Annual Report **2021**

Unlocking Potential

ACCORD
FINANCIAL

Unlocking Potential

Small- and medium-sized businesses are the engine of the economy, supporting employment, driving innovation, and sustaining economic growth. Throughout this challenging period, Accord Financial has brought every tool in its arsenal to keep the engine running, while the economy moves into 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-four years of experience, Accord knows what it takes to navigate to a competitive advantage; to not only survive, but 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 gearing up, Accord holds the key.

Table of Contents

Inside front cover Unlocking Potential
1 Three Year Financial Highlights Summary
2 Letter To Our Shareholders
4 Management's Discussion and Analysis
28 Appendix to MD&A: Non-IFRS Measures and Ratios
31 Ten Year Financial Summary 2012-2021
32 Management's Report to the Shareholders
33 Independent Auditors' Report to the Shareholders
38 Consolidated Statements of Financial Position
39 Consolidated Statements of Earnings
39 Consolidated Statements of Comprehensive Income (Loss)
40 Consolidated Statements of Changes in Equity
41 Consolidated Statements of Cash Flows
42 Notes to Consolidated Financial Statements
Inside back cover Corporate Information

Financing Solutions for Unlocking Client Potential

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.

Small Business Finance

Accord provides a variety of financing solutions for Canadian small businesses, including equipment leasing and flexible working capital facilities. Under the AccordExpress banner, we offer a range of innovative programs designed with a streamlined approval process and fast funding. These programs deliver up to $250,000 of working capital, and up to $1 million when backed by receivables or equipment collateral, all with flexible terms designed to spur growth in 2022.

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 provided debt financing to nearly 400 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.

Factoring

Accord has been factoring small- and medium-sized companies for more than forty years. Factoring – buying clients' accounts receivable – accelerates cash flow by unlocking the value of receivables for cash. In addition to improving liquidity, factoring also saves management time often tied up with cash flow planning, credit analysis and collections. Our experienced team has worked with companies in virtually every industry, which allows us to provide quick credit approvals for companies in transition or shifting into growth mode.

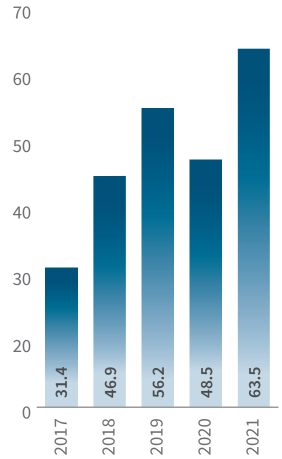
Equipment Financing

Accord finances equipment for small and middle market 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 capex 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.

International Trade Services

Since 1978, Accord has been a leader in cross-border trade services. Our alliance with Factors Chain International provides North American credit and collection services to a network of more than 265 banks and trade firms in 75 countries worldwide. Our expert knowledge of U.S. and Canadian buyers allows foreign banks to finance clients' export receivables while minimizing collection risk.

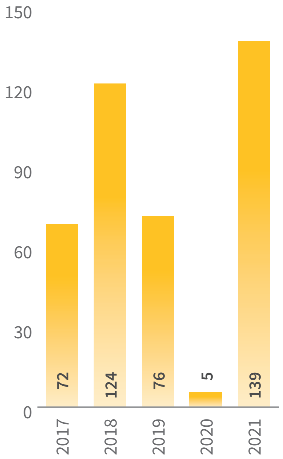
Ten Year Financial Highlights



Revenue

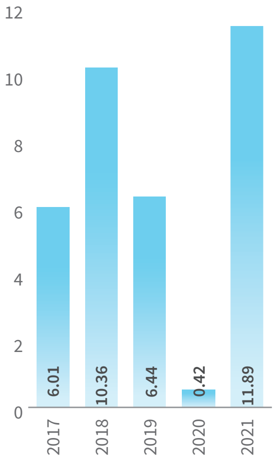
(in millions of dollars)

Revenue rose by 31% to a record $63.5 million in 2021 from $48.5 million in 2020.



Diluted Earnings per Share

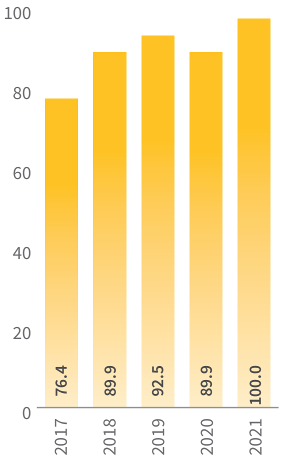
2021 diluted earnings per share were a record $1.39 compared to 5 cents in 2020. 2021 adjusted diluted EPS were a record $1.53 compared to 24 cents in 2020.



Net Earnings

(in millions of dollars)

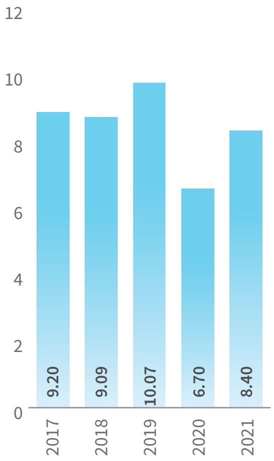
Net earnings increased to a record $11.89 million in 2021 from $0.42 million in 2020. Adjusted net earnings in 2021 were a record $13.1 million.



Shareholders' Equity

(in millions of dollars)

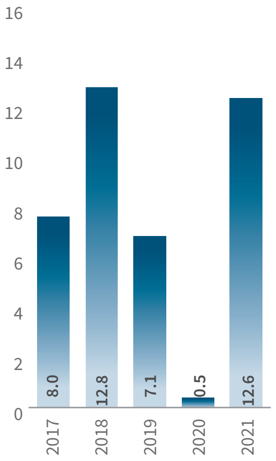
Shareholders' equity increased to a record $100 million at December 31, 2021. Book value per share was also a record $11.68 at December 31, 2021.



Share Price

(at close on December 31)

Accord's share price (TSX: ACD) closed 2021 at $8.40.



Return on Average Equity

(as a percent per annum of average equity)

Return on average equity increased to 12.6% in 2021 from 0.5% in 2020.

Three Year Financial Highlights Summary

Operating Data Years ended December 31 (in thousands of dollars except where indicated)	**2021**	2020	2019
Revenue	**$ 63,480**	$ 48,501	$ 56,175
Net earnings attributable to shareholders	**11,887**	417	6,444
Adjusted net earnings	**13,068**	2,032	4,939
Return on average equity	**12.6%**	0.5%	7.1%
Adjusted return on average equity	**13.8%**	2.2%	5.4%
Financial Position Data At December 31 (in thousands of dollars)			
Average funds employed (during the year)	**$ 402,015**	$ 347,493	$ 378,243
Total assets	**520,109**	384,913	406,214
Shareholders' equity	**99,967**	89,850	92,515
Common Share Data **(per common share)**			
Earnings per share - basic and diluted	**$ 1.39**	$ 0.05	$ 0.76
Adjusted earnings per share - basic and diluted	**1.53**	0.24	0.58
Dividends paid	**0.20**	0.24	0.36
Share price - high	**9.20**	10.15	10.42
- low	**6.23**	3.51	8.37
- close at December 31	**8.40**	6.70	10.07
Book value per share at December 31	**11.68**	10.50	10.77

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, Management's Discussion and Analysis and elsewhere in this annual report are summarized on pages 4, 5 and 6 of this Annual Report, as well as set out in detail on pages 28 to 30. 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 the above noted pages.

Letter to Our Shareholders

Accord turned in a record performance in 2021 across every key metric, putting the Company squarely back on its pre-pandemic growth and earnings trajectory. Driven by loan portfolio growth, improving yields and non-interest income, revenue for the year hit an all-time high of $63.5 million, up 31% over 2020. Net earnings, which were slightly above breakeven in 2020, surged to $11.9 million. Earnings per share ("EPS") of $1.39 was also a record, exceeding Accord's previous best of $1.24 in 2018. Adjusted net earnings, which comprises net earnings attributable to shareholders before non-operating stock-based compensation, restructuring expenses and business acquisition expenses (namely business transaction costs and amortization of intangibles), increased to a record $13.1 million in 2021 compared to last year's $2.0 million. Adjusted EPS were a record $1.53 in 2021, substantially higher than the $0.24 earned in 2020. With the economy rebounding, we continue to capitalize on innovative product development, deep market presence and financial strength, and look forward to accelerating into 2022.

Strong net earnings were driven by continued growth of Accord's overall loan portfolio. Total funds employed (finance receivables and loans) at December 31, 2021 reached an all time high of $478 million, up 33% from $360 million last year-end. Average funds employed for the year were $402 million compared with $347 million last year. Shareholders' equity reached $100 million at December 31, 2021 compared to $90 million at December 31, 2020. Book value per share continues to climb, reaching $11.68 versus $10.50 a year ago.

Portfolio growth this year was led by the outstanding performance of two of Accord's divisions: Accord Small Business Finance in Canada and BondIt Media Capital ("BondIt") in the U.S. Accord's diversification across five core lending divisions means that we're positioned to steer financing to wherever in the economy it's needed most. In the past year we've boosted support to the small business sector, and successfully financed content serving the tidal wave of demand for streaming video entertainment. While these divisions are seeing unprecedented success, the new business pipelines across our asset-based and equipment finance divisions are starting to build. As the economy continues to strengthen in select sectors, we're ready to shift gears as necessary to maintain the momentum.

Portfolio growth and earnings are benefiting from a shift in Accord's portfolio mix, which over the past year has favored higher yielding segments, including small business and media finance. In Canada, Accord's unique Export Development Canada-supported loan program continues to shine, supporting small businesses as they invest in reopening and a return to growth. In the U.S., BondIt continues to grow market share, as we are perfectly positioned to profit from the long-term secular growth of video on demand, supplied to blue chip buyers like Lion's Gate and Netflix.

Simon Hitzig

Accord's "headline" metrics – portfolio growth, revenue, earnings – are easy to track, and clearly headed in the right direction. Just below the surface, several other key metrics are forming an inflection point.

First is operating efficiency. Accord's general and administrative expenses, as a percentage of total revenues, provides a measure of how efficient we are at managing a growing business. Better operating efficiency means we convert a greater percentage of revenue to shareholder earnings as the portfolio grows. Five years ago, in 2016, we spent 62% of revenue on overhead. In 2021 that number dropped to 51%. With a robust platform in place, the next phase of growth will become increasingly profitable.

Second is portfolio diversification. At the end of the year, Accord's portfolio represented hundreds of small and medium-sized clients, well diversified by:

- geography: 51% Canada, 49% U.S.
- industry: every sector represented, with manufacturing the highest allocation at 21%
- product: 23% working capital loans, 33% ABL (incl. factoring), 27% equipment finance, 17% media finance

Third is portfolio quality. With the worst of the economic crisis behind us, Accord's allowance for expected losses (an estimate of potential future loan losses), has returned to more normal levels. The allowance at December 31, 2021 was $5.3 million, compared to $6.3 million at the same time last year (even with a larger portfolio). In percentage terms this stands at 1.1% of the portfolio, compared to 1.8% at the same time last year. This reduction in the allowance reflects the improvement in credit standing across the loan portfolio as well as the more stable business environment we're now operating in.

Accord's record funds employed at year-end set us up for a strong start to 2022. And steady improvement of operating efficiency, diversification and credit quality underpin the foundation, adding an element of strength and stability as we look forward to continued success in the coming years.

Since emerging from the economic shutdown in the summer of 2020, Accord has reported six straight quarters of strong financial performance. With earnings now well above pre-pandemic levels, on March 1, 2022, the Company paid a dividend of $0.075 per common share, representing a 50% increase from the $0.05 per share paid in recent quarters.

Simon Hitzig
President and Chief Executive Officer
March 21, 2022

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

Year ended December 31, 2021 compared with year ended December 31, 2020

FINANCIAL HIGHLIGHTS

Years ended December 31 (in thousands except average funds employed, earnings per common share and book value per share)	**2021**	2020
Average funds employed (millions)	**$ 402**	$ 347
Revenue	**63,480**	48,501
Earnings (loss) before income tax	**14,949**	(4,062)
Net earnings attributable to shareholders	**11,887**	417
Adjusted net earnings	**13,068**	2,032
Earnings per common share (basic and diluted)	**1.39**	0.05
Adjusted earnings per common share (basic and diluted)	**1.53**	0.24
Book value per share (December 31)	**$ 11.68**	$ 10.50

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, 2021 compared with the year ended December 31, 2020 and, where presented, the year ended December 31, 2019. 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 21, 2022, should be read in conjunction with the Company's 2021 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 31) and the Letter to Our Shareholders, all of which form part of this 2021 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.

