	-1%
	52,563	108.4%	49,254	87.7%	7%
(Loss) earnings before income tax	(4,062)	-8.4%	6,921	12.3%	-159%
Income tax (recovery) expense	(4,670)	-9.6%	1,579	2.8%	-396%
Net earnings	608	1.2%	5,342	9.5%	-89%
Net earnings (loss) attributable to non-controlling interests in subsidiaries	191	0.4%	(1,102)	-2.0%	n/m
Net earnings attributable to shareholders	$ 417	0.8%	$ 6,444	11.5%	-94%
Adjusted net earnings	$ 2,032	4.2%	$ 4,939	8.8%	-59%
Earnings per common share*	$ 0.05		$ 0.76		-93%
Adjusted earnings per common share*	$ 0.24		$ 0.58		-59%

* basic and diluted
n/m - not meaningful

vi) Financial condition and leverage ratios – Table 2 on page 13 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

vii) Credit quality – Table 3 on page 15 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 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 (doing business as Accord Equipment Finance ("AEF")) in the United States.

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

	2020	2019	2018
Revenue	$ 48,501	$ 56,175	$ 46,927
Net earnings attributable to shareholders	417	6,444	10,356
Basic and diluted earnings per share	0.05	0.76	1.24
Dividends per share	0.24	0.36	0.36
Total assets	384,913	406,214	373,783
Long-term financial liabilities	$ 23,510	$ 35,077	$ 28,168

RESULTS OF OPERATIONS

Year ended December 31, 2020 compared with year ended December 31, 2019

Shareholders' net earnings in 2020 totalled $417,000 compared to $6,444,000 in 2019 and $10,356,000 in 2018. Shareholders' net earnings in 2020 declined compared to 2019 mainly as a result of lower revenue, a higher provision for losses and impairment of assets held for sale, the absence of a recovery of business transaction costs in 2020, and the incurrence of restructuring expenses. Shareholders' net earnings in 2020 declined compared to 2018 on a higher provision for losses and impairment of assets held for sale, and increased interest and G&A, including restructuring expenses. Basic and diluted earnings per common share ("EPS") declined to 5 cents compared to the 76 cents earned last year and the $1.24 earned in 2018. The Company's ROE decreased to 0.5% in 2020 compared to 7.1% last year and 12.8% in 2018. It is noted the severe deterioration in economic activity due to Covid-19 impacted 2020 financial performance resulting in a higher provision for losses and lower funds employed which, together with reduced interest rates, also served to decrease revenue.

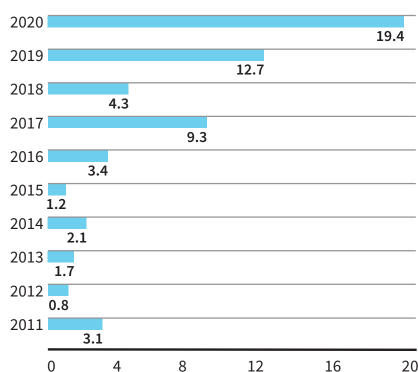
Adjusted net earnings decreased by 59% to $2,032,000 in 2020 compared to $4,939,000 in 2019 and were 81% lower than 2018's $10,840,000. Adjusted EPS were 24 cents in 2020, 59% lower than the 58 cents earned in 2019 and 82% below the $1.30 earned in 2018.

Adjusted ROE was 2.2% in 2020 compared to 5.4% in 2019 and 13.4% in 2018. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Years ended Dec. 31 (in thousands)	2020	2019	2018
Shareholders' net earnings	$ 417	$ 6,444	$ 10,356
Adjustments, net of tax:			
Restructuring expenses	1,395	—	—
Business acquisition expenses (recovery)	220	(1,381)	251
Stock-based compensation (recovery) expense	—	(124)	233
Adjusted net earnings	$ 2,032	$ 4,939	$ 10,840

Revenue declined by 14% or $7,674,000 to $48,501,000 in 2020 compared to $56,175,000 in 2019 but was $1,574,000 or 3% higher than the $46,927,000 in 2018. Interest income declined by $6,298,000 or 13% to $42,705,000 in 2020 compared to $49,003,000 in 2019 on an 8% decline in average funds employed and a 5% decrease in average loan yields. Both funds employed and yields were impacted by Covid-19 in 2020 as: (i) client business activity declined; (ii) government assistance received by clients, particularly in the U.S., was used to pay down loans; and (iii) Canadian and U.S. prime rates of interest, which impact interest income from our floating rate loans to clients, were reduced. Interest income was $4,862,000 or 13% higher compared to $37,843,000 in 2018 on a 28% rise in average funds employed, which was partly offset by 12% lower average loan yields due to reduced interest rates in 2020 and an increase in non-earning loans. Other income in 2020 declined by $1,376,000 to $5,796,000 compared to 2019 and by $3,288,000 compared to 2018 as management fees earned by AEF from managing a legacy equipment finance fund ceased at the end of February 2020 and receivables management fees declined. Average funds employed in 2020 decreased to $347 million compared to $378 million last year but were 28% higher than the $271 million in 2018.

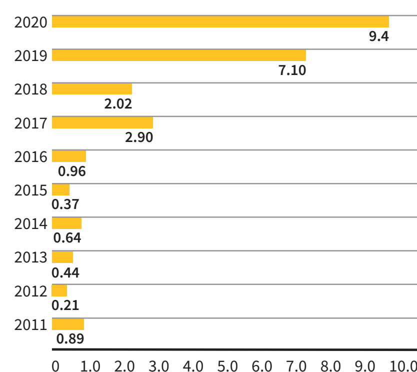
Total expenses increased by $3,309,000 or 7% to $52,563,000 compared to $49,254,000 in 2019. The provision for credit and loan losses, business acquisition expenses, impairment of assets held for sale, and G&A increased by $2,298,000, $2,116,000, $1,087,000 and $307,000, respectively. Interest expense and depreciation declined by $2,493,000 and $6,000, respectively.



Provision for Credit and Loan Losses

(as a percentage of revenue)

The provision rose to 19.4% of revenue in 2020 from 12.7% last year.



Provision for Credit and Loan Losses

(in millions of dollars)

The provision increased to $9.4 million in 2020 from $7.1 million in 2019.

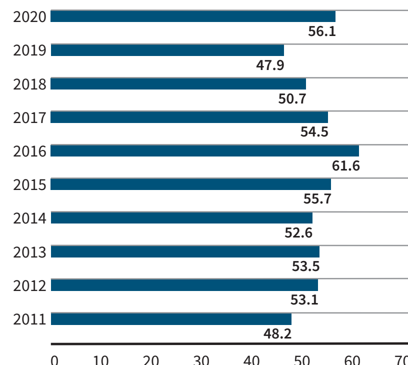
Interest expense declined by 15% to $14,596,000 in 2020 from $17,089,000 last year on decreased interest rates and 8% lower average borrowings. Interest rates declined on the Company's borrowings as a result of reduced prime rates of interest in Canada and the U.S.

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 increased by $307,000 mainly on higher personnel costs, which rose by $232,000 as a result of restructuring costs of $1,890,000 (2019 – nil) incurred to downsize staff. Personnel costs are net of $1,053,000 received under the Canadian Emergency Wage Subsidy ("CEWS") program, while employee bonuses also declined by $659,000 in 2020. G&A costs are net of $37,000 received under the Canadian Emergency Rent Subsidy ("CERS") program in 2020. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses increased by $2,298,000 to $9,403,000 compared to $7,105,000 last year. The provision comprised:

Years ended Dec. 31 (in thousands)	2020	2019
Net write-offs	$ 6,872	$ 5,952
Reserves expense related to increase in total allowances for losses	2,531	1,153
	$ 9,403	$ 7,105

The provision for credit and loan losses as a percentage of revenue rose to 19.4% in 2020 from 12.7% in 2019. Net write-offs increased by $920,000 to $6,872,000 in 2020 compared to $5,952,000 in the prior year. Net write-offs in 2020 included four write-offs totalling $8,286,000, which was partially offset by one account recovery of $3,523,000. The level of 2020 write-offs was affected by the impact of Covid-19 on the Company's portfolio. The non-cash reserves expense rose by $1,378,000 to $2,531,000 as the Company increased its



Operating Expenses
(G&A and depreciation)

Operating expenses rose to 56.1% of revenue in 2020 from 47.9% last year.

allowances to build adverse current and forward-looking economic conditions into its allowances for losses as required by IFRS 9, Financial Instruments. The Company's allowances for losses and its portfolios are discussed in detail below and also in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies or one-off losses.

An impairment charge of $1,087,000 (2019 – nil) was taken during 2020 against certain assets held for sale to write them down to their net recoverable value, which was based on actual realizations from the sale of the assets. Realizations were likely adversely impacted by the adverse economic conditions resulting from Covid-19. See note 5 to the Statements.

Depreciation expense decreased by $6,000 to $721,000 in 2020. Depreciation of $439,000 (2019 – $436,000) was charged on the right-of-use assets in 2020, with the balance of the expense relating to capital assets.

Business acquisition expenses in 2020 totalled $298,000 (2019 – recovery $1,818,000) and comprised the

amortization of intangible assets relating to ASBF and AEF (2019 – $300,000). There were no transaction and integration costs in 2020 (2019 – recovery of $2,118,000). Transaction and integration costs in 2019 saw a recovery of $2,118,000 resulting from a reduction in the fair value of contingent consideration payable related to the AEF acquisition in October 2017 (see note 8 to the statements).

Income tax expense declined by $6,249,000 to a recovery of $4,670,000 compared to an expense of $1,579,000 in 2019. Income tax decreased on a $11.0 million decline in pre-tax earnings, a one-time tax recovery of $881,000 relating to a refund in respect of tax losses carried back by AFIU pursuant to temporary Covid-19 relief changes, and the benefits from a newly implemented tax structure.

TABLE 1 – PROFITABILITY, YIELD AND EFFICIENCY RATIOS

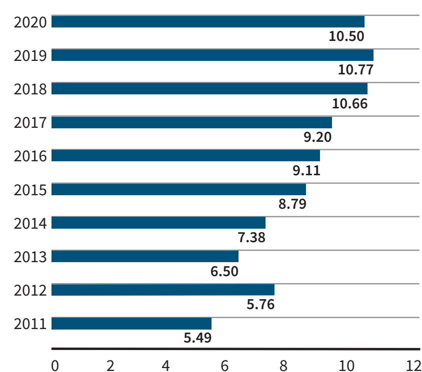
(as a percentage)	**2020**	2019	2018
Return on average assets	**0.1**	1.6	3.5
Return on average equity	**0.5**	7.1	12.8
Adjusted return on average equity	**2.2**	5.4	13.4
Net revenue / average assets	**8.8**	9.6	12.6
Operating expenses / average assets	**7.1**	6.6	8.0
Operating expenses* / revenue (efficiency ratio)	**56.1**	47.9	50.7

** G&A and depreciation*

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2020, the return on average assets, ROE and adjusted ROE expressed in percentages, declined to 0.1%, 0.5% and 2.2%, respectively, as earnings decreased. Net revenue as a percentage of average assets declined to 8.8% compared to 9.6% in 2019, while the ratio of G&A to average assets increased to 7.1% in 2020 compared with 6.6% last year.

