ACCORD FINANCIAL

# Forward Together

## 2021 FIRST QUARTER REPORT

## MESSAGE FROM THE PRESIDENT AND CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2021 together with comparative figures for the same period of 2020. These financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Net earnings attributable to the Company's shareholders increased significantly to $2,585,000 for the first quarter of 2021 compared with a net loss of $5,876,000 in the first quarter of 2020. Earnings Per Share ("EPS") this quarter were 30 cents compared to a Loss Per Share ("LPS") of 69 cents in the first quarter of 2020. First quarter 2021 net earnings improved compared to last year mainly as a result of higher revenue and a substantially lower provision for losses.

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 and integration costs and amortization of intangibles), totalled $2,683,000 in the first quarter of 2021 compared to an adjusted net loss of $5,414,000 in the first quarter of 2020. Adjusted EPS, based on adjusted net earnings, were 31 cents in the current quarter compared to an adjusted LPS of 63 cents in last year's first quarter.

Revenue increased by 12% to $13,480,000 in the first quarter of 2021 compared to $12,015,000 last year mainly as a result of higher yields and increased other income.

The Company's total funds employed were $363 million at March 31, 2021 compared $370 million a year earlier. Average funds employed in the current quarter decreased slightly to $358 million compared with $362 million in last year's first quarter. Shareholders' equity was $92 million at March 31, 2021 compared to $88 million at March 31, 2020. Book value per share was $10.70 compared to $10.27 last March 31.

January 1, 2021 marked the unofficial return to the growth path Accord Financial had been on in the three years leading up to the economic turmoil created by the pandemic. As I wrote in the recent Annual Report, 2020 was a long round trip, from peak to trough, seeing "green shoots" in the fall, and back to our previous footing by the fourth quarter. While we emerged from 2020 with only a modest profit, we devoted enormous energy throughout the year to streamlining our platform and preparing to perform as the economy reopens. Game on.

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While overall portfolio growth in the first quarter fell short of our ambitious expectations, revenue grew 12% over the same quarter last year, and bottom-line financial performance began to reflect the earnings power we're capable of delivering as the economic cycle gathers steam. In fact, Accord's thirty cents of earnings per share reflected the strongest first quarter in our history.

Solid earnings in the quarter were reflective of several factors. Notably, our product mix shifted towards higher yielding segments, including our Canadian small business division and US-based media finance division – both positioned squarely at the center of key trends. In Canada we're enjoying the successful launch of AccordExpress, our unique solution designed to bridge small businesses through to the economic recovery. Supported by the EDC Business Credit Availability Program Guarantee, AccordExpress combines industry-leading technology with a unique credit process to approve loans up to $250,000 within two business days. BondIt Media Capital is perfectly positioned to capture the long-term secular growth of video on demand, satisfied by a tidal wave of content generated with increasingly smaller budgets – at this point most banks and large alternative finance companies don't want to play at that end of town.

During the quarter, Accord also wound down the last of the large accounts hobbled by the pandemic. Concurrent with that move, we reduced our overall allowance for loan losses to approach a position more reflective of economic reopening and expected near-term economic stability. The allowance now stands at $5.7 million, down from $7.4 million at the end of the first quarter of 2020 (with a similar size portfolio). While it's never good news when our clients face adversity, our team did an outstanding job early in the pandemic, to forecast the effects of the economic shutdown on our portfolio. Those forecasts unfolded with remarkable precision; throughout the period, Accord's financial performance has held very close to our early-pandemic analysis – no surprises for our shareholders and lenders.

We continue to make great strides on our strategic plan, bringing all divisions of Accord onto a unified platform, stronger together, with a laser-focused vision to simplify access to capital so our clients can thrive. The executive team, reorganized last August, has brought a new level of ambition to our mission, and raised the bar in how we execute all key client-facing activities: business development, product development, marketing, and service. The strategic plan provides a roadmap for elevating performance in these areas; execution is unfolding at a remarkable pace.

The year-long economic turmoil presented Accord's toughest challenge in many decades. Our experience, through every economic cycle since 1978, has taught us that economic dislocation creates new growth opportunities in commercial finance.

These are the kinds of markets in which we earn our stripes. Armed with the deepest and most experienced management team we've ever had, and a streamlined platform designed for growth, Accord is ready to roll.

The Company's Board of Directors recently declared a quarterly dividend of 5 cents per common share, payable June 1, 2021 to shareholders of record May 14, 2021.