Stuart Adair

NON-IFRS FINANCIAL MEASURES AND RATIOS

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in its 2021 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, as shown on the Company's balance sheet, calculated on a month-by-month basis 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 costs and amortization of intangibles) and restructuring expenses. The Company considers these terms 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 (see note 17 to the Statements), 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, as shown on the Company's balance sheet, 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, or shareholders' equity, 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 on a month-by-month basis, over a particular period.

v) **Profitability, yield and efficiency ratios** – Table 1 on page 9 presents certain profitability measures. In addition to ROE and adjusted ROE, net revenue (revenue minus interest expense)

RESULTS OF OPERATIONS

Years ended December 31 (in thousands unless otherwise stated)	2021 Actual	 % of Revenue	2020 Actual	 % of Revenue	% change from 2020 to 2021
Average funds employed (millions)	$ 402		$ 347		16%
Revenue					
Interest income	$ 51,897	81.8%	$ 42,705	88.0%	22%
Other income	11,583	18.2%	5,796	12.0%	100%
	63,480	100.0%	48,501	100.0%	31%
Expenses					
Interest	15,887	25.0%	14,596	30.1%	9%
General and administrative	31,455	49.6%	26,458	54.6%	19%
(Recovery of) provision for credit and loan losses	(614)	-1.0%	9,403	19.4%	-107%
Impairment of assets held for sale	873	1.4%	1,087	2.2%	-20%
Depreciation	695	1.2%	721	1.5%	—
Business acquisition expenses:					
Transaction and integration costs	94	0.1%	—	—	n/m
Amortization of intangible assets	141	0.2%	298	0.6%	-53%
	48,531	76.5%	52,563	108.4%	-8%
Earnings (loss) before income taxes	14,949	23.5%	(4,062)	-8.4%	368%
Income tax expense (recovery)	1,727	2.7%	(4,670)	-9.6%	137%
Net earnings	13,222	20.8%	608	1.2%	2,075%
Net earnings attributable to non-controlling interests in subsidiaries	1,335	2.1%	191	0.4%	599%
Net earnings attributable to shareholders	$ 11,887	18.7%	$ 417	0.8%	2,751%
Adjusted net earnings	$ 13,068	20.6%	$ 2,032	4.2%	543%
Earnings per common share*	$ 1.39		$ 0.05		2,680%
Adjusted earnings per common share*	$ 1.53		$ 0.24		538%

* basic and diluted
n/m - not meaningful

expressed as a percentage of average assets, and operating expenses comprising and administrative expenses ("G&A") and depreciation expressed as a percentage of average assets is shown, as is operating expenses as a percentage of revenue, which is also referred to as the efficiency ratio. These ratios are presented over a three year-period, which enables readers to see at a glance trends in the Company's profitability, yield and operating efficiency;

vi) **Financial condition and leverage ratios** – Table 2 on page 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, loans 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 expected 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 calculations of the above noted non-IFRS financial measures and ratios for the last 5 years are set out in the Appendix to this MD&A on pages 28 to 30 of this 2021 Annual Report.

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, equipment and trade finance, working capital finance, as well as 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 24(a) to the Statements.

The Company, founded in 1978, operates six finance businesses in North America, namely, Accord Financial Inc. ("AFIC"), Accord Financial Canada Corp. ("AFCC") and Accord Financial Ltd. ("AFL") 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 AFCC. AFCC also provides working capital financing to small businesses through its Accord Small Business Finance ("ASBF") subsidiary; (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)

	2021	2020	2019
Revenue	$ 63,480	$ 48,501	$ 56,175
Net earnings attributable to shareholders	11,887	417	6,444
Basic and diluted earnings per share	1.39	0.05	0.76
Dividends per share	0.20	0.24	0.36
Total assets	520,109	384,913	406,214
Long-term financial liabilities	86,496	23,510	35,077

RESULTS OF OPERATIONS

Year ended December 31, 2021 compared with year ended December 31, 2020

Shareholders' net earnings in 2021 were a record $11,887,000 compared to the $417,000 earned in 2020 and the $6,444,000 earned in 2019. Shareholders' net earnings compared to 2020 and 2019 rose mainly as a result of higher revenue and a lower provision for losses. Basic and diluted earnings per common share ("EPS") rose to a record $1.39 compared to the 5 cents earned last year and the 76 cents earned in 2019. The Company's ROE increased to 12.6% in 2021 compared to 0.5% last year and 7.1% in 2019.

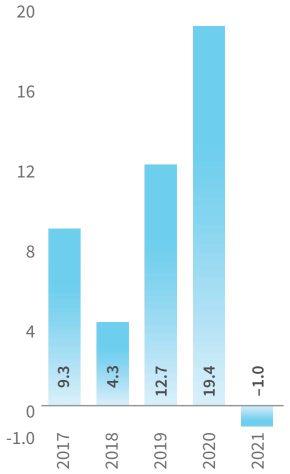
Adjusted net earnings increased to a record $13,068,000 in 2021 compared to last year's $2,032,000 and were significantly higher than 2019's $4,939,000. Adjusted EPS were a record $1.53 in 2021, substantially higher than the 24 cents earned in 2020 and the 58 cents earned in 2019. Adjusted ROE was 13.8% in 2021 compared to 2.2% in 2020 and 5.4% in 2019. Please refer to the Appendix to the MD&A regarding these non-IFRS measures.

Revenue rose by 31% or $14,979,000 to a record $63,480,000 in 2021 compared to $48,501,000 in 2020 and was $7,305,000 or 13% higher than the $56,175,000 in 2019. Interest income rose by $9,192,000 or 22% to $51,897,000 in 2021 compared to $42,705,000 in 2020 on a 16% increase in average funds employed and a 5% rise in average loan yields. Yields rose on an increased proportion of higher yielding funds employed at AFCC and BondIt. Other income rose by $5,787,000 or 100% to $11,583,000 compared to 2020 mainly due to increased origination and set up fees. Average funds employed in 2021 increased to $402 million compared to $347 million last year and were 6% higher than the $378 million in 2019.

Total expenses decreased by $4,032,000 or 8% to $48,531,000 compared to $52,563,000 in 2020. The provision for credit and loan losses, impairment of assets held for sale, business acquisition expenses and depreciation declined by $10,017,000, $214,000, $63,000 and $26,000, respectively. G&A and interest expense increased by $4,997,000 and $1,291,000, respectively.

Interest expense rose by 9% to $15,887,000 in 2021 from $14,596,000 last year on 14% higher average borrowings partly offset by reduced average interest rates and bank fees.

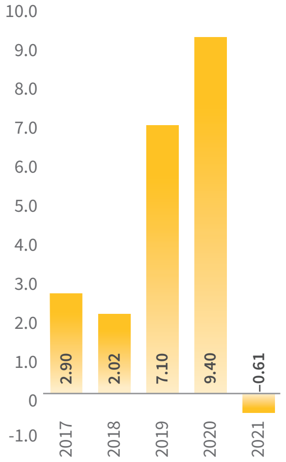
G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, information technology expenses and general overheads. G&A increased by $4,997,000 mainly due to higher information technology expenses resulting from the Company's digital transformation and costs associated with the generation of new business related to the substantial growth of the Company's recently introduced working capital loan program, AccordExpress, which was successfully rolled out at the end of 2020. In 2021, restructuring expenses totalling $1,253,000 (2020 – $1,890,000) were incurred relating to staff terminations. However, personnel costs overall remained unchanged in 2021. In 2021, the Company received $250,000 (2020 – $1,053,000) under the Canadian Emergency Wage Subsidy ("CEWS") and $75,000 (2020 – $37,000) under the Canadian Emergency Rent Subsidy ("CERS") programs (see note 26 to the Statements). The Company did not claim any government



(Recovery of) Provision for Credit and Loan Losses

(as a percentage of revenue)

There was a recovery of credit and loan losses equivalent to 1% of revenue in 2021 compared to a provision of 19% last year.



(Recovery of) Provision for Credit and Loan Losses

(in millions of dollars)

There was a recovery of credit and loan losses of $0.6 million in 2021 compared to a provision of $9.4 million in 2020.

subsidies after June 5, 2021. The Company continues to manage its controllable expenses closely.

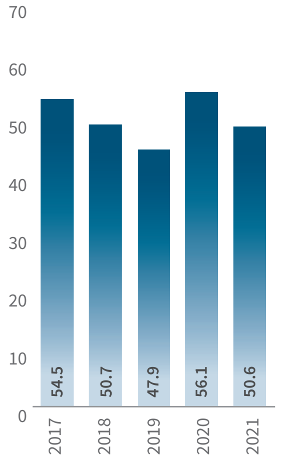
There was a recovery of credit and loan losses of $614,000 in 2021 compared to a provision of $9,403,000 last year. The recovery/provision comprised:

Years ended Dec. 31 (in thousands)	2021	2020
Net write-offs	$ 938	$ 6,872
Reserves (recovery) expense related to change in total allowances for losses	(1,552)	2,531
	$ (614)	$ 9,403

The recovery of credit and loan losses as a percentage of revenue declined to negative 1.0% in 2021 from a provision for credit and loan losses of 19.4% of revenue in 2020. Net write-offs decreased by $5,934,000 to $938,000 in 2021 compared to $6,872,000 in the prior year. Last year's significant provision for losses in large part resulted from the adverse economic impact of Covid-19. The non-cash reserves decreased by $4,083,000 to a recovery of $1,552,000 in 2021 compared to an expense of $2,531,000 last year mainly as a result of the improved economic environment in both Canada and U.S. which resulted in the release of certain allowances for expected losses despite funds employed growing by $118 million in 2021. The Company's allowances for expected losses and its portfolio 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 and/or one-off losses.

Impairment charges of $873,000 (2020 - $1,087,000) were taken during 2021 against certain assets held for sale to write them down to their estimated net recoverable value, which was based on actual realizations from the sale of the assets. Realizations were likely adversely impacted by the severe economic conditions resulting from Covid-19. See note 6 to the Statements.

Depreciation expense decreased by $26,000 to $695,000 in 2021. Depreciation of $466,000 (2020 – $448,000) was charged against the right-of-use assets in 2021, while the balance related to capital assets.



Operating Expenses (Efficiency Ratio)

(G&A and depreciation as a percentage of revenue)

The efficiency ratio declined to 50.6% of revenue in 2021 from 56.1% last year.

Business acquisition expenses in 2021 totalled $235,000 (2020 – $298,000). Transaction costs of $94,000 (2020 – $nil) were incurred, while the amortization of intangible assets related to AFCC and AEF totalled $141,000 (2020 – $298,000).

Income tax rose by $6,397,000 to an expense of $1,727,000 compared to a recovery of $4,670,000 in 2020. Income tax rose on a $18 million increase in the Company's share of pre-tax earnings. The Company's effective tax rate was 12.7%.

TABLE 1 – PROFITABILITY, YIELD AND EFFICIENCY RATIOS

(as a percentage)	2021	2020	2019
Return on average equity	12.6	0.5	7.1
Adjusted return on average equity	13.8	2.2	5.4
Net revenue / average assets	11.0	8.8	9.6
Operating expenses* / average assets	7.5	7.1	6.6
Operating expenses* / revenue	50.6	56.1	47.9

** G&A and depreciation*

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2021, the return on average assets, ROE and adjusted ROE, expressed in percentages, rose to 2.8%, 12.6% and 13.8%, respectively, as earnings increased. Net revenue as a percentage of average assets rose to 11.0% compared to 8.8% in 2020. G&A as a percentage of average assets increased to 7.5% in 2021 compared with 7.1% last year, while operating expenses as a percentage of revenue, the efficiency ratio, declined to 50.6% in 2021.

Canadian operations reported a substantial increase in shareholders' net earnings in 2021 compared to 2020 (see note 22 to the Statements). Shareholders' net earnings rose by $10,911,000 to $3,677,000 compared to a net loss of $7,234,000 last year. Revenue increased by $11,933,000 or 57% to $33,010,000. Expenses decreased by $2,237,000 to $28,114,000. The provision for credit and loan losses declined by $5,439,000 to $234,000, while interest expense, business acquisition expenses and depreciation declined by $1,078,000, $148,000 and $1,000, respectively. G&A increased by $4,288,000, while the impairment of assets held for sale rose by $141,000. Income tax increased by $3,259,000 to an expense of $1,219,000 on a $14,170,000 increase in pre-tax earnings.

U.S. operations reported a 7% increase in shareholders' net earnings compared to 2020 (see note 22 to the Statements). Shareholders' net earnings rose by $559,000 to $8,210,000 compared to $7,651,000 last year. Revenue increased by $3,029,000 or 11% to $30,932,000. Expenses decreased by $1,812,000 to $20,879,000. The provision for credit and loan losses declined by $4,578,000 to a recovery of $848,000, while the impairment of assets held for sale and depreciation decreased by $355,000 and $25,000, respectively. Interest expense, G&A and business acquisition expenses increased by $2,352,000, $709,000 and $85,000, respectively. Income tax increased by $3,138,000 to an expense of $508,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $1,335,000 compared to $191,000 in 2020.

Fourth Quarter 2021

Quarter ended December 31, 2021 compared to quarter ended December 31, 2020

Shareholders' net earnings for the quarter ended December 31, 2021 increased by 158% or $2,189,000 to $3,573,000 compared to $1,384,000 last year. Shareholders' net earnings increased mainly as a result of higher revenue and a lower provision for loan losses. Basic and diluted EPS were 42 cents compared to 16 cents in the fourth quarter of 2020.

Adjusted net earnings rose 111% to $4,423,000 in the fourth quarter of 2021 compared to $2,095,000 last year. Adjusted EPS were 52 cents compared to 24 cents in 2020. Please refer to the Appendix to the MD&A regarding these non-IFRS measures.

Revenue rose by $5,562,000 or 43% to $18,465,000 in the current quarter compared to $12,903,000 in the fourth quarter of 2020. Interest income rose by $3,196,000 or 29% to $14,221,000 compared to $11,025,000 in the fourth quarter of 2020 on a 28% increase in average funds employed and a small rise in average loan yields. Other income rose by $2,366,000 to $4,244,000 in the current quarter compared to $1,878,000 in 2020 for reasons stated above. Average funds employed in the fourth quarter of 2021 increased to $460 million compared to $360 million last year.

Total expenses in the fourth quarter of 2021 rose by $1,842,000 to $13,598,000 compared to $11,756,000 last year. G&A and interest expense increased by $1,714,000 and $1,142,000, respectively. The provision for credit and loan losses, impairment of assets held for sale, business acquisition expenses (transaction costs and amortization of intangibles) and depreciation declined by $770,000, $190,000, $41,000 and $13,000, respectively.

Interest expense rose by 31% to $4,780,000 in the fourth quarter of 2021 from $3,637,000 last year on 34% higher average borrowings.