Canadian operations reported a shareholders' net loss of $7,234,000 in 2020 compared to a net loss of $1,328,000 last year (see note 21 to the Statements). Revenue decreased by $4,396,000 or 17% to $21,077,000. Expenses increased by $2,075,000 to $30,351,000. The provision for credit and loan losses rose by $4,809,000 to $5,673,000, while G&A increased by $955,000. Interest expense, depreciation and business acquisition expenses declined by $3,675,000, $11,000 and $3,000, respectively. Income tax decreased by $1,620,000 to a recovery of $2,040,000 on a $6,471,000 decrease in pre-tax earnings.

U.S. operations reported a small decrease in shareholders' net earnings compared to 2019 (see note 21 to the Statements). Shareholders' net earnings declined by $121,000 to $7,651,000 compared to $7,772,000 last year. Revenue decreased by $4,069,000 to $27,903,000. Expenses rose by $443,000 to $22,691,000. Business acquisition expenses, impairment of assets held for sale, interest expense and depreciation increased by $2,119,000, $1,087,000, $391,000 and $5,000, respectively. The provision for credit and loan losses declined by $2,511,000 to $3,730,000, while G&A decreased by $648,000 to $13,714,000. Income tax decreased by $4,629,000 to a recovery of $2,630,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $191,000 compared to a net loss of $1,102,000 in 2019.



Book Value per Share
(in dollars)

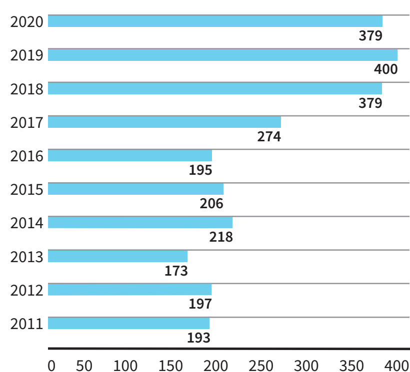
Book value per share was $10.50 at December 31, 2020 compared to $10.77 last year-end.

SUMMARY OF QUARTERLY RESULTS

Quarters ended (in thousands unless otherwise stated)	2020 Dec. 31	 Sept. 30	 June 30	 Mar. 31	2019 Dec. 31	 Sept. 30	 June 30	 Mar. 31
Average funds employed (millions)	**$ 360**	**$ 327**	**$ 341**	**$ 362**	$ 395	$ 383	$ 388	$ 347
Revenue	**$ 12,903**	**$ 12,312**	**$ 11,270**	**$ 12,015**	$ 14,297	$ 15,299	$ 13,991	$ 12,588
Expenses								
Interest	**3,637**	**3,379**	**3,575**	**4,005**	4,392	4,385	4,273	4,038
General and administrative	**7,181**	**5,760**	**6,569**	**6,948**	7,227	6,502	6,187	6,235
Provision for credit and loan losses	**495**	**3,040**	**(2,955)**	**8,822**	6,094	719	265	27
Impairment of assets held for sale	**190**	**—**	**—**	**897**	—	—	—	—
Depreciation	**179**	**180**	**184**	**179**	183	184	182	178
Business acquisition expenses	**74**	**74**	**75**	**74**	(1,609)	(554)	172	174
	11,756	**12,433**	**7,448**	**20,925**	16,287	11,236	11,079	10,652
Earnings (loss) before income tax	**1,147**	**(121)**	**3,822**	**(8,910)**	(1,990)	4,063	2,912	1,936
Income tax (recovery) expense	**(222)**	**(687)**	**(905)**	**(2,856)**	(688)	1,079	723	465
Net earnings (loss)	**1,369**	**566**	**4,727**	**(6,054)**	(1,302)	2,984	2,189	1,471
Non-controlling interests in net earnings (loss)	**(15)**	**—**	**384**	**(178)**	(644)	(253)	(33)	(172)
Net earnings (loss) attributable to shareholders	**$ 1,384**	**$ 566**	**$ 4,343**	**$ (5,876)**	$ (658)	$ 3,237	$ 2,222	$ 1,643
Adjusted net earnings (loss)	**$ 2,095**	**$ 621**	**$ 4,730**	**$ (5,414)**	$ (2,136)	$ 2,862	$ 2,397	$ 1,816
Earnings (loss) per common share ** (cents)	**16**	**7**	**51**	**(69)**	(8)	38	26	19
Adjusted earnings (loss) per common share (cents)**	**24**	**7**	**55**	**(63)**	(25)	34	28	22

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

*** Basic and diluted*



Total Portfolio
Loans and managed receivables

(in millions of dollars)

The Company's total portfolio declined to $379 million at December 31, 2020 from $400 million last year-end.

Fourth Quarter 2020

Quarter ended December 31, 2020 compared to quarter ended December 31, 2019

Shareholders' net earnings for the quarter ended December 31, 2020 increased by $2,042,000 to $1,384,000 compared to a shareholder's net loss of $658,000 last year. Shareholders' net earnings increased mainly as a result of a lower provision for loan losses. Basic and diluted EPS were 16 cents compared to a loss per common share ("LPS") of 8 cents in the fourth quarter of 2019. As noted above, while financial performance improved compared to 2019, financial results in the fourth quarter of 2020 continue to be adversely impacted by the economic impact of the Covid-19 pandemic which resulted in reduced average funds employed and lower revenue, while there was also a significant write-off in the quarter.

Adjusted net earnings were $2,095,000 in the fourth quarter of 2020 compared to an adjusted net loss of $2,136,000 last year. Adjusted EPS were 24 cents compared to an adjusted LPS of 25 cents in 2019. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarters ended Dec. 31 (in thousands)	2020	2019
Net earnings (loss)	$ 1,384	$ (658)
Adjustments, net of tax:		
Restructuring expenses	657	—
Business acquisition expenses (recovery)	54	(1,222)
Stock-based compensation (recovery)	—	(256)
Adjusted net earnings (loss)	$ 2,095	$ (2,136)

Revenue declined by $1,394,000 or 10% to $12,903,000 in the current quarter compared to $14,297,000 in the fourth quarter of 2019. Interest income declined by $1,158,000 or 10% to $11,025,000 compared to $12,183,000 in the fourth quarter of 2019 mainly as a result of a 9% decline in average funds employed. Other income declined by $235,000 to $1,878,000 in the current quarter compared to $2,113,000 in 2019 as no fees were earned for managing a legacy equipment finance fund and receivables management fees declined. Average funds employed in the fourth quarter of 2020 decreased to $360 million compared to $395 million last year.

Total expenses for the fourth quarter of 2020 declined by $4,531,000 or 28% to $11,756,000 compared to $16,287,000 last year. The provision for credit and loan losses, interest expense, G&A and depreciation decreased by $5,599,000, $756,000, $45,000 and $4,000, respectively, while business acquisition expenses (transaction and integration costs, and amortization of intangibles) and impairment of assets held for sale rose by $1,683,000 and $190,000, respectively.

Interest expense declined by 17% to $3,637,000 in the current quarter from $4,393,000 last year on 11% lower average borrowings and reduced interest rates.

G&A decreased by $45,000 to $7,181,000 despite higher personnel costs, which rose by $549,000 in the fourth quarter mainly due to restructuring expenses of $894,000 (2019 – nil). Restructuring expenses were partly offset by a $338,000 decline in employee bonuses and CEWS received of $151,000.

The provision for credit and loan losses expenses declined by $5,599,000 to $495,000 in the fourth quarter of 2020 compared to $6,094,000 last year. The provision comprised:

Quarters ended Dec. 31 (in thousands)	2020	2019
Net write-offs	$ 1,965	$ 5,233
Reserves (recovery) expense related to change in total allowances for losses	(1,470)	861
	$ 495	$ 6,094

There were net write-offs of $1,965,000 in the current quarter compared to $5,233,000 last year, while the non-cash reserves decreased to a recovery of $1,470,000. Net write-offs in the current quarter included one account write-off of $2,085,000, while in the fourth quarter of 2019 one account totalling $5,019,000 was written off. The non-cash reserve recovery mainly related to a $1,295,000 decrease in the allowance for losses on the guarantee of managed receivables as at-risk managed receivables declined.

An impairment charge of $190,000 (2019 – nil) was taken in the fourth quarter against certain assets held for sale to write them down to their net recoverable value.

Depreciation expense decreased by $4,000 to $179,000 in the fourth quarter of 2020. Depreciation of $108,000 (2019 – $108,000) was charged on the right-of-use assets in the current quarter, with the balance of depreciation relating to capital assets.

Business acquisition expenses totalled $74,000 (2019 – recovery $1,609,000) in the fourth quarter of 2020 and solely comprised the amortization of intangible assets relating to ASBF and AEF (2019 – $74,000). There were no

transaction and integration costs in 2020 (2019 – recovery of $1,683,000). Transaction and integration costs in 2019 saw a recovery resulting from a reduction in the fair value of contingent consideration payable related to the AEF acquisition.

Income tax recovery decreased to $222,000 in the current quarter compared to a recovery of $688,000 in the fourth quarter of 2019.

REVIEW OF FINANCIAL POSITION

Shareholders' equity at December 31, 2020 was $89,850,000, 3% lower than the $92,515,000 at December 31, 2019. The decrease in shareholders' equity since December 31, 2019 resulted from reductions in retained earnings, accumulated other comprehensive income, contributed surplus and capital stock. Book value per common share was $10.50 at December 31, 2020 compared to $10.77 at December 31, 2019. Please see the consolidated statements of changes in equity on page 38 of this Annual Report.

Total assets declined by 5% to $384,913,000 at December 31, 2020 compared to $406,214,000 at December 31, 2019. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 61% of total assets at December 31, 2020 compared to 63% at December 31, 2019 (see note 21 to the Statements).