Simon Hitzig
President and Chief Executive Officer
May 5, 2021

### Financial highlights

(unaudited, in thousands except average funds employed, earnings per common share and book value per share)

| Three Months ended March 31 | 2021 | 2020 |
|---|---|---|
| Average funds employed (millions) | 358 | 362 |
| Revenue | 13,480 | 12,015 |
| Earnings (loss) before income tax | 2,933 | (8,910) |
| Net earnings (loss) attributable to shareholders | 2,585 | (5,876) |
| Adjusted net earnings (loss) | 2,683 | (5,414) |
| Earnings (loss) per common share (basic and diluted) | 0.30 | (0.69) |
| Adjusted earnings (loss) per common share (basic and diluted) | 0.31 | (0.63) |
| Book value per share (March 31) | 10.70 | 10.27 |

## 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 quarter ended March 31, 2021 compared with the quarter ended March 31, 2020 and, where presented, the quarter ended March 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 May 5, 2021, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters ended March 31, 2021 and 2020, which are included as part of this 2021 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2020 audited consolidated financial statements and notes thereto included in the Company's 2020 Annual Report.

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

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

## NON-IFRS FINANCIAL MEASURES

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to 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 the 2021 First Quarter Report are defined as follows:

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

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

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

iv) **Average funds employed** – Funds employed is another name that the Company uses for its finance receivables and loans (also referred to as "Loans" in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period; and

v) **Financial condition and leverage ratios** – The table on page 14 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages provide information on trends in the Company's financial condition and leverage.

## ACCORD'S BUSINESS

Accord is one of North America's leading independent finance companies serving clients throughout the United States and Canada. Accord's flexible finance programs cover the full spectrum of asset-based lending ("ABL"), from receivables and inventory finance, to equipment and trade finance, to film and media finance, as well as working capital loans and supply chain financing. Accord's business also includes credit protection and receivables management. Its clients operate in a wide variety of industries, examples of which are set out in note 22(a) to the Statements.

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

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

## QUARTERLY FINANCIAL INFORMATION

(unaudited, in thousands except earnings per share)

| | Quarter ended | Revenue | Net earnings | Earnings Per Common Share* |
|---|---|---|---|---|
| **2021** | **March 31** | **$ 13,480** | **$ 2,585** | **$ 0.30** |
| 2020 | December 31 | $ 12,903 | $ 1,384 | $ 0.16 |
| | September 30 | 12,312 | 566 | 0.07 |
| | June 30 | 11,270 | 4,343 | 0.51 |
| | March 31 | 12,015 | (5,876) | (0.69) |
| Fiscal 2020 | | $ 48,501** | $ 417 | $ 0.05 |
| 2019 | December 31 | $ 14,297 | $ (658) | $ (0.08) |
| | September 30 | 15,299 | 3,237 | 0.38 |
| | June 30 | 13,991 | 2,222 | 0.26 |
| | March 31 | 12,588 | 1,643 | 0.19 |
| Fiscal 2019 | | $ 56,175 | $ 6,444 | $ 0.76** |

** basic and diluted*
*** due to rounding the total of the four quarters does not agree with the total for the fiscal year*

## RESULTS OF OPERATIONS

*Quarter ended March 31, 2021 compared with the quarter ended March 31, 2020*

Shareholders' net earnings for the quarter ended March 31, 2021 increased to $2,585,000 compared to a shareholders' net loss of $5,876,000 last year and the $1,643,000 earned in the first quarter of 2019. Shareholders' net earnings rose compared to the first quarter of 2020 and 2019 on higher revenue and a lower provision for losses. Basic and diluted earnings per common share ("EPS") increased to $0.30 compared to the loss per common share ("LPS") of 69 cents in the first quarter of 2020 and EPS of 19 cents in first quarter of 2019. The Company's ROE rose to 11.5% in the current quarter compared to minus 25.8% last year and 7.5% in the first quarter of 2019.

Adjusted net earnings rose to $2,683,000 in the first quarter of 2021 compared to an adjusted net loss of $5,414,000 last year and adjusted net earnings of $1,816,000 in the first quarter of 2019. Adjusted EPS were 31 cents compared to the adjusted LPS of 63 cents in the first quarter of 2020 and adjusted EPS of 22 cents in the first quarter of 2019. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

| Quarter ended March 31 (in thousands) | **2021** | 2020 | 2019 |
|---|---|---|---|
| Shareholders' net earnings (loss) | **$ 2,585** | $ (5,876) | $ 1,643 |
| Adjustments, net of tax: | | | |
| Restructuring expenses | **47** | 407 | — |
| Business acquisition expenses | **51** | 55 | 131 |
| Stock-based compensation expense | **—** | — | 42 |
| Adjusted net earnings (loss) | **$ 2,683** | $ (5,414) | $ 1,816 |