SUMMARY OF QUARTERLY RESULTS

Quarters ended (in thousands unless otherwise stated)	2021 Dec. 31	 Sept. 30	 June 30	 Mar. 31	2020 Dec. 31	 Sept. 30	 June 30	 Mar. 31
Average funds employed (millions)	$ 460	$ 414	$ 376	$ 358	$ 360	$ 327	$ 341	$ 362
Revenue								
Interest and other income	$ 18,465	$ 16,119	$ 15,416	$ 13,480	$ 12,903	$ 12,312	$ 11,270	$ 12,015
Expenses								
Interest	4,779	4,216	3,605	3,286	3,637	3,379	3,575	4,005
General and administrative	8,895	8,197	7,294	7,069	7,181	5,760	6,569	6,948
(Recovery of) provision for credit and loan losses	(274)	336	220	(896)	495	3,040	(2,955)	8,822
Impairment of assets held for sale	—	21	—	852	190	—	—	897
Depreciation	166	185	178	166	179	180	184	179
Business acquisition expenses	32	32	102	69	74	74	75	74
	13,598	12,987	11,399	10,546	11,756	12,433	7,448	20,925
Earnings (loss) before income tax	4,867	3,132	4,017	2,934	1,147	(121)	3,822	(8,910)
Income tax expense (recovery)	946	273	426	82	(222)	(687)	(905)	(2,856)
Net earnings (loss)	3,921	2,859	3,591	2,852	1,369	566	4,727	(6,054)
Non-controlling interests in net earnings (loss)	348	216	506	267	(15)	—	384	(178)
Net earnings (loss) attributable to shareholders	$ 3,573	$ 2,643	$ 3,085	$ 2,585	$ 1,384	$ 566	$ 4,343	$ (5,876)
Adjusted net earnings (loss)	$ 4,423	$ 2,801	$ 3,161	$ 2,683	$ 2,095	$ 621	$ 4,730	$ (5,414)
Earnings (loss) per common share ** (cents)	42	31	36	30	16	7	51	(69)
Adjusted net earnings (loss) per common share (cents)**	52	33	37	31	24	7	55	(63)

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

*** Basic and diluted*

G&A increased by $1,714,000 to $8,895,000. As noted above, G&A increased mainly due to higher information technology expenses and increased costs related to the substantial growth of the AccordExpress product. In the fourth quarter of 2021, restructuring expenses totalling $968,000 (2020 – $894,000) were incurred relating to staff terminations. The Company did not receive any government subsidies during the fourth quarter of 2021. In the fourth quarter of 2020, the Company received CEWS of $151,000 and CERS of $37,000. The Company continues to manage its controllable expenses closely.

There was a recovery of credit and loan losses of $274,000 in the fourth quarter of 2021 compared to an expense of $495,000 last year. The provision comprised:

Quarters ended Dec. 31 (in thousands)	2021	2020
Net write-offs	$ 337	$ 1,965
Reserves recovery related to decrease in total allowances for expected losses	(611)	(1,470)
	$ (274)	$ 495

There were net write-offs of $337,000 in the current quarter compared to $1,965,000 last year, while there was a non-cash reserves recovery of $611,000 compared to a recovery of $1,470,000 last year. The Company's allowances for expected losses and its portfolio are discussed in detail below and also in the Statements.

There was no impairment charge taken in the fourth quarter of 2021. In 2020, an impairment charge of $190,000 was taken against certain assets held for sale to write them down to their estimated net recoverable value.

Depreciation expense decreased by $13,000 to $166,000 in the fourth quarter of 2021. Depreciation of $124,000 (2020 – $108,000) was charged on the right-of-use assets in the current quarter, with the balance relating to capital assets.

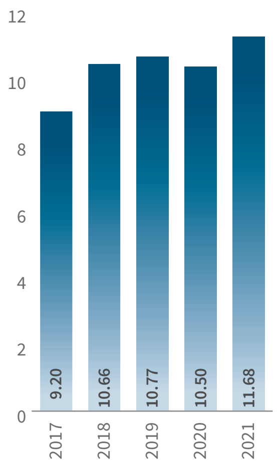
Business acquisition expenses totalled $32,000 (2020 – $74,000) in the fourth quarter and solely comprised the amortization of intangible assets relating to AEF.

Income tax rose by $1,168,000 to an expense of $946,000 in the current quarter compared to a recovery of $222,000 in the fourth quarter of 2020 as the Company's share of pre-tax earnings increased by $3,357,000. The Company's effective tax rate was 20.9%.

REVIEW OF FINANCIAL POSITION

Shareholders' equity at December 31, 2021 was $99,967,000, 11% higher than the $89,850,000 at December 31, 2020. The increase in shareholders' equity in 2021 mainly resulted from increased retained earnings. Book value per common share was at a record $11.68 at December 31, 2021 compared to $10.50 at December 31, 2020. Please see the consolidated statements of changes in equity on page 40 of this Annual Report.

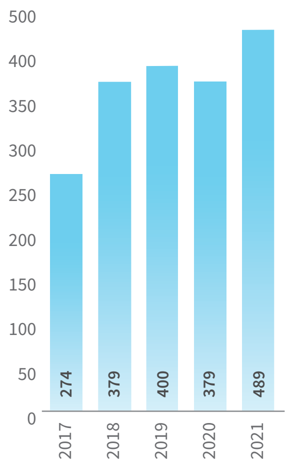
Total assets rose by 35% to $520,109,000 at December 31, 2021 compared to $384,913,000 at December 31, 2020. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 49% of total assets at December 31, 2021 compared to 61% at December 31, 2020 (see note 22 to the Statements).



Book Value per Share

(in dollars)

Book value per share was a record high $11.68 at December 31, 2021 compared to $10.50 at December 30, 2020.



Total Portfolio

Loans and managed receivables

(in millions of dollars)

The Company's total portfolio rose to a record $490 million at December 31, 2021 from $379 million last year-end.

TABLE 2 – FINANCIAL CONDITION AND LEVERAGE

(as a percentage)	2021	2020	2019
Tangible equity / assets	16	20	20
Equity / assets	20	24	24
Debt* / total equity	382	291	307
(in thousands)			
Receivables and loans			
Loans	$ 478,150	$ 360,337	$ 373,157
Managed receivables	11,441	18,523	27,338
Total Portfolio	$ 489,591	$ 378,860	$ 400,495

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

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for expected losses thereon, increased by 33% to a record high $478,150,000 at December 31, 2021 compared to $360,337,000 at December 31, 2020. As detailed in the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Working capital loans	$ 109,518	$ 7,495
Receivable loans	105,550	100,858
Other loans*	101,811	105,324
Media loans	81,497	36,915
Lease receivables	79,774	109,745
Finance receivables and loans, gross	478,150	360,337
Less allowance for expected losses	5,251	6,314
Finance receivables and loans, net	$ 472,899	$ 354,023

* *Other loans principally comprise inventory and equipment loans*

Working capital loans, primarily AccordExpress loans, increased significantly to $109,518,000 at December 31, 2021 (2020 – $7,495,000) as AccordExpress rolled out successfully in 2021. The Company's receivable loans increased by 5% to $105,550,000 at December 31, 2021 compared to $100,858,000 at December 31, 2020. Other loans, which primarily comprise advances against assets such as inventory and equipment, declined to $101,811,000 at December 31, 2021 compared to $105,324,000 at December 31, 2020. Media finance loans by BondIt rose 121% to $81,497,000 (2020 – $36,915,000). Lease receivables, representing AFCC's and AEF's net investment in equipment leases, declined by 27% to $79,774,000 at December 31, 2021 compared to $109,745,000 at December 31, 2020. Net of the allowance for expected losses thereon, Loans increased by 34% to $472,899,000 at December 31, 2021 compared to $354,023,000 at December 31, 2020. 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 AFCC's and AEF's lease receivables and equipment and working capital loans to approximately 820 clients and BondIt's media finance loans to approximately 65 media productions. The largest client in a well diversified loan portfolio comprised 4% 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 $11 million at December 31, 2021 compared to $19 million at December 31, 2020. The Company made the decision to downsize its credit protection and receivables management operations in the past year. Most of the clients' customers for which the Company assumes the credit risk are from the wholesale and distribution, and retail industries in North America. The Company monitors the credit risk related to its managed receivables very closely.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, rose by 29% to $490 million at December 31, 2021 compared to $379 million at December 31, 2020.

As described in note 24(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, equipment and media productions. The Company, through ASBF, a subsidiary of AFCC, also provides working capital term loans. 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 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 on-going 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. AFCC'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 AFCC has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at any time. None of the managed receivables that the Company guarantees payment were past due more than 60 days at December 31, 2021. 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 uses a credit risk rating system for assessing obligor and transaction risk for finance receivables and loan exposures. Risk rating models use internal and external data to assess and rate borrowers, predict future performance and manage limits for existing loans and collection activities. The credit rating of the borrower is used to assess the predicted credit risk for each initial credit approval or significant account management action. In case of the Company's credit protection business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 5 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk) and also by the three stage credit criteria of IFRS 9, Financial Instruments ("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 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, 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 small business finance operations, AFCC, security deposits are usually obtained in respect of equipment leases or loans, while AccordExpress working capital loans have a very strong financial guarantor backing them.

As detailed in note 5 to the Statements, the Company had past due finance receivables and loans of $23,879,000 at December 31, 2021, of which $13,815,000 related to BondIt, the Company's media finance subsidiary, $9,962,000 related to AFCC and $102,000 to AEF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as production delays. Of the AFCC loans past due, $61,000 are considered to have had a SICR, while the balance is less than 30 days past due and not considered to have had a SICR.

At December 31, 2021, the Company had impaired finance receivables and loans of $1,696,000 which represented 0.4% of total funds employed. 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 $1,639,000 at December 31, 2021. 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 24(a) to the Statements provides details of the Company's credit exposure by industrial sector.

TABLE 3 – CREDIT QUALITY

(as a percentage)	**2021**	2020	2019
Reserves* / portfolio	**1.1**	1.7	1.1
Reserves* / net write-offs and impairment charges**	**241**	73	77
Net write-offs and impairment charges / revenue	**3.5**	13.1	10.6

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

*** Net write-offs against Loans and impairment charges on assets held for sale.*

Table 3 highlights the credit quality of the Company's total portfolio, both Loans and managed receivables. In 2021 there was a net recovery of $15,000 on the Company's managed receivables compared to net write-offs of $1,705,000 in 2020. Net write-offs in the Company's lending businesses decreased to $953,000 in 2021 compared to $5,167,000 last year. In addition, impairment charges against assets held for sale in 2021 totalled $873,000 (2020 – $1,087,000). Overall, the Company's total net write-offs and impairment charges in 2021, as set out in the Results of Operations section above, declined to $1,811,000 compared with $7,959,000 in 2020. 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 expected losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover expected losses thereon.

The Company's allowance for expected losses on Loans, calculated under the ECL criteria of IFRS 9, totalled $5,251,000 at December 31, 2021 compared to $6,314,000 at December 31, 2020. This represents management's best estimate of its allowance for expected loan losses based on information available at those dates. The economic impacts of Covid-19 continue to affect the Company's loan portfolio to varying degrees and the measurement of the allowance could fluctuate substantially in future periods. See also discussion on loan modifications in note 5 to the Statements. The modifications principally related to temporary over advances or payment deferrals to accounts totalling $5.3 million that were otherwise in good standing at December 31, 2021. The allowance for expected losses on the guarantee of managed receivables totalled $31,000 at December 31, 2021 compared to $555,000 at December 31, 2020. The significant decrease in the allowance for expected losses on the guarantee of managed receivables at December 31, 2021 resulted from the reduction in the managed receivables and significant improvement in their risk profile. 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 expected losses accounts in 2021 and 2020 is set out in note 5 to the Statements. Management considers the estimates of both allowances for expected losses to be reasonable and supportable.

Assets held for sale, stated at their NRV, totalled $160,000 at December 31, 2021 (2020 - $1,514,000) and comprised certain assets securing defaulted finance receivables and loans from a number of clients and repossessed long-lived assets. The decrease compared to December 31, 2020 resulted from asset disposals totalling $623,000 and impairment charges of $873,000. Assets totalling $160,000 were repossessed and included in assets held for sale during 2021. These assets are currently being marketed for sale and will be disposed of as market conditions permit. See note 6 to the Statements.

Cash increased to $13,839,000 at December 31, 2021 compared to $5,546,000 at December 31, 2020. The rise in cash this year-end is temporary. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Restricted cash comprises cash held as security for non-recourse borrowings provided by a lender. Restricted cash totalling 5% of the outstanding loan balance from the lender is required to be held by it in a cash reserve account and is partly released as the loan balance is repaid. Further, cash receipts from the loan collateral securing the non-recourse borrowings are deposited in a cash collection account and can only be used to repay that debt. As at December 31, 2021, the restricted cash totalled $10,309,097 (2020 – $nil). Please refer to note 4 to the Statements.

Intangible assets, net of accumulated amortization, totalled $3,113,000 at December 31, 2021 compared to $3,278,000 at December 31, 2020. 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 AFCC acquisition on January 31, 2014. These were being amortized over a period of 5 to 7 years and were fully amortized in 2021. Please refer to note 9 to the Statements.

Goodwill totalled $13,140,000 at December 31, 2021 compared to $13,219,000 at December 31, 2020. 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 AFCC 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 8 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, 2021 and 2020 were not significant.

Total liabilities increased by 43% or $124,995,000 to $416,149,000 at December 31, 2021 compared to $291,154,000 at December 31, 2020. The increase mainly resulted from higher loans payable.