TABLE 2 – FINANCIAL CONDITION AND LEVERAGE

(as a percentage)	**2020**	2019	2018
Tangible equity / assets	**20**	20	20
Equity / assets	**24**	24	25
Debt* / total equity	**291**	307	276
(in thousands)			
Receivables and loans			
Loans	**$ 360,337**	$ 373,157	$ 339,102
Managed receivables	**18,523**	27,338	40,145
Total Portfolio	**$ 378,860**	$ 400,495	$ 379,247

* *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, decreased by 3% to $360,337,000 at December 31, 2020 compared to $373,157,000 at December 31, 2019. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	**Dec. 31, 2020**	Dec. 31, 2019
Receivable loans	**$ 100,858**	$ 103,842
Other loans	**149,734**	167,978
Lease receivables	**109,745**	101,337
Finance receivables and loans, gross	**360,337**	373,157
Less allowance for losses	**6,314**	4,520
Finance receivables and loans, net	**$ 354,023**	$ 368,637

The Company's receivable loans decreased by 3% to $100,858,000 at December 31, 2020 compared to $103,842,000 at December 31, 2019. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, declined by 11% to $149,734,000 at December 31, 2020 compared to $167,978,000 at December 31, 2019. Lease receivables, representing ASBF's and AEF's net investment in equipment leases, rose by 8% to $109,745,000 at December 31, 2020 compared to $101,337,000 at December 31, 2019. Net of the allowance for losses thereon, Loans decreased by 4% to $354,023,000 at December 31, 2020 compared to $368,637,000 at December 31, 2019. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 70 clients in a wide variety of industries, as well as ASBF's and AEF's lease receivables and equipment and working capital loans to approximately 135 clients. The 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 $19 million at December 31,

2020 compared to $27 million at December 31, 2019. Managed receivables comprise the receivables of approximately 50 clients at December 31, 2020. The 25 largest clients comprised 85% of total volume in 2020. 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, 2020, the 20 largest customers accounted for 74% of total managed receivables, of which the largest five comprised 56%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and monitored.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, declined by 5% to $379 million at December 31, 2020 compared to $400 million at December 31, 2019.

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 six operating businesses 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 AEF, and US$500,000 for BondIt), credit is approved by the Company's Executive Credit Committee. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is also approved by the Credit Committee of the Board of Directors, which comprises three members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit 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 AEF'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 an innovative "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, 6.1% were past due more than 60 days at December 31, 2020. 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 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 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 good quality and any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company

assesses the financial strength of its clients' customers and the industries in which they operate on a regular and on-going 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 usually obtained in respect of equipment leases or loans.

As detailed in note 4, the Company had past due finance receivables and loans of $12,635,000 at December 31, 2020, of which $11,166,000 related to BondIt, the Company's media finance subsidiary, while $1,329,000 related to ASBF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as production delays. BondIt's operations have not been particularly impacted by Covid-19. Of the ASBF loans past due, $219,000 are considered to be a SICR. While it is usual at ASBF to have balances past due less than 30 days, amounts totalling $1,057,000 were past due over 30 days for which a SICR has been rebutted.

At December 31, 2020, the Company had impaired finance receivables and loans of $2,539,000. 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 $3,013,000 at December 31, 2020. As the vast majority of the Company's finance receivables and loans are collateralized, past due or impaired accounts do not necessarily lead to a significant expected credit loss ("ECL") depending on the net realizable value of the collateral security, which often results in a low or no loss given default ("LGD") in respect of these accounts.

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

TABLE 3 – CREDIT QUALITY

(as a percentage)	**2020**	2019	2018
Managed receivables past due more than 60 days	**6.1**	3.5	3.6
Reserves* / portfolio	**1.8**	1.1	0.9
Reserves* / net write-offs	**100**	77	431
Net write-offs / revenue	**14.2**	10.6	1.7

**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 increased to $1,705,000 in 2020 compared to $60,000 in 2019. Net write-offs of managed receivables were 117 basis points of volume in 2020 compared to 3 basis points in 2019. Net write-offs in the Company's asset-based lending business decreased to $5,167,000 in 2020 compared to $5,892,000 last year. Overall, the Company's total net write-offs in 2020, as set out in the Results of Operations section above, rose to $6,872,000 compared with $5,952,000 in 2019. 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 ECL criteria of IFRS 9, totalled $6,314,000 at December 31, 2020 compared to $4,520,000 at December 31, 2019. The significant increase in the allowance for loan losses in 2020 resulted from the incorporation of expected severe adverse economic conditions on the Company's clients as a result of Covid-19 prevention measures into the forward-looking indicators used in the Company's expected credit loss models. This involved the significant use of reasonable and supportable judgment in the face of heightened economic uncertainty and represents management's best estimate of its allowance for loan losses based on information available at that date. Depending on how long the economic impacts of Covid-19 last and the timing and nature of any economic recovery, the measurement of the allowance could fluctuate substantially in future periods. See also discussion on loan modifications in note 4. The modifications principally related to temporary over advances or payment deferrals to accounts totalling $18.1 million that were otherwise in good standing at December 31, 2020. The allowance for losses on the guarantee of managed receivables totalled $555,000 at December 31, 2020 compared to $44,000 at December 31, 2019. This significant increase in the allowance for losses on the guarantee of managed receivables at December 31, 2020 also resulted from the expected severe adverse economic impact of Covid-19 on the managed receivables, which are primarily due from retailers. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. 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 on its consolidated statements of financial position. The activity in the allowance for losses accounts in 2020 and 2019 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 supportable.

Assets held for sale at December 31, 2020 totalled $1,514,000 (2019 – $6,971,000) and comprised certain repossessed assets securing defaulted equipment leases with a number of clients. The decrease compared to December 31, 2019 resulted from asset disposals totalling $7,238,000 and an impairment charge of $1,087,000. Assets totalling $2,425,000 were repossessed during 2020. There was also a foreign exchange gain totalling $443,000 on U.S. dollar denominated assets held for sale due to the stronger U.S. dollar at the time the majority of the assets were disposed of. The assets are currently being actively marketed for sale and will be disposed as market conditions permit. The assets are carried at the lower of cost or estimated net realizable value at December 31, 2020. Estimated net realizable values were based upon appraisals of the assets and exceed the carrying value of the defaulted finance receivables and loans at December 31, 2020. See note 5 to the Statements.

Cash decreased to $5,546,000 at December 31, 2020 compared to $6,776,000 at December 31, 2019. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled $3,278,000 at December 31, 2020 compared to $3,639,000 at December 31, 2019. Intangible assets totalling US$2,885,000 were acquired upon the acquisition of AEF on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible

assets comprising existing customer contracts and broker relationships were also acquired as part of the ASBF acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 8 to the Statements.

Goodwill totalled $13,219,000 at December 31, 2020 compared to $13,455,000 at December 31, 2019. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and AEF on July 1, 2017 and October 27, 2017, respectively. BondIt and AEF goodwill is carried in the Company's U.S. operations, together with US$962,000 from a much earlier acquisition. 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, 2020 and 2019 were not significant.

Total liabilities decreased by $18,692,000 to $291,154,000 at December 31, 2020 compared to $309,846,000 at December 31, 2019. The decrease mainly resulted from lower bank indebtedness.

Amounts due to clients increased by $506,000 to $2,910,000 at December 30, 2020 compared to $2,404,000 at December 31, 2019. 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 decreased by $31,841,000 to $210,940,000 at December 31, 2020 compared to $242,781,000 at December 31, 2019. Bank indebtedness mainly decreased on lower funds employed. 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. During 2020, the Company's banking syndicate reset its interest coverage ratios for the quarters ended March 31, June 30, September 30 and December 31, 2020. The Company was in compliance with all loan covenants in 2020. The Company did not meet its interest coverage ratio covenant at December 31, 2019 and received a waiver thereof. The Company was in compliance with all other loan covenants under its bank line in 2019. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable increased by $10,150,000 to $21,377,000 at December 31, 2020 compared to $11,227,000 at December 31, 2019. A revolving line of credit was established in 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. The line is used to finance BondIt's business. During 2020, the line was increased to US$20,000,000 ($25,450,000). The line was renewed in October 2020 and expires on May 31, 2022. BondIt was in compliance with all loan covenants at December 31, 2020. At December 31, 2019, BondIt failed a specific covenant test which the lender subsequently waived. See note 10 to the Statements.

Accounts payable and other liabilities increased by $4,666,000 to $10,836,000 at December 31, 2020 compared to $6,170,000 at December 31, 2019. The increase since December 31, 2019 mainly resulted from a $2,406,000 rise in security deposits held as collateral for leases and loans, $779,000 due to a vendor for a lease which commenced in December, severance payments of $771,000 and a $511,000 increase in the allowance for losses on the guarantee of managed receivables, a component of other liabilities, as discussed above.

Notes payable decreased by $1,505,000 to $17,434,000 at December 31, 2020 compared to $18,939,000 at

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT DECEMBER 31, 2020

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	Total
Debt obligations	$ 249,751	$ 23,509	$ —	$ —	$273,260
Operating lease obligations	501	575	184	115	1,375
Purchase obligations	36	38	—	—	74
	$ 250,288	$ 24,122	$ 184	$ 115	$274,709

December 31, 2019. The decrease in notes payable resulted from redemptions thereof. 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 overallotment 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 their trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value and overall gross proceeds of these 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, 2020, the debt component totalled $23,510,000 (December 31, 2019 – $22,928,000), while the equity component, net of deferred taxes, totalled $1,005,000 (being the same as at December 31, 2019).

Income taxes payable, lease liabilities, deferred income and net deferred tax liabilities at December 31, 2020 and 2019 were not material.

Capital stock totalled $9,448,000 at December 31, 2020 compared to $9,481,000 at December 31, 2019. There were 8,558,913 common shares outstanding at December 31, 2020 (December 31, 2019 – 8,588,913). In 2020, the Company repurchased and cancelled 30,000 common shares acquired under its issuer bid at a cost of $264,000, for an average price of $8.80 per common share, which is below the Company's book value per common share of $10.50 at December 31, 2020. Of the $264,000 cost of repurchase, $33,000 was applied to reduce capital stock, while $231,000 was applied to reduce retained earnings. There were no purchases under the Company's issuer bid during 2019. Please see the consolidated statements of changes in equity on page 38 of this report for details of changes in capital stock during 2020 and 2019. Please see also note 14 to the Statements. At the date of this MD&A, March 10, 2021, 8,558,913 common shares remained outstanding.

Contributed surplus totalled $1,202,000 at December 30, 2020 compared to $1,323,000 at December 31, 2019. The reduction of $121,000 in contributed surplus in 2020 resulted from the purchase of an additional 2% of the

common units in AEF from a non-controlling interest therein bringing the Company's interest in AEF up to 92%. As noted above, included in contributed surplus at December 31, 2020 and 2019 is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax. Please see the consolidated statements of changes in equity on page 38 of this report for details of changes in contributed surplus during 2020 and 2019.

Retained earnings decreased by $1,869,000 to $73,125,000 at December 31, 2020 compared to $74,994,000 at December 31, 2019. The decrease in 2020 comprised dividends paid of $2,055,000 (24 cents per common share) plus the $231,000 premium paid on the shares repurchased and cancelled under the Company's issuer bid less shareholders' net earnings of $417,000. Please see the consolidated statements of changes in equity on page 38 of this report for changes in retained earnings during 2020 and 2019.

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 $6,076,000 at December 31, 2020 compared to $6,717,000 at December 31, 2019. The $641,000 decrease in AOCI balance in 2020 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.2990 at December 31, 2019 to $1.2725 at December 31, 2020. This decreased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries by $641,000. Please refer to the consolidated statements of changes in equity on page 38 of this report for details of changes in AOCI during 2020 and 2019. See also note 19 to the Statements.