Revenue rose by 12% or $1,465,000 to $13,480,000 in the current quarter compared to $12,015,000 last year and was $892,000 or 7% higher than the $12,588,000 in the first quarter of 2019. Interest income rose by $796,000 or 7% to $11,432,000 in the first quarter of 2021 compared to $10,636,000 last year on an 8% increase in average loan yields partly offset by a 1% decline in average funds employed. Yields mainly rose on an increased proportion of higher yielding funds employed at ASBF and BondIt. Other income rose by $669,000 to $2,048,000 in the current quarter compared to $1,379,000 last year mainly due to increased origination fees earned on new accounts. Average funds employed in the first quarter of 2021 decreased slightly to $358 million compared to $362 million last year but were 3% higher than the $347 million in 2019.

Total expenses declined by 50% or $10,379,000 to $10,547,000 in the first quarter of 2021 from $20,926,000 last year. The provision for credit and loan losses, interest expense, impairment of assets held for sale, business acquisition expenses and depreciation declined by $9,719,000, $719,000, $45,000, $12,000 and $5,000, respectively. G&A increased by $121,000.

Interest expense declined by 18% to $3,286,000 in the first quarter of 2021 from $4,005,000 last year on decreased interest rates and 4% lower average borrowings. Interest rates declined on the Company's borrowings as a result of reduced prime rates of interest in Canada and the U.S.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A increased by $121,000 mainly due to higher marketing and other costs associated with the generation of business for the recently introduced AccordExpress product. Personnel costs declined by $596,000 on lower restructuring costs, reduced head count and receipt of the Canadian Emergency Wage Subsidy ("CEWS") totalling $103,000 (2020 – nil). In the first quarter of 2021, the Canadian Emergency Rent Subsidy ("CERS") totalling $25,000 (2020 – nil) was also received. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by $9,719,000 to a recovery of $897,000 compared to an expense of $8,822,000 last year. The provision comprised:

| Quarter ended March 31 (in thousands) | | **2021** | | 2020 |
|---|---|---|---|---|
| Net write-offs | **$** | **63** | $ | 4,101 |
| Reserves (recovery) expense related to change in total allowances for losses | | **(960)** | | 4,721 |
| | **$** | **(897)** | $ | 8,822 |

Net write-offs decreased by $4,038,000 to $63,000 in the first quarter of 2021 compared to $4,101,000 last year. The level of 2020 net write-offs was impacted by the adverse economic consequences of Covid-19. The non-cash reserves decreased by $5,681,000 to a recovery of $960,000. The Company's allowance for 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 or one-off losses.

An impairment charge of $852,000 (2020 - $897,000) was taken during the first quarter of 2021 against certain assets held for sale to write them down to their estimated net realizable value ("NRV"). See below and note 5 to the Statements.

Depreciation expense decreased by $12,000 to $166,000 in the first quarter of 2021. Depreciation of $106,000 (2020 – $110,000) was charged on the Company's right-of use assets in first quarter of 2021, while the balance of the expense related to capital assets.

Business acquisition expenses in the first quarter of 2021 totalled $69,000 (2020 – $75,000). Transaction costs of $23,000 (2020 - nil) were incurred, while the amortization of intangible assets relating to ASBF and AEF totalled $46,000 (2020 – $75,000).

Income tax expense rose by $2,938,000 to $82,000 in the current quarter compared to a recovery of $2,856,000 last year. Income tax rose on an $11.8 million increase in pre-tax earnings.

Canadian operations reported a strong increase in shareholders' net earnings in the first quarter of 2021 compared to 2020 (see note 21 to the Statements). Shareholders' net earnings rose by $5,429,000 to $692,000 compared to a net loss of $4,737,000 last year. Revenue increased by $993,000 or 18% to $6,440,000. Expenses decreased by $6,061,000 to $5,561,000. The provision for credit and loan losses declined by $5,561,000 to a recovery of $34,000, while interest expense, business acquisition expenses and depreciation declined by $1,139,000, $28,000 and $12,000, respectively. G&A increased by $539,000, while the impairment of assets held for sale rose by $140,000. Income tax increased by $1,625,000 to an expense of $187,000 on a $7,054,000 increase in pre-tax earnings.