Amounts due to clients increased by $378,000 to $3,288,000 at December 30, 2021 compared to $2,910,000 at December 31, 2020. 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 $3,558,000 to $207,382,000 at December 31, 2021 compared to $210,940,000 at December 31, 2020. Bank indebtedness decreased despite the substantial increase in funds employed due to the $89 million term loan received from another lender (see note 11(b)) to fund ASBF's AccordExpress working capital loans, which term loan was used to pay down bank indebtedness. The Company was in compliance with all loan covenants under its bank facility in 2021 and 2020. Subject to other debt borrowings, bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loans payable increased by $128,060,000 to $149,437,000 at December 31, 2021 compared to $21,377,000 at December 31, 2020. During 2021, ASBF entered into a non-recourse loan and security agreement with a life insurance company to finance its AccordExpress working capital loans receivable. This non-recourse loan is collateralized by all of ASBF's assets and bears a fixed rate of interest. At December 31, 2021, the amount outstanding under this loan facility totalled $89,388,000 (2020 – $nil). ASBF has been in compliance with all loan covenants under this facility since receiving same in December 2021 (see note 11(b) to the Statements). During 2021, the revolving loan facility used to finance BondIt's media loans was increased to US$47,000,000 ($59,394,000). Borrowings under the facility, which expires on May 6, 2023, rose to $60,049,000 at December 31, 2021 (2020 – $21,376,000). BondIt was in compliance with all loan covenants thereunder in 2021 and 2020. See note 11(a) to the Statements.

Accounts payable and other liabilities increased by $1,027,000 to $11,863,000 at December 31, 2021 compared to $10,836,000 at December 31, 2020. The increase since December 31, 2020 mainly resulted from higher short-term incentives and severances payable.

Notes payable decreased by $1,442,000 to $15,992,000 at December 31, 2021 compared to $17,434,000 at December 31, 2020. The decrease in notes payable resulted from redemptions thereof. Please see Related Party Transactions section below and note 12(a) to the Statements.

Convertible debentures with a face value of $25,650,000 (25,650 convertible debentures of $1,000 each) were issued by the Company in 2018 and 2019. Of these, 20,650 debentures are listed for trading on the Toronto Stock Exchange ("TSX"), while 5,000 are unlisted. All convertible debentures are unsecured and 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 a $23,200 discount on the issue of certain debentures, a total of $23,781,000 was raised. Please see note 13 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At December 31, 2021, the debt component totalled $24,153,000 (December 31, 2020 – $23,510,000), while the equity component totalled $1,005,000 (December 31, 2020 – $1,005,000), net of deferred taxes.

Income taxes payable, lease liabilities, deferred income and net deferred tax liabilities at December 31, 2021 and 2020 were not material.

Capital stock totalled $9,448,000 at December 31, 2021 and 2020. There were 8,558,913 common shares outstanding at those dates. Please see the consolidated statements of changes in equity on page 40 of this report for details of changes in capital stock during 2021 and 2020. 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. See note 15(c) to the Statements. At the date of this MD&A, March 21, 2022, 8,558,913 common shares remained outstanding.

Contributed surplus totalled $1,088,000 at December 31, 2021 (2020 – $1,202,000). The decrease in 2021 relates to the acquisition of an additional 10% interest in BondIt from two non-controlling interests at a cost of $1,369,000, of which $201,000 was debited to contributed surplus. As noted above, included in contributed surplus at December 31, 2021 and 2020 is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax. Also included in contributed surplus at December 31, 2021 is the 2021 stock-based compensation expense relating to stock options granted of $88,000 (2020 – $nil). Please see the consolidated statements of changes in equity on page 40 of this report for details of changes in contributed surplus during 2021 and 2020.

Retained earnings increased by $10,175,000 to $83,300,000 at December 31, 2021 compared to $73,125,000 at December 31, 2020. The increase in 2021 comprised shareholders' net earnings of $11,887,000 less dividends paid of $1,712,000 (20 cents per common share). Please see the consolidated statements of changes in equity on page 40 of this report for changes in retained earnings during 2021 and 2020.

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 increased by $55,000 to $6,131,000 at December 31, 2021 compared to $6,076,000 at December 31, 2020. Please refer to the consolidated statements of changes in equity on page 40 of this report for details of changes in AOCI during 2021 and 2020. Please see also note 20 to the Statements.

Non-controlling interests in subsidiaries totalled $3,992,000 at December 31, 2021 compared with $3,909,000 at December 31, 2020. Please see the consolidated statements of changes in equity on page 40 of this report, and note 21 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, convertible debentures, loans and notes payable. 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, 2021 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 loans payable, or equity.

The Company had credit lines and loans payable totalling approximately $526 million at December 31, 2021 and had borrowed $357 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 24(b) details the Company's financial assets and liabilities at December 31, 2021 by their maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $13,839,000 at December 31, 2021 compared to $5,546,000 at December 31, 2020. At December 31, 2021, the Company also had restricted cash, which is held as collateral by a lender, totalling $10,309,097. 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 2021 cash flows

Year ended December 31, 2021 compared with the year ended December 31, 2020

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments increased to $15,799,000 in 2021 compared to $1,107,000 last year. After changes in operating assets and liabilities and income tax paid there was a net cash outflow of $101,647,000 in 2021 compared to an inflow of $23,371,000 last year. The net cash outflow in 2021 largely resulted from funding gross loans of $118,831,000. In 2020, 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. 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 41 of this report.

Cash outflows from investing activities in 2021 totalled $83,000 (2020 – $43,000) and comprised additions to property and equipment.

Net cash inflow from financing activities totalled $120,375,000 in 2021 compared to an outflow of $21,912,000 last year. The net cash inflow in 2021 largely resulted from an increase in loans payable of $127,828,000. Partly offsetting this inflow was a decrease in bank indebtedness of $2,412,000, dividend payments totalling $1,712,000, notes payable redeemed, net, of $1,438,000, the purchase of an additional 10% in BondIt LLC from non-controlling interests for $1,369,000, lease liabilities payments of $464,000 and a distribution paid to non-controlling interests of $58,000. In 2020 the net cash outflow resulted from a repayment of 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 normal course issuer bid for $264,000 and the purchase of an additional 2% in AEF from a non-controlling interest for $181,000. Partially offsetting this outflow was an increase in loans payable of $10,935,000.

The effect of exchange rate changes on cash comprised a decrease of $42,000 in 2021 compared to a decrease of $2,645,000 in 2020.

Overall, there was a net cash inflow of $18,602,000 in 2021 compared to a net cashflow of $1,230,000 in 2020.

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 totalled $15,992,000 at December 31, 2021 compared to $17,434,000 at December 31, 2020. Notes payable comprise: (i) unsecured demand notes due on,

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT DECEMBER 31, 2021

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	Total
Debt obligations	$ 310,469	$ 72,062	$ 14,433	$ —	$ 396,964
Operating lease obligations	525	354	184	23	1,086
Purchase obligations	38	—	—	—	38
	$ 311,032	$ 72,416	$ 14,617	$ 23	$ 398,088

or within a week of, demand of $2,333,000 (December 31, 2020 – $1,587,000); (ii) term notes totalling $13,659,000 (December 31, 2020 – $15,848,000), which are repayable on various dates the latest of which is January 31, 2023. Notes due on, or within a week of demand, bear interest at rates that vary with the bank prime rate or Libor, while the term notes bear interest at rates between 7% and 11%.

Of the notes payable, $13,843,000 (December 31, 2020 – $15,072,000) was owing to related parties and $2,149,000 (December 31, 2020 – $2,362,000) to third parties. Interest expense on these notes in 2021 totalled $1,177,000 (2020 – $1,210,000). Please refer to note 12(a) to the Statements.

The following related parties had notes payable with the Company at December 31, 2021:

Demand notes payable		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	$1,500,000
Hitzig Bros., Hargreaves & Co. LLC.*	Directors	US$1,000,000
Ken Hitzig	Director	$500,000
Term notes payable (due July 31, 2022)		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	$4,000,000
Oakwest Corporation Inc.	Director	$3,000,000
Ken Hitzig	Director	$2,500,000

* *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 2.60%). 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 2021, the Company renewed certain unsecured three-year term notes payable which had matured on July 31, 2021 for a further one-year term, expiring on July 31, 2022. These term notes, which pay a 7% rate of interest, 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 cash, derivative financial instruments, and the guarantee of managed receivables, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and loans to clients in our equipment and small business finance operations, term loan payable and lease liabilities, are short-term in nature and, therefore, their carrying values approximate fair values.

At December 31, 2021, there were no outstanding foreign exchange contracts entered into by the Company. At December 31, 2020, the Company had entered into forward foreign exchange contracts with a financial institution which had to be exercised by the Company between January 29, 2021 and August 31, 2021 and obliged 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 19 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 expected losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for expected 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 ("FLI"). The key inputs in the measurement of ECL allowances for each loan are as follows: (i) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. These key inputs associated with each loan are sensitized to future market and macro-economic conditions through the incorporation of FLI. 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 have and are seeing as a result of Covid-19.

The Company's allowance for expected 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. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. 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. 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 expected 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 expected losses.

Management believes that its allowances for expected losses, which require a high degree of reasonable and supportable 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), 5 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.

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 2021 that have materially affected, or are reasonably likely to materially affect, DC&P or ICFR.

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

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2021 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

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

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

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

(iii) The Company's management has designed and tested the effectiveness of its internal control over financial reporting as at December 31, 2021 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 24 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 23.

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 23.

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.

Technology and cyber security

The Company remains focused on the confidentiality, integrity and availability of the information and cyber security controls that protect its network, data and infrastructure. The cyber security risk landscape includes numerous cyber threats such as hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated, complex, and potentially damaging. Third party service providers that the Company uses may also be subject to these risks which can increase our risk of potential attack. The Company establishes the requirements and sets out the overall framework for managing cyber and information security related risks. These include developing and implementing the appropriate activities to detect, respond to and contain the impact of cyber security threats, along with implementing the appropriate safeguards to ensure the delivery of critical infrastructure services.

The Company is continuously improving the strength of its practices and capabilities. It works closely with our critical cyber security and software suppliers to ensure that its technology capabilities remain cyber resilient and effective in the event of any unforeseen cyber attack. The Company has not experienced any material cyber security breaches and has not incurred any material expenses with respect to the remediation of such cyber events. Security risks continue to be actively monitored and reviewed, leveraging the expertise of the Company's service providers and vendors, reviewing industry best practices and regularly re-assessing controls in place to acknowledge, address and mitigate the risks identified. The Company's maintains a cyber security insurance policy to provide coverage in the event of cyber security incidents.

Data management and privacy risk

Data management and its governance are becoming increasingly important as the Company continues to invest in digital solutions and innovation and the ongoing expansion of business activities. Furthermore, there are regulatory compliance risks associated with data management and privacy. The Company establishes the requirements and sets out the overall framework for data management and managing privacy related risks.

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 had significant growth in funds employed in the three years through 2019 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, economic activity was severely impacted in the battle to tame Covid-19. The adverse economic conditions resulting from Covid-19 prevention measures in North America served to reduce the Company's funds employed and revenue in 2020, as well as led to a significantly increased provision for losses. At the time the pandemic arose, all our lending businesses were on an upward trajectory in terms of growth in funds employed, although our receivables management business was, after facing intense competition from multinational credit insurers, downsizing.

From the pandemic induced low-point of $317 million of funds employed (June 30, 2020), funds employed have grown 51% to reach a record high $478 million at December 31, 2021. Revenue in 2021 ($63.5 million), shareholders' net earnings ($11.9 million) and adjusted net earnings ($13.1 million) were also record highs. The Company has seen strong growth from its Canadian equipment and small business finance division, AFCC, as well as at BondIt. AFCC's subsidiary, ASBF, in particular, has seen strong take up of its Export Development Canada ("EDC") backed AccordExpress product. Medium to strong growth is expected to continue at these divisions. More moderate growth is expected to come from the Company's asset-based financing units, AFIC and AFIU, as well as AEF, the Company's U.S. equipment finance division. As noted above, the Company's receivables management business, AFL, has been downsized in the past year. That business provides credit risk management services primarily related to the wholesale and retail industries in Canada. Given the long-term headwinds in those sectors, the Company made the decision to reduce the size of AFL's operations. In recent years, AFL's contribution was not financially significant to the Accord group overall.

To support the anticipated increase in funds employed, the Company is supported by a $367 million bank facility, which was renewed for a further year in July 2021 and should provide it with the majority of funding needed to support further growth over the next twelve months, as well as the non-bank loan facilities to BondIt (US$47 million) and ASBF ($100 million) noted above. 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 as the economy continues 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

Stuart Adair
Senior Vice President, Chief Financial Officer
March 21, 2022

Appendix to MD&A: Non-IFRS Measures and Ratios

($000s, except percentages, earnings per share and book value per share)

Fiscal Year Non-IFRS Calculations

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Return on Equity					
Net earnings attributable to common shareholders	**11,887**	417	6,444	10,356	6,010
Weighted average shareholders' equity (note)	**94,432**	90,339	91,358	80,723	75,480
Return on equity (Table 1)	**12.6%**	0.5%	7.1%	12.8%	8.0%

Note: weighted average shareholders' equity is the average shareholder's equity calculated for each month of the fiscal year, then totalled up and divided by 12

	2021	2020	2019	2018	2017
Adjusted net earnings					
Net earnings attributable to shareholders	**11,887**	417	6,444	10,356	6,010
Adjustments, net of tax:					
Stock-based compensation expense	**88**	—	(124)	233	188
Restructuring expenses	**920**	1,395	—	—	122
Business acquisition expenses (recovery)	**173**	220	(1,381)	251	685
Adjusted net earnings attributable to shareholders	**13,068**	2,032	4,939	10,840	7,005

	2021	2020	2019	2018	2017
Adjusted earnings per share					
Adjusted net earnings	**13,068**	2,032	4,939	10,840	7,005
Weighted average number of common shares outstanding in the year	**8,559**	8,563	8,467	8,329	8,308
Adjusted earnings per share	**1.53**	0.24	0.58	1.30	0.84

	2021	2020	2019	2018	2017
Adjusted return on equity					
Adjusted net earnings	**13,068**	2,032	4,939	10,840	7,005
Weighted average shareholders' equity	**94,432**	90,339	91,358	80,723	75,480
Adjusted return on equity (Table 1)	**13.8%**	2.2%	5.4%	13.4%	9.3%

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Book value per share					
Shareholders' equity	**99,967**	89,850	92,515	89,818	76,448
Common shares outstanding	**8,559**	8,559	8,589	8,429	8,308
Book value per share	**11.68**	10.50	10.77	10.66	9.20

	2021	2020	2019	2018	2017
Average funds employed (note)					
Fiscal year	**402,015**	347,493	378,243	270,900	181,052
Quarter 1	**358,091**	362,300	346,834	228,778	142,653
Quarter 2	**375,593**	340,740	387,875	254,765	166,643
Quarter 3	**414,199**	326,854	383,480	283,216	189,338
Quarter 4	**460,179**	360,078	394,783	316,842	225,574

Note: average funds employed is average finance receivable and loans calculated for each month of the year or quarter and divided by the number of months in the period.