Non-controlling interests in subsidiaries totalled $3,909,000 at December 31, 2020 compared with $3,853,000 at December 31, 2019. Please see the consolidated statements of changes in equity on page 38 of this report, and note 20 to the Statements, for details thereof.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to 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, 2020 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 $392 million at December 31, 2020 and had borrowed $232 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, 2020 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $5,546,000 at December 31, 2020 compared to $6,776,000 at December 31, 2019. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Fiscal 2020 cash flows

Year ended December 31, 2020 compared with the year ended December 31, 2019

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $1,107,000 in 2020 compared to $9,394,000 last year.

After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash inflow from operating activities of $23,371,000 in 2020 compared to an outflow of $47,560,000 last year. The net cash inflow in 2020 largely resulted from repayment of gross loans of $7,632,000 and the disposal of assets held for sale for proceeds of $7,238,000. In 2019, the net cash outflow largely resulted from financing gross loans of $51,672,000. 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 39 of this report.

Cash outflows from investing activities in 2020 totalled $43,000 (2019 – $176,000) and comprised capital assets additions.

Net cash outflow from financing activities totalled $21,912,000 in 2020 compared to an inflow of $37,937,000 last year. The net cash outflow in 2020 resulted from a decrease in bank indebtedness of $28,460,000, dividend payments totalling $2,055,000, notes payable redeemed, net, of $1,500,000, lease liabilities payments of $387,000, repurchase of shares under the Company's normal course issuer bid for $264,000 and the purchase of an additional 2% of AEF from a non-controlling interests for $181,000. Partially offsetting these outflows was an increase in loan payable of $10,935,000. In 2019, the net cash inflow resulted from an increase in bank indebtedness of $27,626,000, the issue of convertible debentures 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.

The effect of exchange rate changes on cash comprised a loss of $2,645,000 in 2020 compared to a gain of $230,000 in 2019.

Overall, there was a net cash outflow of $1,230,000 in 2020 compared to $9,569,000 in 2019.

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: (i) demand notes due on, or within a week of, demand ($1,587,000), which bear interest at rates that vary with bank prime rate or Libor;

(ii) short-term BondIt notes ($2,418,000) which are repayable at various dates the latest of which is December 31, 2021 and which bear interest at rates ranging from 8.5% to 11%; and (iii) term notes totalling $13,429,000 which mature on July 31, 2021 and pay a fixed interest rate of 7%.

Notes payable totalled $17,434,000 at December 31, 2020 compared to $18,939,000 at December 31, 2019. Of these notes payable, $15,072,000 (December 31, 2019 – $15,476,000) was owing to related parties and $2,362,000 (December 31, 2019 – $3,463,000) to third parties. Interest expense on these notes in 2020 totalled $1,210,000 (2019 – $1,305,000). Please refer to note 11(a) to the Statements.

The following related parties had notes payable with the Company at December 31, 2020:

Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$ 4,850,000
Oakwest Corporation Inc.*	Directors	US$ 3,000,000
Ken Hitzig	Director	C$ 1,650,000
Hitzig Bros., Hargreaves & Co. LLC.*	Directors	US$ 700,000

**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 1.95% or 2.45%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 2.25%). These rates of interest are below the rates that Accord pays on its main banking 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 term notes are solely with related parties. The renewed credit facility allows these notes to be treated as “quasi equity” and be included in the Company’s tangible net worth (TNW) for the purposes of leveraging its bank line (up to 3.5 x TNW). This created additional borrowing capacity that Accord can utilize at lower credit facility rates of interest, which was the main business purpose thereof.

FINANCIAL INSTRUMENTS

All financial assets and liabilities, with the exception of derivative financial instruments, the guarantee of managed receivables and the Company’s LTIP liability, are recorded at amortized 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 businesses and lease liabilities, are short term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2020, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between January 29, 2021 and August 31, 2021 and which oblige the Company to sell Canadian dollars and buy US$744,000 at exchange rates between 1.2765 and 1.3593. 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$744,000 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, or may result from severe adverse economic conditions as we are seeing as a result of Covid-19.

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 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 ECL 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 comprise an allowance for those financial instruments which have experienced a SICR since initial recognition. Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. 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 recoverable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. Management believes that its allowances for losses, which require a high degree of reasonable and supportable expert credit judgment, are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d), 4 and 23(a) to the Statements.

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

iii) 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.

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 2020 that have materially affected, or are reasonably likely to materially affect, DC&P or ICFR.

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

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) at December 31, 2020 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

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

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

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

(iii) the Company's management has designed and tested the effectiveness of its internal control over financial reporting at December 31, 2020 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.

Deterioration in economic and business conditions due to Covid-19

The results of the Company may be negatively impacted by various economic factors and business conditions including the level of economic activity in Canada and U.S.A. To the extent that economic activity or business conditions deteriorate, new business may decrease, and loan and credit losses may increase. As the Company's operating subsidiaries extend credit primarily to small businesses, many of our clients or their customers may be particularly susceptible to economic slowdowns and may be unable to make scheduled lease or loan payments during these periods. Deterioration in the economic environment may limit access to credit facilities, and other capital markets or result in a decision by lenders not to extend further credit.

Competition from alternative sources of financing

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

Credit risk, inability to underwrite finance receivables and loan applications

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

Interest rate risk

The Company has fixed rate borrowings, as well as floating rate borrowings. The Company's agreements with its clients (affecting interest revenue) and lenders

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

Foreign currency risk

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

External financing

The Company depends and will continue to depend on the availability of credit from external financing sources, to continue to, among other things, finance new and refinance existing loans and satisfy the Company's other working capital needs. The Company believes that current cash balances and existing credit lines, together with cash flow from operations, will be sufficient to meet its cash requirements with respect to investments in working capital, operating expenditures and dividend payments, and also provide sufficient liquidity and capital resources for future growth over the next twelve months. However, there is no guarantee that the Company will continue to have financing available to it or if the Company were to require additional financing that it would be able to obtain it on acceptable terms or at all. If any or all of the Company's funding sources become unavailable on terms acceptable to the Company or at all, or if any of the Company's credit facilities are not renewed or re-negotiated upon expiration of their terms, the Company may not have access to the financing necessary to conduct its businesses, which would limit the Company's ability to finance its operations and could have a material adverse impact on it's business, financial condition and results of operations. Please also see comments regarding business conditions due to Covid-19 on page 24.

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. Please also see comments regarding business conditions due to Covid-19 on page 24.

Dependence on key personnel

Employees are a significant asset of the Company, and

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

Income tax matters

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

Recent and future acquisitions and investments

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

Fraud by 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 has had significant growth in funds employed in recent years, a key indicator of where the Company is heading, and entered 2020 firing on all cylinders, focused on its strategic plan aimed at bringing our distinct operating units onto a unified, streamlined platform. From there we looked forward to accelerating Accord's growth trajectory. Then, as the world knows, the United States and Canada chose to decrease economic activity in the battle to tame Covid-19. Recently, although the United States has begun to open up, the Canadian economy is still greatly impacted by widespread shutdowns and Covid-19 continues to be a significant threat to economies and health worldwide. We've been through many economic cycles, but very few that descended with such speed and extent we have seen in terms of unemployment and economic decline.

The adverse economic conditions resulting from Covid-19 prevention measures in North America severely impacted the Company's funds employed and revenue in 2020, which declined, as well as led to a significantly increased provision for losses. Overall, the Company was still profitable in 2020 and fourth quarter 2020 adjusted net earnings were reasonably strong. With this much economic uncertainty stemming from Covid-19, it is difficult to predict the future. All our operating companies were on an upward trajectory in terms of growth in funds employed, with the exception of our credit protection and receivables management business, which is facing intense competition from multinational credit insurers. Once Covid-19 passes, it is expected the Company will see strong growth in funds employed again from its equipment finance businesses, AEF and ASBF, as well as at its media finance business, BondIt, with more moderate growth coming from the Company's asset-based financing units, AFIC and AFIU. The receivables management business, AFL, is being downsized, however, its contribution is no longer financially significant to the Accord group overall.

To support this growth, the Company increased its bank facility limit to $367 million in 2019, which should provide it with the majority of funding needed to support further growth in the next twelve months. Today, in the wake of Covid-19, our banking partners continue to be very supportive.

With its substantial capital and borrowing capacity, Accord is well positioned to capitalize on market conditions when they start to improve. The Company knows from experience that economic uncertainty creates tremendous growth opportunities in commercial finance, as certain competitors weaken and the major banks become even more risk averse. Accord has the deepest and most experienced management team that it has ever had, which will enable it to meet increased competition and develop new opportunities in a very competitive and challenging environment.

Stuart Adair
Senior Vice President, Chief Financial Officer
March 10, 2021

Ten Year Financial Summary 2011-2020

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

Consolidated Statements of Earnings		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	$	28,408	25,891	26,074	30,235	31,577	28,522	31,409	46,927	56,175	**48,501**
Interest		2,047	1,911	1,913	2,523	2,258	2,281	3,847	9,407	17,089	**14,596**
General and administrative		13,558	13,615	13,845	16,154	17,484	17,427	16,945	23,524	26,151	**26,458**
Provision for credit and loan losses		886	213	438	639	375	963	2,898	2,025	7,105	**9,403**
Impairment of assets held for sale		462	—	—	—	50	44	24	25	—	**1,087**
Depreciation		130	126	112	125	136	154	161	279	727	**721**
Business acquisition expenses		—	—	—	570	575	509	932	336	(1,818)	**298**
Total expenses		17,083	15,865	16,308	20,011	20,878	21,378	24,807	35,596	49,254	**52,563**
Earnings before income tax		11,325	10,026	9,766	10,224	10,699	7,144	6,602	11,331	6,921	**(4,062)**
Income tax expense (recovery)		3,740	3,649	3,228	3,345	1,940	578	391	104	1,579	**(4,670)**
Net earnings		7,585	6,377	6,538	6,879	8,759	6,566	6,211	11,227	5,342	**608**
Non-controlling interests		—	—	—	—	—	—	201	871	(1,102)	**191**
Net earnings attributable to shareholders	$	7,585	6,377	6,538	6,879	8,759	6,566	6,010	10,356	6,444	**417**
Earnings per common share: Basic and diluted		0.85	0.76	0.80	0.83	1.05	0.79	0.72	1.24	0.76	**0.05**
Dividends per common share	$	0.30	0.31	0.32	0.33	0.35	0.36	0.36	0.36	0.36	**0.24**