	2021	2020	2019	2018	2017
Return on average assets					
Net earnings attributable to shareholders	**11,887**	417	6,444	10,356	6,010
Average assets (note)	**431,523**	383,908	408,708	298,492	199,390
Return on average assets (Table 1)	**2.8%**	0.1%	1.6%	3.5%	3.0%

Note: average assets is calculated as the average of the opening and closing assets for the fiscal year as taken from the Company's Consolidated Balance Sheets.

	2021	2020	2019	2018	2017
Net revenue / average assets					
Net revenue (note)	47,594	33,906	39,086	37,520	27,562
Average assets	431,523	383,908	408,708	298,492	199,390
Net revenue / average assets (Table 1)	11.0%	8.8%	9.6%	12.6%	13.8%

Note: net revenue is revenue less interest expense as taken from the Company's Statements of Earnings for the year.

	2021	2020	2019	2018	2017
Operating expenses / average assets					
Operating expenses	32,151	27,226	26,878	23,803	17,106
Average assets	431,523	383,908	408,708	298,492	199,390
Operating expenses / average assets (Table 1)	7.5%	7.1%	6.6%	8.0%	8.6%

	2021	2020	2019	2018	2017
Operating expenses / revenue					
Operating expenses (note)	32,151	27,226	26,878	23,803	17,106
Revenue	63,480	48,501	56,175	46,927	31,409
Operating expenses / revenue (Table 1)	50.6%	56.1%	47.9%	50.7%	54.5%

Note: operating expenses in the total of general & administrative expenses and depreciations as taken from the Company's Statement of Earnings for the year This is also referred to as the efficiency ratio.

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Equity / assets					
Total equity	103,960	93,759	96,368	95,185	79,770
Assets	520,109	384,913	406,214	373,783	247,309
Equity / assets (Table 2)	20%	24%	24%	25%	32%

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Tangible equity					
Total equity	103,960	93,759	96,368	95,185	79,770
Less: Intangible assets	3,113	3,278	3,639	4,116	3,865
Less: goodwill	13,140	13,219	13,455	14,031	13,082
Less: deferred tax assets	3,416	2,002	976	1,208	640
Add: deferred tax liabilities	(277)	(603)	(2,251)	(515)	(164)
Tangible equity	84,568	75,863	80,549	76,345	62,348

	2021	2020	2019	2018	2017
Tangible equity / assets					
Tangible equity	84,568	75,863	80,549	76,345	62,348
Assets	520,109	384,913	406,214	373,783	247,309
Tangible equity / assets (Table 2)	16%	20%	20%	20%	25%

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Debt / equity					
Debt (note)	396,964	273,260	295,875	262,591	154,002
Total equity	103,960	93,759	96,368	95,185	79,770
Debt / equity (Table 3) (as a percentage)	382%	291%	307%	276%	193%

Note: debt comprises the total of bank indebtedness, loans payable, convertible debentures and notes payable as taken from the Company's Consolidated Balance Sheets.

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Reserves					
Allowance for expected losses on loans	5,251	5,853	4,520	3,450	2,129
Allowance for expected losses on managed receivables	31	555	44	74	130
Reserves	5,282	6,408	4,564	3,524	2,259

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Portfolio					
Finance receivables and loans	**478,150**	360,337	373,157	339,102	220,104
Managed receivables (note)	**11,441**	18,523	27,338	40,145	53,478
Portfolio	**489,591**	378,860	400,495	379,247	273,582

Note: managed receivables represent those off-balance sheet receivables on which the Company has assumed the credit risk and/or collection responsibilities (see note 5(b) to the Statements).

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Reserves / portfolio					
Reserves	**5,282**	6,408	4,564	3,524	2,259
Portfolio	**489,591**	378,860	400,495	379,247	273,582
Reserves / portfolio (Table 3)	**1.1%**	1.7%	1.1%	0.9%	0.8%

	2021	2020	2019	2018	2017
Net write-offs & impairment of assets held for sale					
Net write-offs (note)	**938**	6,872	5,952	818	2,348
Impairment of assets held for sale ("impairment charges")	**1,253**	1,890	—	25	24
Net write-offs and impairment charges	**2,191**	8,762	5,952	843	2,372

Note: net write-offs are write-offs less recoveries of finance receivables and loans and the guarantee of managed receivables. Impairment charges are shown in the Consolidated Statements of Earnings for the year.

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Reserves / net write-offs and impairment charges (Table 3)					
Reserves	**5,282**	6,408	4,564	3,524	2,259
Net write-offs and impairment charges	**2,191**	8,762	5,952	843	2,372
Reserves / net write-offs and impairment charges (Table 3)	**241%**	73%	77%	418%	95%

	2021	2020	2019	2018	2017
Net write-offs and impairment charges / revenue					
Net write-offs and impairment charges	**2,191**	8,762	5,952	843	2,372
Revenue	**63,480**	48,501	56,175	46,927	31,409
Net write-offs and impairment charges / revenue (Table 3)	**3.5%**	18.1%	10.6%	1.8%	7.6%

Quarterly Non-IFRS Calculations

Quarters ending	**Dec. 31, 2021**	**Sept. 30, 2021**	**June 30, 2021**	**Mar. 31, 2021**	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020
Adjusted net earnings								
Net earnings (loss) attributable to shareholders	**3,573**	**2,643**	**3,085**	**2,585**	1,384	566	4,343	(5,876)
Adjustments, net of tax:								
Stock-based compensation expense	**75**	**13**	**—**	**—**	—	—	—	—
Restructuring expenses	**735**	**138**	**—**	**47**	657	—	331	407
Business acquisition expenses	**40**	**6**	**76**	**51**	54	55	56	55
Adjusted net earnings (loss) attributable to shareholders	**4,423**	**2,800**	**3,161**	**2,683**	2,095	621	4,730	(5,414)

Quarters ending	**Dec. 31, 2021**	**Sept. 30, 2021**	**June 30, 2021**	**Mar. 31, 2021**	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020
Adjusted earnings per share								
Adjusted net earnings attributable to shareholder	**4,423**	**2,800**	**3,161**	**2,683**	2,095	621	4,730	(5,414)
Weighted average number of common shares outstanding in the quarter	**8,559**	**8,559**	**8,559**	**8,559**	8,559	8,559	8,559	8,571
Adjusted earnings per share	**0.52**	**0.33**	**0.37**	**0.31**	0.24	0.07	0.55	(0.63)

Ten Year Financial Summary 2012-2021

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.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
Revenue	$ 25,891	26,074	30,235	31,577	28,522	31,409	46,927	56,175	48,501	**63,480**
Interest	1,911	1,913	2,523	2,258	2,281	3,847	9,407	17,089	14,596	**15,887**
General and administrative	13,615	13,845	16,154	17,484	17,427	16,945	23,524	26,151	26,458	**31,455**
Provision for credit and loan losses	213	438	639	375	963	2,898	2,025	7,105	9,403	**(614)**
Impairment of assets held for sale	—	—	—	50	44	24	25	—	1,087	**873**
Depreciation	126	112	125	136	154	161	279	727	721	**695**
Business acquisition expenses	—	—	570	575	509	932	336	(1,818)	298	**235**
Total expenses	15,865	16,308	20,011	20,878	21,378	24,807	35,596	49,254	52,563	**48,531**
Earnings (loss) before income tax	10,026	9,766	10,224	10,699	7,144	6,602	11,331	6,921	(4,062)	**14,949**
Income tax expense (recovery)	3,649	3,228	3,345	1,940	578	391	104	1,579	(4,670)	**1,727**
Net earnings	6,377	6,538	6,879	8,759	6,566	6,211	11,227	5,342	608	**13,222**
Non-controlling interests	—	—	—	—	—	201	871	(1,102)	191	**1,355**
Net earnings attributable to shareholders	$ 6,377	6,538	6,879	8,759	6,566	6,010	10,356	6,444	417	**11,887**
Earnings per common share: Basic and diluted	0.76	0.80	0.83	1.05	0.79	0.72	1.24	0.76	0.05	**1.39**
Dividends per common share	$ 0.31	0.32	0.33	0.35	0.36	0.36	0.36	0.36	0.24	**0.20**
Finance receivables and loans, net	$ 108,477	109,775	136,346	134,259	138,115	217,975	335,652	368,637	354,023	**472,899**
Other assets	16,115	11,034	18,278	20,301	20,451	33,045	38,131	37,577	30,890	**47,210**
Total assets	$ 124,592	120,809	154,624	154,560	158,566	251,020	373,783	406,214	384,913	**520,109**
Bank indebtedness	$ 54,572	43,368	63,995	54,094	62,484	138,140	222,862	242,781	210,940	**207,382**
Loans payable	—	—	—	—	—	—	5,696	11,227	21,376	**149,437**
Notes payable	14,492	14,809	16,808	13,201	11,370	15,862	18,079	18,939	17,434	**15,992**
Convertible debentures	—	—	—	—	—	—	15,955	22,928	23,510	**24,153**
Other liabilities	8,132	9,201	12,489	14,199	9,030	16,885	16,006	13,971	17,894	**19,185**
Total liabilities	77,196	67,378	93,292	81,494	82,884	170,887	278,598	309,846	291,154	**416,149**
Shareholders' equity	47,396	53,431	61,332	73,066	75,682	76,449	89,818	92,515	89,850	**99,967**
Non-controlling interests in subsidiaries	—	—	—	—	—	3,684	5,367	3,853	3,909	**3,992**
Total equity	47,396	53,431	61,332	73,066	75,682	80,133	95,185	96,368	93,759	**103,960**
Total liabilities and equity	$ 124,592	120,809	154,624	154,560	158,566	251,020	373,783	406,214	384,913	**520,109**
Shares outstanding at Dec. 31	# 8,221	8,221	8,308	8,308	8,308	8,308	8,429	8,589	8,559	**8,559**
Share price - high	$ 7.15	9.25	10.75	12.05	9.95	9.55	10.45	10.42	10.15	**9.20**
- low	6.50	6.84	7.85	9.00	8.70	8.40	8.22	8.37	3.51	**6.23**
- close at Dec. 31	7.00	7.86	9.35	9.60	8.99	9.20	9.09	10.07	6.70	**8.40**

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

Stuart Adair
Senior Vice President, Chief Financial Officer
March 21, 2022
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, 2021 and December 31, 2020*
- *the consolidated statements of earnings for the years then ended*
- *the consolidated statements of comprehensive income for the years then ended*
- *the consolidated statements of changes in equity for the years then ended*
- *the consolidated statements of cash flows for the years then ended*
- *and notes to the consolidated financial statements, including a summary of significant accounting policies*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, 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, 2021. 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 matter to be communicated in our auditors' report.

ASSESSMENT OF ALLOWANCE FOR LOSSES

Description of the matter

We draw attention to Notes 2, 3 (d), 5, and 24 (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 $5,282,000 (finance receivables and loans $5,251,000, and managed receivables $31,000).

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”) associated with each loan, sensitized to future market and macroeconomic conditions through the incorporation of forward-looking information (“FLI”). 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 judgements (SICR), and their resulting impact on the allowance; and
- Selecting relevant forward- looking information.

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 judgement was required due to the high degree of measurement uncertainty in the key inputs (PD, LGD, EAD) and judgements (SICR) and their resulting impact on the allowance. Assessing the allowance also required significant auditor attention and complex auditor judgement 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:

— the qualitative and quantitative factors used to identify whether there has been SICR

— management's review of the ECL which includes their review of forward-looking information and the application of expert credit judgement

We involved credit risk professionals with specialized skills and industry knowledge who assisted in assessing:

- the PDs and LGDs by comparing to industry data

- the appropriateness of FLI applied by comparing to external macroeconomic data

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 8 to the financial statements. The Entity has goodwill of $13,140,447 recorded in its consolidated 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 2021".

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 2021" 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 21, 2022

Consolidated Statements of Financial Position

	December 31, 2021	December 31, 2020
Assets		
Cash	$ 13,839,291	$ 5,545,951
Restricted cash (note 4)	10,309,097	—
Finance receivables and loans, net (note 5)	472,898,716	354,023,167
Income taxes receivable	104,860	1,842,751
Other assets	1,853,864	1,833,242
Assets held for sale (note 6)	160,274	1,513,567
Deferred tax assets, net (note 16)	3,415,590	2,002,180
Property and equipment (note 7)	1,273,381	1,655,193
Intangible assets (note 9)	3,113,196	3,277,744
Goodwill (note 8)	13,140,447	13,218,843
	$ 520,108,716	$ 384,912,638
Liabilities		
Due to clients	$ 3,287,532	$ 2,909,880
Bank indebtedness (note 10)	207,382,279	210,940,174
Loans payable (note 11)	149,436,971	21,376,479
Accounts payable and other liabilities	11,863,049	10,836,423
Income taxes payable	2,285,055	1,575,643
Notes payable (note 12(a))	15,992,357	17,434,054
Convertible debentures (note 13)	24,152,681	23,509,573
Lease liabilities (note 14)	979,416	1,207,264
Deferred income	493,007	761,514
Deferred tax liabilities, net (note 16)	276,720	602,510
	416,149,067	291,153,514
Equity		
Capital stock (note 15)	9,448,264	9,448,264
Contributed surplus (note 15(d))	1,088,263	1,201,785
Retained earnings	83,299,791	73,124,659
Accumulated other comprehensive income (note 20)	6,131,180	6,075,665
Shareholders' equity	99,967,498	89,850,373
Non-controlling interests in subsidiaries (note 21)	3,992,151	3,908,751
Total equity	103,959,649	93,759,124
	$ 520,108,716	$ 384,912,638

Contingent liabilities (note 18)

See accompanying notes to consolidated financial statements.

On behalf of the Board

David Beutel
Chairman of the Board

Simon Hitzig
President and Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2021	2020
Revenue		
Interest (note 5)	$ 51,897,688	$ 42,704,739
Other income (note 5)	11,582,754	5,795,959
	63,480,442	48,500,698
Operating expenses		
Interest	15,886,687	14,595,782
General and administrative	31,455,505	26,458,300
(Recovery of) provision for credit and loan losses (note 5)	(614,359)	9,402,659
Impairment of assets held for sale (note 6)	872,948	1,086,812
Depreciation	695,385	721,333
Business acquisition expenses:		
Transaction costs	93,958	—
Amortization of intangible assets	140,955	298,037
	48,531,079	52,562,923
Earnings (loss) before income tax	14,949,363	(4,062,225)
Income tax expense (recovery) (note 16)	1,727,000	(4,670,000)
Net earnings	13,222,363	607,775
Net earnings attributable to non-controlling interests in subsidiaries	1,335,448	191,149
Net earnings attributable to shareholders	$ 11,886,915	$ 416,626
Basic and diluted earnings per common share (note 17)	$ 1.39	$ 0.05

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31	2021	2020
Net earnings attributable to shareholders	$ 11,886,915	$ 416,626
Other comprehensive income (loss):		
Items that are or may be reclassified to profit or loss:		
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations (note 19)	55,515	(640,916)
Comprehensive income (loss)	$ 11,942,430	$ (224,290)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 21)	Total equity
Balance at January 1, 2020	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 a 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**
Comprehensive income	—	—	—	11,886,915	55,515	—	11,942,430
Dividends paid	—	—	—	(1,711,783)	—	—	(1,711,783)
Stock-based compensation expense related to stock option grants	—	—	87,884	—	—	—	87,884
Distribution to non-controlling interests	—	—	—	—	—	(58,518)	(58,518)
Purchase of additional 10% of BondIt LLC from non-controlling interests	—	—	(201,406)	—	—	(1,167,825)	(1,369,231)
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	1,335,448	1,335,448
Translation adjustments on non-controlling interests	—	—	—	—	—	(25,705)	(25,705)
Balance at December 31, 2021	**8,558,913**	**$ 9,448,264**	**$ 1,088,263**	**$83,299,791**	**$ 6,131,180**	**$ 3,992,151**	**$103,959,649**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2021	2020
Cash provided by (used in):		
Operating activities		
Net earnings	$ 13,222,363	$ 607,775
Items not affecting cash:		
Allowances for expected losses, net of write-offs and recoveries	(1,552,666)	2,530,516
Deferred income	(42,435)	(49,526)
Amortization of intangible assets	140,955	298,037
Depreciation of property and equipment	695,385	721,333
Loss on disposal of property and equipment	4,041	—
Impairment of assets held for sale	872,948	1,086,812
Accretion of convertible debentures	643,108	581,632
Stock-based compensation expense related to stock option grants	87,884	—
Deferred tax recovery	(1,702,726)	(2,636,033)
Current income tax expense (recovery)	3,429,726	(2,033,967)
	15,798,583	1,106,579
Changes in operating assets and liabilities:		
Finance receivables and loans, gross	(118,831,391)	7,631,729
Due to clients	373,103	490,872
Other assets	22,006	550,449
Accounts payable and other liabilities	1,354,700	4,018,250
Disposal of assets held for sale	623,433	7,238,095
Income tax (paid) refund, net	(987,168)	2,334,679
	(101,646,734)	23,370,653
Investing activities		
Additions to property and equipment, net	(83,249)	(43,474)
Financing activities		
Bank indebtedness	(2,412,331)	(28,459,967)
Loans payable	127,827,900	10,935,301
Notes payable redeemed, net	(1,437,503)	(1,500,175)
Dividends paid	(1,711,783)	(2,055,417)
Purchase of 10% of BondIt LLC from non-controlling interests	(1,369,231)	—
Purchase of 2% of Accord CapX LLC from a non-controlling interest	—	(181,389)
Lease liabilities paid	(464,013)	(386,509)
Distribution paid to non-controlling interests in subsidiaries	(58,518)	—
Repurchase and cancellation of shares	—	(264,049)
	120,374,521	(21,912,205)
Effect of exchange rate changes on cash	(42,101)	(2,645,445)
Increase (decrease) in cash	18,602,437	(1,230,471)
Cash and restricted cash at January 1	5,545,951	6,776,422
Cash and restricted cash at December 31	$ 24,148,388	$ 5,545,951
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 10,246,819	$ 10,417,117

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

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, working capital, 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 expected losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(d) and 5), the carrying value of assets held for sale (note 6), the determination of goodwill on acquisition and the value of intangible assets (notes 8 and 9), as well as the net realizable value of deferred tax assets and liabilities (note 16).

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 led to a significant contraction in economic activity. With the resurgence of a mutated variant of Covid-19, some of the restrictions that were lifted during 2021 were subsequently put back in place. Significant economic uncertainty still persists, the expected impact of which requires 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 expected losses, the determination of triggering events for the impairment of non-financial assets, such as goodwill 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 a 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);

- Stock option grants (a component of contributed surplus); 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 21, 2022.

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 Accord Financial Canada Corp. ("AFCC") (formerly known as Varion Capital Corp.) 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 to the initial cost or loan amount of the asset. Fees related to direct finance leases, installment payment agreements and loan receivables of AFCC and Accord CapX LLC (doing business as Accord Equipment Finance ("AEF")), a 92% owned 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, setup 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, as well as providing guarantee backed working capital loans. 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 expected credit losses

The Company maintains allowances for expected credit losses ("ECL") 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 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 ("FLI") is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment.

The Company's allowances for ECL 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) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. These key inputs associated with each loan are sensitized to future market and macroeconomic conditions through the incorporation of FLI. 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 expected credit 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 expected credit losses.

(e) Property and equipment

Property and equipment is 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 property and equipment on a regular basis to determine that its carrying value has 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 and small business finance 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 15(f)) originally contemplated that grants thereunder may be settled in common shares and/or cash. However, this was subsequently amended so that settlement will be in the form of cash only. Grants are determined as a percentage of the participants' short-term annual bonus, up to an annual LTIP pool maximum, and are then adjusted up or down based on the Company's adjusted return on average equity over the three-year vesting period of an award. The fair value of the LTIP awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

(m) Derivative financial instruments

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

(n) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, 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. Restricted cash

Restricted cash represents cash held as security for non-recourse borrowings provided by a lender. A cash reserve account held by the lender is required to be maintained at an amount equal to 5% of the loan principal outstanding. Additionally, cash collections related to certain financial assets securing the non-recourse borrowing can only be used to repay that debt on certain specified dates. As at December 31, 2021, the restricted cash totalled $10,309,097 (2020 – $nil) against an amount due to the lender of $89,387,586.

5. Finance receivables and loans and managed receivables

(a) Finance receivables and loans

As detailed in note 2, there is a high degree of uncertainty relating to the ongoing adverse economic impact of Covid-19 on the Company's portfolio of finance receivables and loans, and managed receivables, and the requirement to build FLI into our expected credit loss models under IFRS 9. Since the first quarter of 2020, this uncertainty resulted in significant increases in the Company's provision for expected credit and loan losses and allowance for expected losses, as well as downgrades in internal client credit risk ratings as detailed below. We have recently seen certain revisions to the allowance for expected loss estimates that have resulted in a fairly significant recovery of the increased allowances that were initially set up at the onset of Covid-19. Certain payment modifications were also granted at the onset of Covid-19 as a means of avoiding credit and loan losses. This is discussed below.

Finance receivables and loans at December 31 were as follows:

	2021	2020
Working capital loans	$ 109,518,045	$ 7,390,996
Receivable loans	105,550,028	100,858,076
Other loans*	101,810,633	105,428,510
Media loans	81,496,778	36,914,609
Lease receivables	79,774,232	109,744,976
Finance receivables and loans, gross	478,149,716	360,337,167
Less allowance for expected losses	5,251,000	6,314,000
Finance receivables and loans, net	$ 472,898,716	$ 354,023,167

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

The Company's finance receivables and loans are generally either: (i) collateralized by a charge on substantially all the borrowers' assets; or (ii) leased assets or factored receivables which the Company owns; or (iii) guaranteed by a credit worthy party. 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 AFCC and AEF as described in note 3(c). Lease receivables at December 31, 2021 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, 2021 totalled $5.3 million (December 31, 2020 – $18.1 million).

Interest income earned on finance receivables and loans in 2021 totalled $51,897,688 (2020 – $42,704,739).

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Less than 1 year	$ 259,737	$ 206,934
1 to 2 years	99,209	78,362
2 to 3 years	81,500	57,992
3 to 4 years	33,234	15,038
4 to 5 years	4,470	2,011
	$ 478,150	$ 360,337

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Current	$ 452,575	$ 345,163
Past due but not impaired:		
Past due less than 90 days	15,214	5,238
Past due 90 to 180 days	1,942	1,548
Past due 180 days or more	6,723	5,849
Impaired loans	1,696	2,539
	$ 478,150	$ 360,337

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on changes in the lifetime risk of default of an account since initial recognition, 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, 2021, $13,815,000 related to BondIt Media Capital

("BondIt"), AFIU's 61% controlled media finance subsidiary, where media productions are often delayed resulting in payment delays, while $9,962,000 related to AFCC and $102,000 to AEF.

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, 2021, the estimated net realizable value of the collateral securing the impaired loans totalled $1,639,000 (December 31, 2020 – $3,013,000). During 2021, lease receivables totalling $160,000 (2020 – $2,425,000) were transferred to assets held for sale upon default of the leases and recovery of the Company's assets.

The Company uses a credit risk rating system for assessing obligor and transaction risk for finance receivables and loan exposures. Risk rating models use internal and external data to assess and rate borrowers, predict future performance and manage limits for existing loans and collection activities. The credit rating of the borrower is used to assess the predicted credit risk for each initial credit approval or significant account management action. Credit ratings improve credit decision quality, adjudication time frames and consistency in the credit decision process and facilitates risk-based pricing.

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 probability of default.

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

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

As detailed in note 3(d), the following table maps PD bands to various summarized risk levels for exposures:

PD Band	Risk Category
0.00% - 2.48%	Low Risk
2.49% - 8.35%	Medium Risk
8.36% - 99.99%	High Risk
100%	Impaired

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Low risk	**$ 199,726**	$ 130,160
Medium risk	**202,852**	189,225
High risk	**73,876**	38,413
Impaired	**1,696**	2,539
	$ 478,150	$ 360,337

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Stage 1	**$ 436,592**	$ 314,111
Stage 2 (SICR)	**39,862**	43,687
Stage 3 (Impaired)	**1,696**	2,539
	$ 478,150	$ 360,337

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.

The activity in the allowance for expected losses on finance receivables and loans account during 2021 and 2020 was as follows:

	2021	2020
Allowance for expected losses at January 1	**$ 6,314,000**	$ 4,520,000
(Recovery of) provision for loan losses	**(53,132)**	7,186,183
Write-offs	**(1,057,071)**	(8,755,220)
Recoveries	**81,536**	3,588,553
Foreign exchange adjustment	**(34,333)**	(225,516)
Allowance for expected losses at December 31	**$ 5,251,000**	$ 6,314,000

The activity in the allowance for expected losses on finance receivables and loans during 2021 by stage of allowance was as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for expected losses at January 1, 2021	**$ 3,527,040**	**$ 2,786,960**	**$ —**	**$ 6,314,000**
Transfer between stages	**179,435**	**(180,202)**	**767**	**—**
Reserves expense (recovery)* related to change in allowance for expected losses	**(352,663)**	**(736,583)**	**60,581**	**(1,028,665)**
Foreign exchange adjustment	**(33,902)**	**1,521**	**(1,954)**	**(34,335)**
Allowance for expected losses at December 31, 2021	**$ 3,319,910**	**$ 1,871,696**	**$ 59,394**	**$ 5,251,000**

** a component of the provision for loan losses*

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

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected 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 expected losses	1,317,825	1,714,477	(1,012,787)	2,019,515
Foreign exchange adjustment	(118,381)	(107,134)	—	(225,515)
Allowance for expected losses at December 31, 2020	$ 3,527,040	$ 2,786,960	$ —	$ 6,314,000

** a component of the provision for loan losses*

The Stage 3 allowance for expected losses is typically not significant, or even zero, as the impaired finance receivables and loans are generally 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 expected losses thereon reversed.

The Company's allowance for expected losses on finance receivables and loans is estimated using statistical models that involve a number of inputs and assumptions. The key drivers of changes in the Company's allowance for expected losses include the following:

- Changes in PD and LGD due to significant changes in credit risk, including transfers between stages;
- Changes in forward-looking macroeconomic variables, specifically the macroeconomic variables to which the allowance for expected losses models are calibrated; and
- Changes to the probability weights assigned to each macroeconomic scenario.