Consolidated Statements of Financial Position		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Finance receivables and loans, net	$	89,124	108,477	109,775	136,346	134,259	138,115	217,975	335,652	368,637	**354,023**
Other assets		9,368	16,115	11,034	18,278	20,301	20,451	33,045	38,131	37,577	**30,890**
Total assets	$	98,492	124,592	120,809	154,624	154,560	158,566	251,020	373,783	406,214	**384,913**
Bank indebtedness	$	27,222	54,572	43,368	63,995	54,094	62,484	138,140	222,862	242,781	**210,940**
Loan payable		—	—	—	—	—	—	—	5,696	11,227	**21,376**
Notes payable		14,611	14,492	14,809	16,808	13,201	11,370	15,862	18,079	18,939	**17,434**
Convertible debentures		—	—	—	—	—	—	—	15,955	22,928	**23,510**
Other liabilities		8,804	8,132	9,201	12,489	14,199	9,030	16,885	16,006	13,971	**17,894**
Total liabilities		50,637	77,196	67,378	93,292	81,494	82,884	170,887	278,598	309,846	**291,154**
Shareholders' equity		47,855	47,396	53,431	61,332	73,066	75,682	76,449	89,818	92,515	**89,850**
Non-controlling interests in subsidiaries		—	—	—	—	—	—	3,684	5,367	3,853	**3,909**
Total equity		47,855	47,396	53,431	61,332	73,066	75,682	80,133	95,185	96,368	**93,759**
Total liabilities and equity	$	98,492	124,592	120,809	154,624	154,560	158,566	251,020	373,783	406,214	**384,913**
Shares outstanding at Dec. 31	#	8,719	8,221	8,221	8,308	8,308	8,308	8,308	8,429	8,589	**8,559**
Book value per share at Dec. 31	$	5.49	5.76	6.50	7.38	8.79	9.11	9.20	10.66	10.77	**10.50**
Share price - high	$	8.25	7.15	9.25	10.75	12.05	9.95	9.55	10.45	10.42	**10.15**
- low		6.50	6.50	6.84	7.85	9.00	8.70	8.40	8.22	8.37	**3.51**
- close at Dec. 31		6.87	7.00	7.86	9.35	9.60	8.99	9.20	9.09	10.07	**6.70**
Return on average equity	%	16.8	13.6	13.1	12.1	13.1	9.0	8.0	12.8	7.1	**0.5**

Financing Solutions for Our Clients

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 300 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
March 10, 2021
Toronto, Canada

Independent Auditors' Report to the Shareholders

TO THE SHAREHOLDERS OF ACCORD FINANCIAL CORP.

OPINION

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income for the years 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, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

ASSESSMENT OF ALLOWANCE FOR LOSSES

Description of the matter

We draw attention to notes 2, 3(d), 4, and 23(a) of the financial statements. The Entity has recorded an allowance against its finance receivables and loans and its guarantee

of managed receivables for an amount of $6,869,000 (finance receivables and loans $6,314,000, and managed receivables $555,000).

The Entity maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, expected credit losses ("ECL") framework. The key inputs in the measurement of ECL allowances are the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD"). The Entity's ECL allowances are measured at amounts equal to either:

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

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

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

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

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

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

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

WHY THE MATTER IS A KEY AUDIT MATTER

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

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

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

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

- management's review of the allowance estimate, including key inputs;
- management's control to determine the NRV for impaired loans; and
- approval by the Risk Management Committee, whose function it is to monitor the credit losses and review and approve the loss rates and other key inputs.

For a selection of loans, we evaluated the appropriateness of the Entity's assigned risk ratings by independently assessing relevant criteria against the Entity's risk rating matrix for those loans. Through this process we evaluate the

allowance and the key inputs, including drivers of the risk rating which determines PD, and certain loan characteristics and financial information to support LGD and EAD.

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

EVALUATION OF THE IMPAIRMENT ASSESSMENT FOR GOODWILL

Description of the matter

We draw attention to notes 3(f) and 7 to the financial statements. The Entity has goodwill of $13,218,843 recorded in its statement of financial position. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit ("CGU"). The estimated fair value of each CGU is determined to be a multiple of the expected earnings of the CGU, where expected earnings are an estimate of future years' earnings. The most sensitive assumption used in the impairment testing was the multiple applied to the expected earnings of each CGU in determining the fair value.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

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

OTHER INFORMATION

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

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

- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report 2020".

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

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

We obtained the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions and the "Annual Report 2020" 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.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Paula Foster.

Toronto, Canada
March 10, 2021

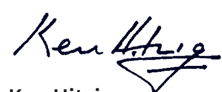
Consolidated Statements of Financial Position

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 5,545,951	$ 6,776,422
Finance receivables and loans, net (note 4)	354,023,167	368,637,083
Income taxes receivable	1,842,751	996,039
Other assets	1,833,242	2,426,949
Assets held for sale (note 5)	1,513,567	6,970,369
Deferred tax assets, net (note 15)	2,002,180	975,714
Property and equipment (note 6)	1,655,193	2,337,365
Intangible assets (note 8)	3,277,744	3,639,468
Goodwill (note 7)	13,218,843	13,454,926
	$ 384,912,638	$ 406,214,335
Liabilities		
Due to clients	$ 2,909,880	$ 2,403,717
Bank indebtedness (note 9)	210,940,174	242,781,300
Loan payable (note 10)	21,376,479	11,226,897
Accounts payable and other liabilities	10,836,423	6,170,491
Income taxes payable	1,575,643	337,764
Notes payable (note 11(a))	17,434,054	18,938,887
Convertible debentures (note 12)	23,509,573	22,927,941
Lease liabilities (note 13)	1,207,264	1,597,664
Deferred income	761,514	1,210,471
Deferred tax liabilities, net	602,510	2,251,060
	291,153,514	309,846,192
Equity		
Capital stock (note 14)	9,448,264	9,481,382
Contributed surplus (note 14(d))	1,201,785	1,322,575
Retained earnings	73,124,659	74,994,381
Accumulated other comprehensive income (note 19)	6,075,665	6,716,581
Shareholders' equity	89,850,373	92,514,919
Non-controlling interests in subsidiaries (note 20)	3,908,751	3,853,224
Total equity	93,759,124	96,368,143
	$ 384,912,638	$ 406,214,335

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		2020		2019
Revenue				
Interest (note 4)	$	42,704,739	$	49,002,838
Other income (note 4)		5,795,959		7,172,247
		48,500,698		56,175,085
Operating expenses				
Interest		14,595,782		17,089,579
General and administrative (note 25)		26,458,300		26,150,907
Provision for credit and loan losses (note 4)		9,402,659		7,105,154
Impairment of assets held for sale		1,086,812		—
Depreciation		721,333		726,618
Business acquisition expenses (recovery):				
Transaction and integration costs		—		(2,117,768)
Amortization of intangible assets		298,037		300,117
		52,562,923		49,254,607
(Loss) earnings before income tax		(4,062,225)		6,920,478
Income tax (recovery) expense (note 15)		(4,670,000)		1,579,000
Net earnings		607,775		5,341,478
Net earnings (loss) attributable to non-controlling interests in subsidiaries		191,149		(1,102,241)
Net earnings attributable to shareholders	$	416,626	$	6,443,719
Basic and diluted earnings per common share (note 16)	$	0.05	$	0.76

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income

Years ended December 31		2020		2019
Net earnings attributable to shareholders	$	416,626	$	6,443,719
Other comprehensive loss:				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange loss on translation of self-sustaining foreign operations (note 19)		(640,916)		(2,355,080)
Comprehensive (loss) income	$	(224,290)	$	4,088,639

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 20)	Total
Balance at January 1, 2019	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**	**$96,368,143**
Comprehensive loss	**—**	**—**	**—**	**416,626**	**(640,916)**	**—**	**(224,290)**
Dividends paid	**—**	**—**	**—**	**(2,055,417)**	**—**	**—**	**(2,055,417)**
Shares repurchased for cancellation	**(30,000)**	**(33,118)**	**—**	**(230,931)**	**—**	**—**	**(264,049)**
Purchase of additional 2% of Accord CapX LLC from non-controlling interest	**—**	**—**	**(120,790)**	**—**	**—**	**—**	**(120,790)**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**191,149**	**191,149**
Translation adjustments on non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(135,622)**	**(135,622)**
Balance at December 31, 2020	**8,558,913**	**$ 9,448,264**	**$ 1,201,785**	**$73,124,659**	**$ 6,075,665**	**$ 3,908,751**	**$ 93,759,124**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2020	2019
Cash provided by (used in):		
Operating activities		
Net earnings	$ 607,775	$ 5,341,478
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	2,530,516	1,152,676
Deferred income	(49,526)	(156,176)
Amortization of intangible assets	298,037	300,117
Depreciation of property and equipment	721,333	726,618
Gain on disposal of assets held for sale	—	(39,793)
Impairment of assets held for sale	1,086,812	—
Accretion of convertible debentures	581,632	490,345
Deferred tax (recovery) expense	(2,636,033)	1,763,711
Current income tax recovery	(2,033,967)	(184,711)
	1,106,579	9,394,265
Changes in operating assets and liabilities:		
Finance receivables and loans, gross	7,631,729	(51,672,039)
Due to clients	490,872	(710,806)
Other assets	550,449	(1,346,667)
Accounts payable and other liabilities	4,018,250	(3,168,097)
Disposal of assets held for sale	7,238,095	86,675
Income tax refund (paid), net	2,334,679	(143,202)
	23,370,653	(47,559,871)
Investing activities		
Additions to capital assets, net	(43,474)	(176,364)
Financing activities		
Bank indebtedness	(28,459,967)	27,626,269
Loan payable	10,935,301	5,890,496
Notes payable (redeemed) issued, net	(1,500,175)	1,047,589
Dividends paid	(2,055,417)	(3,051,812)
Issuance of common shares	—	160,341
Repurchase and cancellation of shares	(264,049)	—
Purchase of 2% of Accord CapX LLC from a non-controlling interest	(181,389)	—
Convertible debentures issued, net of transaction costs	—	6,822,847
Distribution paid to non-controlling interests in subsidiaries	—	(181,213)
Lease liabilities paid	(386,509)	(377,398)
	(21,912,205)	37,937,119
Effect of exchange rate changes on cash	(2,645,445)	229,690
Decrease in cash	(1,230,471)	(9,569,426)
Cash at January 1	6,776,422	16,345,848
Cash at December 31	$ 5,545,951	$ 6,776,422
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 10,417,117	$ 14,529,344

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 asset-based financing, including factoring, equipment and inventory 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(d) and 4), the carrying value of assets held for sale (note 5), the determination of goodwill on acquisition and the value of intangible assets (notes 7 and 8), as well as the net realizable value of deferred tax assets and liabilities.

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as Covid-19. The rapid evolution of this pandemic combined with the restrictions on the movement of people and goods has led to a significant contraction in economic activity. While some of these restrictions are being lifted in stages, significant economic uncertainties persist the expected impact of which require increased judgment for many of the Company's estimates and assumptions and carry a higher degree of measurement uncertainty, variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future. Examples of significant estimates include the allowances for losses, the impairment of goodwill, the determination of triggering events for the impairment for non-financial assets, such as assets held for sale and intangible assets, and fair value measurements, including those related to financial instruments. Management believes that its estimates are reasonable, supportable and appropriate.

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

- 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 consolidated financial statements were approved for issue by the Company's Board of Directors ("Board") on March 10, 2021.