The Company incorporates the impact of FLI into the estimation of its allowance for expected losses.

The Company utilizes credit risk modeling systems and forecast macroeconomic scenario data from Moody's Analytics, a third-party service provider for the purpose of computing forward-looking credit risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences.

The Company employs macroeconomic indicator data derived from multiple macroeconomic scenarios in order to mitigate volatility in the estimation of its allowance for expected losses, as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. The macroeconomic indicator data utilized by the Company for the purpose of sensitizing PD and LGD term structure data to forward-looking economic conditions include, but are not limited to: monetary policy, fiscal policy, energy prices, Covid-19 trends, business investment, housing, employment, and supply chain amongst others.

Currently, the Company considers several macroeconomic forecast scenarios, and assigns discrete weights to each for use in the estimation of its reported allowance for expected losses. The Company has also applied expert credit judgment, where appropriate, to reflect, amongst other items, uncertainty in the U.S. and Canadian macroeconomic environment attributable to the continued impact of Covid-19.

The assignment of probability weightings for the various forecast scenarios involves expert credit judgment through an internal review and analysis to arrive at the likelihood and appropriateness of each forecast scenario for the portfolio. If management were to assign 100% probability to the most pessimistic downside scenario forecast considered, the allowance for expected losses would have been $1.62 million higher than the reported estimate for the allowance for expected losses on finance receivables and loans as at December 31, 2021. Alternatively, the assignment of a 100% probability to the most optimistic upside scenario forecast considered would have resulted in the estimate for the allowance for expected losses on finance receivables and loans being $2.23 million lower than that reported.

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 24(a).

At December 31, 2021, the Company held cash collateral of $3,590,923 (2020 – $5,142,539) 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, 2021, the gross amount of these managed receivables was $11,440,848 (2020 – $18,522,441). Fees from the Company's receivables management and credit protection business during 2021 totalled $535,345 (2020 – $1,412,705). This amount is included in other income.

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Current	$ 11,066	$ 12,350
Past due but not impaired:		
Past due less than 90 days	375	5,455
Past due more than 90 days	—	717
	$ 11,441	$ 18,522

Of the past due managed receivables at December 31, 2021, only $19,000 was over 30 days past due.

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Low risk	$ 9,768	$ 4,857
Medium risk	1,673	11,308
High risk	—	2,357
	$ 11,441	$ 18,522

The high risk managed receivables at December 31, 2020 directly resulted from the adverse economic impact of Covid-19 and the Company's exposure at the time to the retail industry which was significantly impacted by Covid-19. The Company's exposure to the retail industry has since been substantially reduced.

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

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Stage 1	$ 11,441	$ 15,530
Stage 2 (SICR)	—	2,992
Stage 3 (Impaired)	—	—
	$ 11,441	$ 18,522

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.

Outstanding client claims in respect of impaired managed receivables are an actual liability that is accrued for and included in the accounts payable and other liabilities. There were no Stage 3 (impaired) managed receivables at the above dates.

Management provides an allowance for expected losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees. 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 expected losses on the guarantee of managed receivables account during 2021 and 2020 was as follows:

	2021	2020
Allowance for expected losses at January 1	$ 555,000	$ 44,000
(Recovery of) provision for credit losses	(561,227)	2,216,476
Write-offs	(853)	(1,718,043)
Recoveries	38,080	12,567
Allowance for expected losses at December 31	$ 31,000	$ 555,000

The activity in the allowance for expected losses on the guarantee of managed receivables during 2021 by stage of allowance was follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected losses at January 1, 2021	$ 267,400	$ 287,600	$ —	$ 555,000
Reserves recovery* related to decrease in allowance for expected losses	(236,400)	(287,600)		(524,000)
Allowance for expected losses at December 31, 2021	$ 31,000	$ —	$ —	$ 31,000

** a component of the provision for loan losses*

There were no transfers between the three stages of the allowance for expected losses on the guarantee of managed receivables during 2021.

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

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected 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 expected losses	234,036	278,437	(1,473)	511,000
Allowance for expected losses at December 31, 2020	$ 267,400	$ 287,600	$ —	$ 555,000

** a component of the provision for loan losses*

6. Assets held for sale

Assets held for sale and movements therein during 2021 and 2020 were as follows:

	2021	2020
Assets held for sale at January 1	$ 1,513,567	$ 6,970,369
Additions	160,274	2,424,867
Disposals	(623,433)	(7,238,095)
Impairment charge	(872,948)	(1,086,812)
Foreign exchange adjustment	(17,186)	443,238
Assets held for sale at December 31	$ 160,274	$ 1,513,567

During 2021 and 2020, the Company obtained title to or repossessed certain long-lived assets securing defaulted finance receivables and loans from a number of clients. These assets are actively marketed for sale and are disposed of as market conditions permit. The estimated net realizable value of the assets at the above dates was based upon appraisals thereof.

During 2021 assets totalling $160,274 (2020 – $2,424,867) were repossessed, while assets were disposed of for net proceeds of $623,433 (2020 – $7,238,095). Impairment charges of $872,948 (2020 – $1,086,812) were booked against the assets to write them down to NRV.

7. Property and equipment

(in thousands)	Dec. 31, 2021	Dec. 31, 2020
Cost	$ 4,732	$ 4,103
Accumulated depreciation	(3,459)	(2,448)
Net book value	$ 1,273	$ 1,655

Property and equipment includes the Company's right-of-use assets, comprising five office leases at December 31, 2021. The Company's right-of-use assets and movements therein during 2021 and 2020 were as follows:

(in thousands)	2021	2020
Right-of-use assets at January 1	$ 1,103	$ 1,544
Additions	242	—
Depreciation	(466)	(439)
Foreign exchange adjustment	(4)	(2)
Right-of-use assets at December 31	$ 875	$ 1,103

8. Goodwill

	2021	2020
Goodwill at January 1	$ 13,218,843	$ 13,454,926
Foreign exchange adjustment	(78,396)	(236,083)
Goodwill at December 31	$ 13,140,447	$ 13,218,843

At December 31, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
U.S. operations	$ 11,257,940	$ 11,336,336
Canadian operations	1,882,507	1,882,507
	$ 13,140,447	$ 13,218,843

Goodwill is tested for impairment annually. During 2021 and 2020, 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 fair value estimate would be considered Level 3 under the fair value hierarchy as defined in note 3(q).

The most sensitive assumption used in the impairment testing was the multiple applied to the "expected" earnings of each CGU in determining the fair value thereof. In 2021 a multiple of 9.8 (2020 – 10.0) was used. Management believes a reasonable decrease in the multiple would not cause an impairment in the goodwill of its CGUs.

9. Intangible assets

Intangible assets and movements therein during 2021 and 2020 were as follows:

2021	Customer and referral relationships	Broker relationships	Brand name	Total
Cost				
January 1, 2021	$ 1,938,018	$ 1,343,938	$ 1,733,145	$ 5,015,101
Foreign exchange adjustment	(13,402)	—	(11,986)	(25,388)
December 31, 2021	$ 1,924,616	$ 1,343,938	$ 1,721,159	$ 4,989,713
Accumulated amortization				
January 1, 2021	$ (406,875)	$ (1,330,482)	$ —	$ (1,737,357)
Amortization expense	(127,499)	(13,456)	—	(140,955)
Foreign exchange adjustment	1,795	—	—	1,795
December 31, 2021	$ (532,579)	$ (1,343,938)	$ —	$ (1,876,517)
Book value				
January 1, 2021	$ 1,531,143	$ 13,456	$ 1,733,145	$ 3,277,744
December 31, 2021	$ 1,392,037	$ —	$ 1,721,159	$ 3,113,196

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

10. Bank indebtedness

A revolving line of credit approximating $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 finance receivables and loans of a number of the Company's subsidiaries. At December 31, 2021, the amount outstanding under the line of credit totalled $207,382,279 (December 31, 2020 – $210,940,174). The Company was in compliance with all loan covenants under its bank line of credit during 2021 and 2020. On July 26, 2021, the line was renewed for a further one-year period.

11. Loans payable

(a) BondIt loan

A revolving line of credit has been established by BondIt 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 increased to US$47,000,000 ($59,394,000) in October 2021 and extended to May 6, 2023. At December 31, 2021, the amount outstanding under this line of credit totalled $60,049,385 (2020 – $21,376,479); the amount borrowed exceeded the credit limit as a result of fees and interest due to the non-bank lender. BondIt was in compliance with all loan covenants under this facility during 2021 and 2020.

(b) ASBF loan

On December 2, 2021, ASBF, a subsidiary of AFCC, entered into a non-recourse loan and security agreement with a life insurance company. This loan is collateralized by all of ASBF's assets and bears a fixed rate of interest. At December 31, 2021, the amount outstanding under this loan facility totalled $89,387,586 (2020 – $nil), of which $27,676,686 is expected to be paid within one year and $61,710,900 thereafter.

12. Related parties

(a) Notes payable

Notes payable comprise: (i) unsecured demand notes due on, or within a week of, demand of $2,333,107 (2020 – $1,587,272); (ii) term notes totalling $13,659,250 (2020 – $15,846,782), which are repayable on various dates the latest of which is January 31, 2023. 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:

	2021	2020
Demand and term notes (due within one year):		
Related parties	**$ 13,843,707**	$ 15,071,938
Third parties	**1,516,800**	2,362,116
	15,360,507	17,434,054
Term note due after one year:		
Third parties	**631,850**	—
	$ 15,992,357	$ 17,434,054

Notes due on, or within a week of, demand bear interest at rates that vary with the bank prime rate or Libor, while the term notes bear interest at rates between 7% and 11%.

Interest expense on the notes payable was as follows:

	2021	2020
Related parties	**$ 957,806**	$ 1,032,655
Third parties	**219,151**	177,747
	$ 1,176,957	$ 1,210,402

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[1] during 2021 and 2020 was as follows:

	2021	2020
Salaries and directors' fees	**$ 5,672,276**	$ 4,791,966
Stock-based compensation[2]	**87,884**	—
	$ 5,760,160	$ 4,791,966

[1] Key management personnel comprise the President and CEO of the Company, the Presidents of its six operating businesses, and the Company's Senior Vice Presidents, including its Chief Financial Officer.

[2] Stock-based compensation comprises the expense related to the Company's stock option grants. Please see note 15.

(c) BondIt participations

BondIt utilizes loan participations to provide capital for and reduce the risk of loss on certain client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt client loans. At December 31, 2021, participations in BondIt client loans totalled US$40,704,000 (December 31, 2020 – US$14,765,000), of which US$1,562,000 (December 31, 2020 – US$2,405,000) was provided by related parties. These participations are not included in the Company's Statements of Financial Position.

13. Convertible debentures

Convertible debentures with a face value of $25,650,000 (25,650 convertible debentures) carrying a 7% coupon rate were issued by the Company in 2018 and 2019. Of these, 20,650 debentures are listed for trading on the Toronto Stock Exchange ("TSX"), while 5,000 are unlisted. 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 were 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 from the debentures issued 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, 2021 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	1,739,107	—	1,739,107
	$ 24,152,681	$ 1,005,105	$ 25,157,786

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

At December 31, 2021 all debentures remained outstanding.

14. Lease liabilities

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

(in thousands)	2021	2020
Less than one year	$ 525	$ 501
One to five years	538	759
Thereafter	23	115
Total undiscounted lease obligations	1,086	1,375
Less: short-term lease commitments elected for exemption under IFRS 16	(7)	(17)
Less: future interest	(100)	(151)
Lease liabilities at December 31	$ 979	$ 1,207

During 2021, principal and interest payments for the five office leases recognized as right-of-use assets under IFRS 16 totalled $464,013 (2020 – $385,509) and $67,393 (2020 – $104,952) respectively, for total lease payments of $531,406 (2020 – $491,461). No variable lease payments are included in the measurement of the Company's lease liabilities.

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

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2021 and 2020, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2021 and 2020 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. On termination of the 2019 Bid, the Company did not renew its normal course issuer bid. In 2020, under the 2019 Bid, the Company repurchased and cancelled 30,000 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 2021 and 2020 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 2021, dividends totalling $1,711,783 (2020 – $2,055,417), or $0.20 (2020 – $0.24) per common share, were declared and paid. On March 1, 2022, the Company paid a quarterly dividend of $0.075 per common share to shareholders for a total dividend payment of $641,919.

(f) Stock option plans

The Company has established a new stock option plan (the "2021 SOP") for employees and directors. Under the terms of the plan, an aggregate of 850,000 common shares, representing 9.9% of the Company's issued and outstanding common shares, have been reserved for issue upon the exercise of stock options granted. The number of common shares issued within a one-year period shall not exceed 10% of the Company's issued and outstanding common shares. The options granted will vest one-third on the date of the grant, and one-third on each of the first two anniversaries of the date of grant or over such other period as the Board may decide. The options shall be exercisable for a period established by the Board which shall in any event be no later than seven years after the date of grant. The exercise price of all options granted under the 2021 SOP shall not be lower than the volume-adjusted average trading price of the Company's common share on the Toronto Stock Exchange during the ten days immediately preceding the date of grant.

The Company's former key employee stock option plan ("KESOP") and non-executive directors' stock option plan ("NEDSOP") under which an aggregate of 1,000,000 and 500,000 common shares, respectively, had been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries and non-executive directors of the Company were terminated on March 10, 2021. At December 31, 2020, no options were outstanding under the KESOP, while 60,000 vested options, granted on July 27, 2016, were outstanding under the NEDSOP. These had an exercise price of $9.28 and expired unexercised on July 26, 2021.

On August 4, 2021, the Company granted 80,100 stock options to senior employees at an exercise price $8.83. On October 12, 2021, the Company also granted 12,000 stock options to its President at an exercise price of $8.83.

At December 31, 2021, outstanding options granted under the 2021 SOP were as follows:

Exercise price	Grant date	Expiry date	Dec. 31, 2021	Dec. 31, 2020
$8.83	Aug. 4, 2021	Aug. 3, 2028	80,100	—
$8.83	Oct. 12, 2021	Aug. 3, 2028	12,000	—
			92,100	—

Of the outstanding options, 30,700 were vested at December 31, 2021.

The fair value of the options granted in 2021 was determined using the Black-Scholes option pricing model with the following assumptions on the grant date:

	Aug. 4, 2021 grant	Oct. 12, 2021 grant
Risk free interest rate	0.92%	1.35%
Expected dividend yield	2.24%	2.48%
Expected share price volatility	24.30%	24.60%
Expected life of option	7.0 years	6.8 years
Fair value per option	$1.85	$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 Company's Board terminated the LTIP on March 10, 2021. Any payouts in respect of the outstanding LTIP awards will be settled in cash. The payout value of outstanding vested and unvested LTIP awards at December 31, 2021 was $nil (December 31, 2020 – $nil)

(h) Stock-based compensation

During 2021, the Company recorded a stock-based compensation expense totalling $87,884 (2020 – $nil), all of which related to stock option grants.

16. Income taxes

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

	2021	2020
Current income tax expense (recovery)	**$ 3,429,726**	$ (2,033,967)
Deferred tax (recovery)	**(1,702,726)**	(2,636,033)
Income tax expense (recovery)	**$ 1,727,000**	$ (4,670,000)

During 2021 and 2020, the Company's statutory income tax rate was 26.5%. The Company's income tax expense (recovery) varies from the amount that would be computed using the Canadian statutory income tax rate due to the following:

	2021	**%**
Income tax expense computed at statutory rates	**$ 3,961,581**	**26.5**
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	**(2,037,126)**	**(13.6)**
Non-controlling interests in subsidiaries	**(285,457)**	**(1.9)**
Other	**88,002**	**0.6**
Income tax expense	**$ 1,727,000**	**11.6**

	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

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

	2021	2020
Deferred tax assets:		
Unused tax losses	$ 11,659,373	$ 11,371,473
Allowances for expected losses	613,096	580,113
Property and equipment	—	15,000
Leasing timing difference	22,000	—
Other	31,802	42,813
	$ 12,326,271	$ 12,014,399
Deferred tax liabilities:		
Basis differential on pass through subsidiaries	(8,246,906)	(9,676,090)
Acquired intangibles	(231,257)	(270,867)
Leasing timing difference	(396,000)	5,000
Property and equipment	(7,000)	(7,000)
Other	(29,518)	(58,262)
	(8,910,681)	(10,012,219)
	$ 3,415,590	$ 2,002,180

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

	2021	2020
Deferred tax assets:		
Allowances for expected losses	$ —	$ (70,000)
Unused tax losses	—	(67,000)
	—	(137,000)
Deferred tax liabilities:		
Convertible debentures accretion	276,720	347,935
Lease receivables	—	388,000
Acquired intangibles	—	3,575
	276,720	739,510
	$ 276,720	$ 602,510

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, 2021 and 2020, 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.

17. 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, specifically 8,558,913, 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.

All outstanding stock options were excluded from the calculation of the diluted weighted number of shares outstanding during 2021 and 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 15(f). All convertible debentures were similarly excluded from the calculation during 2021 and 2020 because they were anti-dilutive for earnings per common share purposes.

18. 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, 2021 and 2020, 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, 2021 and 2020, the Company was contingently liable with respect to letters of guarantee issued on behalf of a client in the amount of $644,487 (2020 – $648,975). There were no letters of credit issued on behalf of clients for which the Company was contingently liable at those dates. These amounts were considered in determining the allowance for expected losses on finance receivables and loans.

19. Derivative financial instruments

At December 31, 2021, the Company had no outstanding foreign exchange contracts. At December 31, 2020, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 29, 2021 and August 31, 2021 and obliged 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. 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 were classified as Level 2 under IFRS 7. During 2021 and 2020 there was no movement between the three-level fair value hierarchy described in note 3(q).

20. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during 2021 and 2020 are set out in the consolidated statements of changes in equity.

21. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at December 31, 2021 comprised an effective 39% (December 31, 2020 – 49%) interest in BondIt's common member units and an 8% (December 31, 2020 – 8%) interest in AEF's common units (also see note 27). On August 1, 2021, the Company acquired an additional 10% of the common member units in BondIt from a non-controlling interest at a cost of $1,369,231 (US$1,098,725) increasing its share of common member units to 61%. Please see the consolidated statements of changes in equity for movements in non-controlling interests during 2021 and 2020.

22. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. 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.

2021 (in thousands)	**Canada**	**United States**	**Intercompany**	**Consolidated**
Identifiable assets	**$ 266,426**	**$ 256,393**	**$ (2,710)**	**$ 520,109**
Revenue				
Interest income	**$ 28,153**	**$ 24,206**	**$ (462)**	**$ 51,897**
Other income	**4,857**	**6,726**	**—**	**11,583**
	33,010	**30,932**	**(462)**	**63,480**
Expenses				
Interest	**10,371**	**5,978**	**(462)**	**15,887**
General and administrative	**17,032**	**14,423**	**—**	**31,455**
Provision for (recovery of) credit and loan losses	**234**	**(848)**	**—**	**(614)**
Impairment of assets held for sale	**141**	**732**	**—**	**873**
Depreciation	**322**	**373**	**—**	**695**
Business acquisition expenses	**14**	**221**	**—**	**235**
	28,114	**20,879**	**(462)**	**48,531**
Earnings before income tax	**4,896**	**10,053**	**—**	**14,949**
Income tax expense	**1,219**	**508**	**—**	**1,727**
Net earnings	**3,677**	**9,545**	**—**	**13,222**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**1,335**	**—**	**1,335**
Net earnings attributable to shareholders	**$ 3,677**	**$ 8,210**	**$ —**	**$ 11,887**

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

23. Fair values of financial assets and liabilities

Financial assets or liabilities, other than lease receivables and loans to clients in our equipment and small business finance operations, lease liabilities, term loan payable, 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 2021 and 2020.

24. 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 ($478 million) and managed receivables ($11 million) represent 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. In respect of its finance receivables and loans, 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; or (iii) hold the guarantee of a credit worthy party. 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 an allowance for expected losses on all 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 2021 and 2020.

At December 31, 2021, the Company had impaired loans of $1,696,000 (2020 – $2,539,000), while at that date, it held collateral for these loans with an estimated net realizable value of $1,639,000 (2020 – $3,013,000). These impaired loans were mainly secured by receivables, inventory, equipment and/or strong guarantees. The Company did not have any impaired managed receivables at December 31, 2021 and 2020.

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, equipment and AccordExpress working capital loans are mainly term loans with payments usually spread out evenly over the term of the lease or loan, which can be up to 60 months. Of the total managed receivables that the Company guarantees payment, none were past due more than 60 days at December 31, 2021 (December 31, 2020 – 4.6%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and 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 5 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, 2021, the Company had guaranteed accounts receivable in excess of $5 million for one customer.

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

	December 31, 2021	
Industrial sector (in thousands)	**Gross finance receivables and loans**	**% of total**
Manufacturing	$ 101,727	21
Media	81,497	17
Professional services	78,798	16
Financial services	59,278	13
Transportation	51,501	11
Wholesale and distribution	31,070	7
Construction	28,845	6
Retail	20,041	4
Other	25,393	5
	$ 478,150	100

	December 31, 2020	
Industrial sector (in thousands)	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

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

	December 31, 2021	
Industrial sector (in thousands)	Managed receivables	% of total
Wholesale and distribution	$ 9,768	85
Retail	1,673	15
Other	—	—
	$ 11,441	100

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

As set out in notes 3(d) and 5, the Company maintains an allowance for expected 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 expected 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, 2021 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 and restricted cash	$ 21,062	$ 1,091	$ 1,273	$ 722	$ —	$ —	$ 24,148
Finance receivables and loans	234,602	105,332	89,868	43,419	4,928	—	478,149
All other assets	1,377	—	—	—	—	—	1,377
	$ 257,041	$ 106,423	$ 91,141	$ 44,141	$ 4,928	$ —	$ 503,674
Financial liabilities							
Due to clients	$ 3,287	$ —	$ —	$ —	$ —	$ —	$ 3,287
Bank indebtedness	207,382	—	—	—	—	—	207,382
Loan payable	87,726	21,809	25,468	14,434	—	—	149,437
Notes payable	15,360	632	—	—	—	—	15,992
Convertible debentures	—	—	24,153	—	—	—	24,153
All other liabilities	14,594	242	124	88	87	23	15,158
	$ 328,349	$ 22,683	$ 49,745	$ 14,522	$ 87	$ 23	$ 415,409

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

(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 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

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, loans payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities. At December 31, 2021, revolving credit lines and a term facility totalling approximately $526 million (December 31, 2020 – $392 million) had been established with a syndicate of banks, as well as non-bank lenders, bearing interest varying with the bank prime rate or Libor. At December 31, 2021, the Company had borrowed $356,819,250 (December 31, 2020 – $232,316,653) against these facilities. These facilities are collateralized primarily by finance receivables and loans to clients. As detailed in note 10, the Company was in compliance with all loan covenants under its bank line of credit during 2021 and 2020, while BondIt was compliant with all covenants under its line of credit (see note 11(a)) with its non-bank lender. ASBF was compliant with its term loan facility (see note 11(b)) with a life insurance company at December 31, 2021.

Notes payable of $2,333,107 are due on, or within a week of demand, while term notes totalling $13,659,250 are repayable at various dates the latest of which is January 31, 2023 (see note 12(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, 2021, 87% (2020 – 86%) of these notes were due to related parties and 13% (2020 – 14%) to third parties. The Company’s convertible debenture liability was $24,152,681 at December 31, 2021. 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, 2021, the Company had gross finance receivables and loans totalling $478,149,717 (December 31, 2020 – $360,337,167) which substantially exceeded its total liabilities of $416,149,067 at that date (December 31, 2020 – $291,153,514). 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, 2021, the Company's unhedged foreign currency positions in its Canadian operations totalled $558,000 (2020 – $346,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the 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 floating rate agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. As the Company's floating rate finance receivables and loans are currently similar to its floating and short-term fixed rate (usually 30 days) borrowings, the Company’s exposure to interest rate risk is not significant. However, as the Company’s equipment and small business finance operations continue 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 and working capital finance businesses. Based on the Company's interest rate positions at December 31, 2021, a sustained 100 basis point change in interest rates across all currencies and maturities would not have a significant impact on net earnings over a one-year period.

The following table shows the interest rate sensitivity gap at December 31, 2021:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Thereafter	Non-rate sensitive	**Total**
Assets							
Cash and restricted cash	$ 19,068	$ —	$ —	$ —	$ —	$ 5,080	**$ 24,148**
Finance receivables and loans, net	250,633	40,049	153,257	34,210	—	(5,251)	**472,898**
All other assets	—	265	—	—	—	22,798	**23,063**
	269,701	40,314	153,257	34,210	—	22,627	**520,109**
Liabilities							
Due to clients	—	—	—	—		3,288	**3,288**
Bank indebtedness	9,574	197,699	—	—		109	**207,382**
Loans payable	60,049	27,677	47,277	14,434		—	**149,437**
Notes payable	2,333	13,027	632	—		—	**15,992**
Convertible debentures	—	—	24,153	—		—	**24,153**
All other liabilities	—	2,762	304	175	23	12,633	**15,897**
Equity	—	—	—	—	—	103,960	**103,960**
	71,956	241,165	72,366	14,609	23	119,990	**520,109**
	$ 197,745	$(200,851)	$ 80,891	$ 19,601	$ (23)	$ (97,363)	**$ —**

25. 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, 2021, as a percentage, these ratios were 382% (2020 – 291%) and 20% (2020 – 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, 2021, 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.

26. Government grants

During 2021, the Company received $249,481 (2020 – $1,053,137) under the Canadian Emergency Wage Subsidy program and $75,474 (2020 – $37,085) under the Canadian Emergency Rent Subsidy program. These grants were credited against their respective payroll and rent expenses in G&A.

27. Subsequent events

On January 1, 2022, AFIU acquired an additional 8% of AEF common units from non-controlling interests at a cost of $537,073 (US$425,000) bringing its ownership in AEF up to 100%. At March 21, 2022, there were no other subsequent events occurring after December 31, 2021 that required disclosure or adjustments to the financial statements.

Corporate Information

Board of Directors

David Beutel, Toronto, Ontario [1,3,4]

Simon Hitzig, Toronto, Ontario

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
(4) Chairman of the Board

Officers

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

Subsidiaries

Accord Financial Ltd.
Simon Hitzig, President

Accord Financial Inc.
Jason Rosenfeld, President

Accord Financial, Inc.
Jim Hogan, President

Accord Small Business Finance
James Jang, President

Accord Equipment Finance
Barrett Carlson, President

BondIt Media Capital
Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Stock Exchange Listings

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

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

Registrar & Transfer Agent

Computershare Trust Company of Canada

Annual Meeting

The Annual Meeting of
Shareholders will be held at
Toronto Board of Trade,
3rd Floor,
First Canadian Place,
Toronto, Ontario
on **Wednesday, May 4, 2022**
at 4:15 pm

602-40 Eglinton Avenue East
Toronto, Ontario
Canada M4P 3A2
Tel (800) 967-0015
Fax (416) 961-9443

www.accordfinancial.com

ACCORD
FINANCIAL

IN CANADA	(800) 967-0015
IN THE U.S.	(800) 231-2757

www.accordfinancial.com