3. Significant accounting policies

(a) Basis of consolidation

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

(b) Revenue recognition

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

(c) Finance receivables and loans

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

i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

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

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

(d) Allowances for 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 estimation of ECL includes a high degree of measurement uncertainty in the key inputs such as probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") and their resulting impact on the allowances.

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 has established quantitative as well as qualitative criteria to determine SICR. The Company recognizes lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1.

The calculation of ECL is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, 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) PD which is an estimate of the likelihood of default over a given time horizon; (ii) LGD which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) 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. For Stage 3 finance receivables and loans, either an allowance for ECL is provided thereon or, where the Company intends to or has actively taken possession of its collateral with a view to realizing on same as a means of recovering some or all of the outstanding account balance, the financial instrument is written down to its estimated net recoverable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment to client(s) under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing

significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as “workout” accounts. Accounts are in “workout” as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for 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.

(e) Capital assets

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

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Automobiles	Declining balance	30%
Leasehold improvements	Straight line	Over remaining lease term
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 capital assets on a regular basis to determine that their carrying values have not been impaired.

(f) Goodwill

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

(g) Intangible assets

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

(h) Income taxes

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

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

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

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

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

(i) Foreign subsidiaries

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

(j) Foreign currency transactions

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

(k) Earning per common share

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

(l) Stock-based compensation

The Company accounts for stock options 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.

(m) Derivative financial instruments

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

(n) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of 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.

(o) Convertible debentures

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

(p) Assets held for sale

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

(q) Financial instruments - disclosures

The financial instruments presented on the consolidated statements of financial position at fair value are further classified according to a fair-value

hierarchy that prioritizes the quality and reliability of information used in estimating fair value. The fair values for each of the three levels are based on:

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

(r) Government grants

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

4. Finance receivables and loans and managed receivables

As detailed in note 2, there is a high degree of uncertainty relating to the severe adverse economic impact of Covid-19 on the Company’s portfolio of finance receivables and loans, and managed receivables, and the requirement to build forward-looking information or conditions into our expected credit loss models under IFRS 9. This has resulted in significant increases in the Company’s provision for credit and loan losses and allowances for losses, as well as downgrades in internal client credit risk ratings as detailed in notes 4(a) and 4(b) below. Certain payment modifications were also granted as a means of avoiding credit and loan losses.

(a) Finance receivables and loans

Finance receivables and loans at December 31 were as follows:

	2020	2019
Receivable loans	**$ 100,858,076**	$ 103,841,877
Other loans*	**149,734,115**	167,978,086
Lease receivables	**109,744,976**	101,337,120
Finance receivables and loans, gross	**360,337,167**	373,157,083
Less allowance for losses	**6,314,000**	4,520,000
Finance receivables and loans, net	**$ 354,023,167**	$ 368,637,083

**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 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 other assets such as real estate and guarantees.

Lease receivables comprise the net investment in leases by ASBF and AEF as described in note 3(c). Lease receivables at December 31, 2020 are expected to be collected over a period of up to five years.

In certain cases where a borrower has experienced financial difficulty due to the economic impact of Covid-19, the Company has granted certain modifications to the terms and conditions of a lease or loan. Such modifications may include temporary over advances, payment deferrals, minor extensions of amortization periods, and other modifications intended to minimize credit and loan losses where it is expected the lifetime risk of default of a client is not significant. Finance receivables and loans that were modified as a direct result of Covid-19 at December 31, 2020 totalled $18.1 million.

Interest income earned on finance receivables and loans in 2020 totalled $42,704,739 (2019 – $49,002,838).

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

(in thousands)	**Dec. 31, 2020**	Dec. 31, 2019
Less than 1 year	**$ 206,934**	$ 201,259
1 to 2 years	**78,362**	54,357
2 to 3 years	**57,992**	44,838
3 to 4 years	**15,038**	57,631
4 to 5 years	**2,011**	15,071
Thereafter	**—**	1
	$ 360,337	$ 373,157

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

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Current	$ 345,163	$ 358,592
Past due but not impaired:		
Past due less than 90 days	5,238	1,162
Past due 90 to 180 days	1,548	3,949
Past due 180 days or more	5,849	2,684
Impaired loans	2,539	6,770
	$ 360,337	$ 373,157

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on the lifetime risk of default of an account, or an impairment, which may be rebutted where payments are delayed for non-credit related reasons, such as specific industry related reasons or practices as we often see across certain of the Company's lines of business. Of the past due finance receivables at December 31, 2020, $11,166,000 related to BondIt Media Capital ("BondIt"), AFIU's 51% controlled media finance subsidiary, where media productions are often delayed resulting in payment delays.

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 may result in a low or no LGD. At December 31, 2020, the estimated net realizable value of the collateral securing the impaired loans totalled $3,013,000 (December 31, 2019 – $8,034,000). During 2020, lease receivables totalling $2,425,000 (2019 – $6,970,000) were 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. Typically, 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 and/or realization 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, 2020	Dec. 31, 2019
Low risk	$ 130,160	$ 139,684
Medium risk	189,225	180,670
High risk	38,413	46,033
Impaired	2,539	6,770
	$ 360,337	$ 373,157

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

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Stage 1	$ 314,111	$ 341,093
Stage 2 (SICR)	43,687	25,294
Stage 3 (Impaired)	2,539	6,770
	$ 360,337	$ 373,157

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, while Stage 3 finance receivables and loans comprise those accounts which are impaired.

Due to the adverse economic impact of Covid-19 the Company has seen an increase in Stage 2 finance receivables and loans at December 31, 2020 compared to December 31, 2019.

The activity in the allowance for losses on finance receivables and loans account during 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	$ 4,520,000	$ 3,450,000
Provision for loan losses	7,186,183	7,075,574
Charge-offs	(8,755,220)	(6,311,397)
Recoveries	3,588,553	418,502
Foreign exchange adjustment	(225,516)	(112,679)
Allowance for losses at December 31	$ 6,314,000	$ 4,520,000

The activity in the allowance for losses on finance receivables and loans during 2020 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	$ 2,911,016	$ 1,608,984	$ —	$ 4,520,000
Transfer between stages	(583,420)	(429,367)	1,012,787	—
Reserves expense (recovery)* related to change in allowance for losses	1,317,825	1,714,477	(1,012,787)	2,019,515
Foreign exchange adjustment	(118,381)	(107,134)	—	(225,515)
Allowance for losses at December 31, 2020	$ 3,527,040	$ 2,786,960	$ —	$ 6,314,000

** a component of the provision for loan losses*

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	Stage 3	Total
Allowance for losses at January 1, 2019	$ 2,669,024	$ 780,976	$ —	$ 3,450,000
Transfer between stages	(114,956)	114,956	—	—
Reserves expense* related to change in allowance for losses	433,199	749,480	—	1,182,679
Foreign exchange adjustment	(76,251)	(36,428)	—	(112,679)
Allowance for losses at December 31, 2019	$ 2,911,016	$ 1,608,984	$ —	$ 4,520,000

** a component of the provision for loan losses*

There was no Stage 3 allowance for losses at December 31, 2020 and 2019 as the impaired finance receivables and loans were in respect of accounts where the Company intended to or had actively taken possession of its collateral and was currently or will be liquidating same as a means of recovering some or all of the outstanding account balance. In such cases, the finance receivables and loans have been written down to the present value of their estimated net recoverable amounts and any allowance for losses thereon reversed.

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, 2020, the Company held cash collateral of $5,142,539 (2019 – $2,736,397) 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, 2020, the gross amount of these managed receivables was $18,522,441 (2019 – $27,338,317). Fees from the Company's receivables management and credit protection business during 2020 totalled $1,412,705 (2019 – $2,222,537). This amount is included in other income.

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

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Current	$ 12,350	$ 19,537
Past due but not impaired:		
Past due less than 90 days	5,455	7,387
Past due more than 90 days	717	414
	$ 18,522	$ 27,338

The past due managed receivables do not necessarily represent a SICR or an impairment, which are usually rebutted as the collection period in the retail industry, the industry relating to the vast majority of managed receivables, is often past due.

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

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Low risk	$ 4,857	$ 4,059
Medium risk	11,308	21,910
High risk	2,357	1,369
	$ 18,522	$ 27,338

The increase in high risk rated managed receivables directly results from the adverse economic impact of Covid-19 and the Company's exposure to the retail industry which has been significantly impacted by Covid-19 prevention measures.

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

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Stage 1	$ 15,530	$ 27,162
Stage 2 (SICR)	2,992	176
Stage 3 (Impaired)	—	—
	$ 18,522	$ 27,338

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. In this respect, at December 31, 2020 an amount of $128,000 (2019 – nil) had been accrued to payout claims under these guarantees.

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. The fair value of these guarantees was classified as Level 3 under IFRS 7. 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 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	$ 44,000	$ 74,000
Provision for loan losses	2,216,476	29,580
Write-offs	(1,718,043)	(77,330)
Recoveries	12,567	17,750
Allowance for losses at December 31	$ 555,000	$ 44,000

The activity in the allowance for losses on the guarantee of managed receivables during 2020 by stage of allowance was follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	$ 40,480	$ 3,520	$ —	$ 44,000
Transfer between stages	(7,116)	5,643	1,473	—
Reserves expense (recovery)* related to change in allowance for losses	234,036	278,437	(1,473)	511,000
Allowance for losses at December 31, 2020	$ 267,400	$ 287,600	$ —	$ 555,000

** a component of the provision for loan losses*

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

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2019	$ 31,943	$ 42,057	$ —	$ 74,000
Reserves expense (recovery)* related to change in allowance for losses	8,537	(38,537)	—	(30,000)
Allowance for losses at December 31, 2019	$ 40,480	$ 3,520	$ —	$ 44,000

** a component of the provision for loan losses*

There were no transfers between the three stages of the allowance for losses on the guarantee of managed receivables during 2019.

There was no Stage 3 allowance for impaired managed receivables at December 31, 2020 and 2019 as an actual liability is accrued in respect of the pending payout of the guarantees given to clients on the impaired accounts which is included in accounts payable and other liabilities.

5. Assets held for sale

Assets held for sale and movements therein during 2020 and 2019 were as follows:

	2020	2019
Assets held for sale at January 1	$ 6,970,369	$ 46,882
Additions	2,424,867	6,970,369
Disposals	(7,238,095)	(46,882)
Impairment charge	(1,086,812)	—
Foreign exchange adjustment	443,238	—
Assets held for sale at December 31	$ 1,513,567	$ 6,970,369

During 2020 and 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 have been sold or are being actively marketed for sale and will be disposed of as market conditions permit. The estimated net realizable value of the assets at the above dates was based upon appraisals thereof.

During 2020 assets were disposed of for net proceeds of $7,238,095 and an impairment charge of $1,086,812 was booked thereon, while during 2019 assets were disposed of for net proceeds of $86,675 resulting in a gain on sale of $39,793.

6. Property and equipment

(in thousands)	Dec. 31, 2020	Dec. 31, 2019
Cost	$ 4,103	$ 4,096
Accumulated depreciation	(2,448)	(1,759)
	$ 1,655	$ 2,337

Property and equipment include the Company's right-of-use assets, comprising four office leases. The Company's right-of-use assets and movements therein during 2020 and 2019 were as follows:

(in thousands)	2020	2019
Right-of-use assets at January 1	$ 1,544	$ 2,027
Depreciation expense	(439)	(436)
Foreign exchange adjustment	(2)	(47)
Right-of-use assets at December 31	$ 1,103	$ 1,544

7. Goodwill

	2020	2019
January 1	$13,454,926	$ 14,031,320
Foreign exchange adjustment	(236,083)	(576,394)
Goodwill at December 31	$13,218,843	$ 13,454,926

At December 31, 2020 and 2019 goodwill of US$8,908,713 was carried in AFIU, the Company's U.S. subsidiary. A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period-end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at December 31, 2020 and 2019:

	2020	2019
U.S. operations	$11,336,336	$ 11,572,419
Canadian operations	1,882,507	1,882,507
	$13,218,843	$ 13,454,926

Goodwill is tested for impairment annually. During 2020 and 2019, 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 an estimate of future years' earnings. This provides a similar result to extrapolating and discounting budgeted earnings for the CGUs. The estimated fair value of each CGU is then compared to the carrying value of the CGU, including goodwill, to determine if the goodwill is impaired.

The most sensitive assumption used in the impairment testing was the multiple applied to the expected earnings of each CGU in determining the fair value thereof. In 2020 and 2019 a multiple of 10 was used. Management believes a reasonable decrease in the multiple would not cause an impairment in the goodwill of its CGUs.

8. Intangible assets

Intangible assets and movements therein during 2020 and 2019 were as follows:

2020	Customer and referral relationships	Broker relationships	Brand name	Total
Cost				
January 1, 2020	$ 1,978,377	$ 1,343,938	$ 1,769,238	$ 5,091,553
Foreign exchange adjustment	(40,359)	—	(36,093)	(76,452)
December 31, 2020	$ 1,938,018	$ 1,343,938	$ 1,733,145	$ 5,015,101
Accumulated amortization				
January 1, 2020	$ (283,239)	$ (1,168,846)	$ —	$ (1,452,085)
Amortization expense	(136,401)	(161,636)	—	(298,037)
Foreign exchange adjustment	12,765	—	—	12,765
December 31, 2020	$ (406,875)	$ (1,330,482)	$ —	$ (1,737,357)
Book value				
January 1, 2020	$ 1,695,138	$ 175,092	$ 1,769,238	$ 3,639,468
December 31, 2020	$ 1,531,143	$ 13,456	$ 1,733,145	$ 3,277,744

2019	Customer and referral relationships	Broker relationships	Brand name	Total
Cost				
January 1, 2019	$ 2,076,915	$ 1,343,938	$ 1,857,359	$ 5,278,212
Foreign exchange adjustment	(98,538)	—	(88,121)	(186,659)
December 31, 2019	$ 1,978,377	$ 1,343,938	$ 1,769,238	$ 5,091,553
Accumulated amortization				
January 1, 2019	$ (158,658)	$ (1,003,668)	$ —	$ (1,162,326)
Amortization expense	(134,939)	(165,178)	—	(300,117)
Foreign exchange adjustment	10,358	—	—	10,358
December 31, 2019	$ (283,239)	$ (1,168,846)	$ —	$ (1,452,085)
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

9. Bank Indebtedness

A revolving line of credit totalling approximately $367 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line is collateralized primarily by the Company's finance receivables and loans. At December 31, 2020, the amount outstanding under the line of credit totalled $210,940,174 (December 31, 2019 – $242,781,300). During 2020, the Company's banking syndicate reset its interest coverage ratios for the quarters ended March 31, June 30, September 30 and December 31, 2020. The Company was in compliance with all loan covenants under its bank line of credit during 2020. The Company did not meet its interest coverage ratio covenant at December 31, 2019 and received a waiver thereof. The Company was in compliance with all other loan covenants under its bank line during 2019.

10. Loan payable

A revolving line of credit totalling US$10,000,000 (C$13,319,000) was established by BondIt in April 2018 with a non-bank lender, which bears interest varying with the U.S. base rate. This line, which is collateralized by all of BondIt's assets, was renewed in 2019 and expires on May 31, 2022. During 2020, this line was increased to US$20,000,000 (C$25,450,000). At December 31, 2020, the amount outstanding under this line of credit totalled $21,376,479 (December 31, 2019 – $11,226,897). BondIt was in compliance with all loan covenants under this facility at December 31, 2020, while at December 31, 2019 BondIt failed a specific covenant test, which the lender subsequently waived.

11. Related parties

(a) Notes payable

Notes payable comprise: (i) unsecured demand notes due on, or within a week of, demand ($1,587,272); (ii) numerous BondIt notes ($2,417,750), which are repayable on various dates the latest of which is December 31, 2021; and (iii) term notes which mature on July 31, 2021 ($13,429,032). 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:

	2020	2019
Demand and term notes (due within one year):		
Related parties	**$ 15,071,938**	$ 3,326,849
Third parties	**2,362,116**	3,463,038
	17,434,054	6,789,887
Term notes (due after one year):		
Related parties	**—**	12,149,000
	$ 17,434,054	$ 18,938,887

Notes due on, or within a week thereof, bear interest at rates that vary with bank prime rate or Libor, while the BondIt notes bear interest at rates which range from 8.5% to 11%. The term notes maturing on July 31, 2021 carry an interest rate of 7% with interest payable each calendar quarter-end.

Interest expense on the notes payable was as follows:

	2020	2019
Related parties	$ 1,032,655	$ 1,058,727
Third parties	177,747	245,793
	$ 1,210,402	$ 1,304,520

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[(1)] during 2020 and 2019 was as follows:

	2020	2019
Salaries and directors' fees	$ 4,791,966	$ 4,013,883
Stock-based compensation[(2)]	—	(152,699)
	$ 4,791,966	$ 3,861,184

(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, the Company's Senior Vice-Presidents and its 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(g).

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 original debenture trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value. These 20,650 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 under a supplemental trust indenture 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, 2020 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	$ 24,152,897	$ 1,473,903	$ 25,626,800
Transaction costs	(1,739,323)	(106,414)	(1,845,737)
Net proceeds	22,413,574	1,367,489	23,781,063
Deferred taxes	—	(362,384)	(362,384)
Accretion in carrying value of debenture liability	1,095,999	—	1,095,999
	$ 23,509,573	$ 1,005,105	$ 24,514,678

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

At December 31, 2020 all debentures remained outstanding.

13. Lease liabilities

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

(in thousands)	2020	2019
Less than one year	$ 501	$ 491
One to five years	759	1,181
Thereafter	115	206
Total undiscounted lease obligations	1,375	1,878
Less: short-term lease commitments elected for exemption under IFRS 16	(17)	(26)
Less: future interest	(151)	(254)
Lease liabilities at December 31	$ 1,207	$ 1,598

During 2020, principal and interest payments for the four office leases recognized as right-of-use assets under IFRS 16 totalled $386,509 and $104,952, respectively, for total lease payments of $491,461. No variable lease payments are included in the measurement of the Company's lease liabilities.

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

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2020 and 2019, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2020 and 2019 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 terminated on December 8, 2020. All shares repurchased pursuant to the 2019 Bid were cancelled. In 2020, under the 2019 Bid, the Company repurchased and cancelled 30,000 (2019 – nil) common shares at an average price of $8.80 per common share for total consideration of $264,049. This amount was applied to reduce share capital by $33,118 and retained earnings by $230,931.

(d) Contributed surplus

The Company's contributed surplus and movements therein during 2020 and 2019 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 2020, dividends totalling $2,055,417 (2019 – $3,051,812) or $0.24 (2019 – $0.36) per common share were declared and paid. On January 30, 2021, the Company declared a quarterly dividend of $0.05 per common share, payable March 1, 2021 to shareholders of record at the close of business on February 14, 2021.

(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, 2020 and 2019 were as follows:

Exercise price	Grant date	Expiry date	Dec. 31, 2020	Dec. 31, 2019
$9.56	Oct. 28, 2015	Oct. 27, 2020	—	80,000
$9.28	July 27, 2016	July 26, 2021	60,000	80,000
Outstanding, earned and exercisable			60,000	160,000

A director who did not stand for re-election on May 6, 2020 did not exercise his options within the required sixty-day period after he ceased to be director. Accordingly, his 40,000 options expired on July 5, 2020. On October 27, 2020, the remaining 60,000 options granted on October 28, 2015 expired unexercised.

The fair value of the options granted on July 27, 2016 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 2020, the Company had no stock-based compensation expense (2019 – recovery $174,597).

15. Income taxes

The Company's income tax (recovery) expense comprises:

	2020	2019
Current income tax (recovery)	$ (2,033,967)	$ (184,711)
Deferred tax (recovery) expense	(2,636,033)	1,763,711
Income tax (recovery) expense	$ (4,670,000)	$ 1,579,000

During 2020 and 2019, 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:

	2020	%
Income tax expense computed at statutory rates	$ (1,076,490)	26.5
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(2,358,836)	58.1
Rate differential on loss carryback	(880,750)	21.7
Non-controlling interests in subsidiaries	(70,320)	1.7
Other	(283,604)	7.0
Income tax (recovery)	$ (4,670,000)	115.0

	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

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

	2020	2019
Deferred tax assets:		
Unused tax losses	**$ 11,371,473**	$ 6,296,351
Allowances for losses	**580,113**	419,079
Property and equipment	**15,000**	24,000
Leasing timing difference	**5,000**	37,000
Other	**42,813**	22,545
	$ 12,014,399	$ 6,798,975
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	**(9,676,090)**	(5,715,600)
Acquired intangibles	**(270,868)**	—
Property and equipment	**(7,000)**	(57,000)
Other	**(58,262)**	(50,661)
	(10,012,220)	(5,823,261)
	$ 2,002,180	$ 975,714

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

	2020	2019
Deferred tax assets:		
Allowances for losses	**$ (70,000)**	$ (39,000)
Unused tax losses	**(67,000)**	—
	(137,000)	(39,000)
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	**—**	1,327,101
Convertible debentures accretion	**347,935**	402,835
Acquired intangibles	**3,575**	284,124
Lease receivables	**388,000**	276,000
	739,510	2,290,060
	$ 602,510	$ 2,251,060

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, 2020 and 2019, 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:

	2020	2019
Basic weighted average number of common shares outstanding	**8,563,241**	8,463,891
Effect of dilutive stock options	**—**	3,254
Diluted weighted average number of common shares outstanding	**8,563,241**	8,467,145

All outstanding stock options were excluded from the calculation of the diluted weighted number of shares outstanding during 2020 because they were considered to be anti-dilutive for earnings per

common share purposes. Details of stock options outstanding are set out in note 14(f). All convertible debentures were similarly excluded from the calculation during 2020 and 2019 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 on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At December 31, 2020 and 2019, 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, 2020, there were no letters of credit issued on behalf of clients for which the Company was contingently liable (December 31, 2019 – $220,830). The Company was contingently liable with respect to letters of guarantee issued on behalf of a client in the amount of $648,975 (December 31, 2019 – $1,026,210). These amounts were considered in determining the allowance for losses on finance receivables and loans.

18. Derivative financial instruments

At December 31, 2020, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between January 29, 2021 and August 31, 2021 and which oblige the Company to sell Canadian dollars and buy US$744,000 at exchange rates ranging from 1.27650 to 1.35930. 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$744,000 to the client. At December 31, 2019, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 31, 2020 and July 31, 2020 and obliged the Company to sell Canadian dollars and buy US$650,000 at exchange rates ranging from 1.30900 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 bought Canadian dollars from and sold US$650,000 to the client. 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 2020 and 2019 there was no movement between the three-level fair value hierarchy described in note 3(q).

19. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during 2020 and 2019 are set out in the consolidated statements of changes in equity.

20. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at December 31, 2020 comprised an effective 49% (December 31, 2019 – 49%) interest in BondIt’s common member units and an 8% (December 31, 2019 – 10%) interest in CapX’s common units. During the first quarter of 2020, the Company acquired an additional 2% of the common units in CapX from a non-controlling interest at a cost of $181,389 (US$130,000). Please see the consolidated statements of changes in equity for movements in non-controlling interests during 2020 and 2019.

21. Segmented information

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

2020 (in thousands)	Canada	United States	Intercompany	Consolidated
Identifiable assets	$ 151,112	$ 234,008	$ (207)	$ 384,913
Revenue				
Interest income	$ 17,415	$ 25,769	$ (479)	$ 42,705
Other income	3,662	2,134	—	5,796
	21,077	27,903	(479)	48,501
Expenses				
Interest	11,449	3,626	(479)	14,596
General and administrative	12,744	13,714	—	26,458
Provision for credit and loan losses	5,673	3,730	—	9,403
Impairment of assets held for sale	—	1,087	—	1,087
Depreciation	323	398	—	721
Business acquisition expenses	162	136	—	298
	30,351	22,691	(479)	52,563
(Loss) earnings before income tax	(9,274)	5,212	—	(4,062)
Income tax (recovery)	(2,040)	(2,630)	—	(4,670)
Net (loss) earnings	(7,234)	7,842	—	608
Net earnings attributable to non-controlling interests in subsidiaries	—	191	—	191
Net (loss) earnings attributable to shareholders	$ (7,234)	$ 7,651	$ —	$ 417

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
Impairment of assets held for sale	—	—	—	—
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	(1,748)	8,669	—	6,921
Income tax (recovery) expense	(420)	1,999	—	1,579
Net (loss) earnings	(1,328)	6,670	—	5,342
Net (loss) attributable to non-controlling interests in subsidiaries	—	(1,102)	—	(1,102)
Net (loss) earnings attributable to shareholders	$ (1,328)	$ 7,772	$ —	$ 6,444

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 and convertible debentures are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company's financial instruments resulting in a favorable or unfavorable variance compared to carrying value. For the Company's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. Under the fair value hierarchy, finance receivables and loans would be classified as Level 3 in 2020 and 2019.

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 ($360 million) and managed receivables ($19 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 $243,894 at December 31, 2020. The Company does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending business, the Company makes loans that are, 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 2020 and 2019.

At December 31, 2020, the Company had impaired loans of $2,539,000 (2019 – $6,770,000), while at that date, it held collateral for these loans with an estimated net realizable value of $3,013,000 (2019 – $8,034,000). These impaired loans were mainly secured by receivables, inventory and/or equipment. The Company did not have any impaired managed receivables at December 31, 2020 and 2019.

In its asset-based lending and equipment finance businesses, 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 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 Executive Credit Committee. Credit in excess of $2.5 million (US$2.5 million in the

case of U.S. group companies) is approved by the Credit Committee of the Board of Directors, which comprises three members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit 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 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, 6.1% were past due more than 60 days at December 31, 2020 (December 31, 2019 – 3.5%). 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 equipment finance 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 Credit Committee of the Board on a case-by-case basis. At December 31, 2020, 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:

Industrial sector (in thousands)	**December 31, 2020** **Gross finance receivables and loans**	**% of total**
Manufacturing	**$ 102,244**	**28**
Professional services	**77,968**	**22**
Financial services	**42,830**	**12**
Media	**36,915**	**10**
Wholesale and distribution	**24,666**	**7**
Construction	**22,509**	**6**
Transportation	**19,730**	**5**
Retail	**9,986**	**3**
Other	**23,489**	**7**
	$ 360,337	**100**

Industrial sector (in thousands)	December 31, 2019 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
Construction	17,875	5
Transportation	19,666	5
Other	28,937	8
	$ 373,157	100

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

Industrial sector (in thousands)	**December 31, 2020** **Managed receivables**	**% of total**
Retail	**$ 14,752**	**80**
Wholesale and distribution	**409**	**2**
Other	**3,361**	**18**
	$ 18,522	**100**

Industrial sector (in thousands)	December 31, 2019 Managed receivables	% of total
Retail	$ 22,698	83
Wholesale and distribution	1,567	6
Other	3,073	11
	$ 27,338	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, 2020 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	**$ 5,546**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 5,546**
Finance receivables and loans	**176,556**	**62,556**	**78,102**	**36,887**	**6,236**	**—**	**360,337**
All other assets	**3,676**	**—**	**—**	**—**	**—**	**—**	**3,676**
	$ 185,778	**$ 62,556**	**$ 78,102**	**$ 36,887**	**$ 6,236**	**$ —**	**$ 369,559**
Financial liabilities							
Due to clients	**$ 2,910**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2,910**
Bank indebtedness	**210,940**	**—**	**—**	**—**	**—**	**—**	**210,940**
Loan payable	**21,376**	**—**	**—**	**—**	**—**	**—**	**21,376**
Notes payable	**17,434**	**—**	**—**	**—**	**—**	**—**	**17,434**
Convertible debentures	**—**	**—**	**23,510**	**—**	**—**	**—**	**23,510**
All other liabilities	**12,287**	**408**	**102**	**76**	**82**	**110**	**13,065**
	$ 264,947	**$ 408**	**$ 23,612**	**$ 76**	**$ 82**	**$ 110**	**$ 289,235**

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	373,517
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	—	—	—	22,938	—	—	22,928
All other liabilities	6,464	—	—	—	—	—	6,464
	$ 269,666	$ 12,149	$ —	$ 22,938	$ —	$ —	$ 304,743

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. At December 31, 2020, revolving credit lines totalling approximately $392,000,000 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, 2020, the Company had borrowed $232,316,653 (December 31, 2019 – $254,008,197) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. As detailed in note 9, the Company was in compliance with all loan covenants under its bank line of credit during 2020, while it received a waiver for the breach of its interest coverage ratio covenant at December 31, 2019 but otherwise was in compliance with its loan covenants in 2019. At December 31, 2020, BondIt was compliant with all covenants under its line of credit with its non-bank lender, while it had failed a specific covenant test at December 31, 2019, which the lender subsequently waived. See note 10.

Notes payable of $1,587,272 are due on, or within a week of demand, while BondIt notes totalling $2,417,750 are repayable at various dates the latest of which is December 31, 2021. A further $13,429,032 of term notes payable 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, 2020, 86% (December 31, 2019 – 82%) of these notes were due to related parties and 14% (December 31, 2019 – 18%) to third parties. The Company’s convertible debenture liability was $23,509,573 at December 31, 2020. 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, 2020, the Company had gross finance receivables and loans totalling $360,337,167 (December 31, 2019 – $373,157,083) which substantially exceeded its total liabilities of $291,153,514 at that date (December 31, 2019 – $309,846,192). 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, 2020, the Company's unhedged foreign currency positions in its Canadian operations totalled $346,000 (December 31, 2019 – $11,037,000). Of the unhedged position at December 31, 2019, $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

The following table summarizes the interest rate sensitivity gap at December 31, 2020:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Thereafter	Non-rate sensitive	Total
Assets							
Cash	$ 4,076	$ —	$ —	$ —	$ —	$ 1,470	$ 5,546
Finance receivables and loans, net	211,845	19,214	116,159	13,119	—	(6,314)	354,023
Assets held for sale	—	1,513	—	—	—	—	1,513
All other assets	—	1,843	—	—	—	21,988	23,831
	215,921	22,570	116,159	13,119	—	17,144	384,913
Liabilities							
Due to clients	—	—	—	—		2,910	2,910
Bank indebtedness	4,107	207,153	—	—		(320)	210,940
Loans payable	21,376	—	—	—		—	21,376
Notes payable	1,587	15,847	—	—		—	17,434
Convertible debentures	—	—	23,509	—		—	23,509
All other liabilities	—	2,006	510	158	110	12,201	14,985
Equity	—	—	—	—		93,759	93,759
	27,070	225,006	24,019	158	110	108,550	384,913
	$ 188,851	$(202,436)	$ 92,140	$ 12,961	$ (110)	$ (91,406)	$ —

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 may deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with fixed rate term maturities in our equipment finance businesses.

Based on the Company's interest rate positions as at December 31, 2020, a sustained 100 basis point rise in interest rates across all currencies and maturities would reduce net earnings by approximately $130,000 over a one-year period. A decrease of 100 basis points in interest rates would increase net earnings by 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, 2020, as a percentage, these ratios were 291% (December 31, 2019 – 307%) and 24% (December 31, 2019 – 24%), 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, 2020, the Company is required to maintain a senior 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. Government grants

During 2020 the Company received $1,053,137 (2019 – nil) under the Canadian Emergency Wage Subsidy program and $37,085 (2019 – nil) under the Canadian Emergency Rent Subsidy program. These grants were offset against their respective payroll and rent expenses in G&A.

26. Subsequent events

At March 10, 2021, there were no subsequent events occurring after December 31, 2020 that required disclosure or adjustments to the financial statements.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2,3]
Simon Hitzig, Toronto, Ontario
David Beutel, Toronto, Ontario [1,3]
Jean Holley, Alpharetta, Georgia [2]
Gary Prager, Wake Forest, North Carolina [1,3]
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
Simon Hitzig, President & CEO
Stuart Adair, Senior Vice President, Chief Financial Officer
Barrett Carlson, Senior Vice President, Corporate Development
Irene Eddy, Senior Vice President, Capital Markets
Cathy Osborne, Senior Vice President, Human Resources
Eric Starr, Senior Vice President, Program Operations and Risk
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
James Jang, President
Accord Equipment Finance
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
Truist Bank
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

Computershare Trust Company of Canada

Annual Meeting

A Virtual Annual Meeting of Shareholders will be held on **Wednesday, May 5, 2021** at 4:15 pm

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