U.S. operations also reported a strong increase in shareholders' net earnings in the first quarter of 2021 compared to 2020 (see note 21 to the Statements). Shareholders' net earnings rose by $3,032,000 to $1,893,000 compared to a net loss of $1,139,000 last year. Revenue increased by $444,000 to $7,130,000. Expenses declined by $4,346,000 or 46% to $5,075,000. The provision for credit and loan losses, G&A, impairment of assets held for sale and depreciation decreased by $4,157,000, $417,000, $185,000 and $1,000, respectively. Interest and business acquisition expenses increased by $392,000 and $22,000, respectively. Income tax rose by $1,313,000 to a recovery of $105,000. Net earnings attributable to non-controlling interests in subsidiaries totalled $267,000 compared to a net loss of $178,000 in the first quarter of 2020.

## REVIEW OF FINANCIAL POSITION

Shareholders' equity at March 31, 2021 was $91,573,000, 2% higher than the $89,850,000 at December 31, 2020 and 4% above the $87,896,000 at March 31, 2020. The increase in shareholders' equity since December 31, 2020 resulted from a rise in retained earnings. Book value per common share was $10.70 at December 31, 2020 compared to $10.50 at December 31, 2020 and $10.27 at March 31, 2020. Please also see the consolidated statements of changes in equity on page 27 of this First Quarter Report.

Total assets were $394,680,000 at March 31, 2021, 3% higher than the $384,913,000 at December 31, 2020 but 6% lower than the $418,241,000 at March 31, 2020. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 54% of total assets at March 31, 2021 compared to 61% at December 31 and March 31, 2020 (see note 21 to the Statements).

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, increased slightly to $363,399,000 at March 31, 2021 compared to $360,377,000 at December 31, 2020 but were 2% below the $370,415,000 at March 31, 2020. As detailed in note 4 to the Statements, the Company's Loans comprised:

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Receivable loans | **$ 85,319** | $ 100,858 | $ 115,425 |
| Other loans* | **178,505** | 149,734 | 147,826 |
| Lease receivables | **99,575** | 109,745 | 107,164 |
| Finance receivables and loans | **363,399** | 360,337 | 370,415 |
| Less allowance for losses | **5,673** | 6,314 | 7,421 |
| Finance receivables and loans, net | **$ 357,726** | $ 354,023 | $ 362,994 |

** Other loans primarily comprise inventory, equipment and working capital loans.*

The Company's receivable loans declined by 15% to $85,319,000 at March 31, 2021 compared to $100,858,000 at December 31, 2020 and were 26% below the $115,425,000 at March 31, 2020. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, as well as working capital loans, rose by 19% to $178,505,000 at March 31, 2021 compared to $149,734,000 at December 31, 2020 and were 21% above the $147,826,000 at March 31, 2020. The increase in other loans largely resulted from substantially higher working capital loans financed under ASBF's new AccordExpress product offering. Lease receivables, representing ASBF's and AEF's net investment in equipment leases, declined by 9% to $99,575,000 at March 31, 2021 compared to $109,745,000 at December 31, 2020 and were 7% below the $107,164,000 at March 31, 2020. Net of the allowance for losses thereon, Loans increased slightly to $357,726,000 at March 31, 2021 compared to $354,023,000 at December 31, 2020 but were a little below the $362,994,000 at March 31, 2020. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and

AFIU, to approximately 60 clients in a wide variety of industries, as well as ASBF's and AEF's lease receivables and equipment and working capital loans to approximately 380 clients. The largest client comprised 8% of gross Loans.

In its credit protection and receivables management business, which has been downsized in the last year, 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 $12 million at March 31, 2021 compared to $19 million at December 31, 2020 and $36 million at March 31, 2020. Most of the clients' customers for which the Company assumes the credit risk are from the wholesale and retail industries in North America. Given the long-term headwinds in these sectors, the Company made the decision to reduce its portfolio and has been downsizing operations in the past year. Managed receivables comprised the receivables of approximately 10 clients at March 31, 2021. 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, declined slightly to $375 million at March 31, 2021 compared to $379 million at December 31, 2020 and was 8% below the $406 million at March 31, 2020.

As described in note 22(a) to the Statements, the Company's business principally involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's six operating businesses is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel and management. In the case of credit in excess of $1.0 million (US$1.0 million in the case of AFIU and AEF, and US$500,000 for BondIt), credit is approved by the Company's Executive Credit Committee. Credit in excess of $2.5 million (US$2.5 million in the case of U.S. group companies) is approved by the Credit Committee of the Board of Directors, which comprises three directors. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and AEF's lease receivables and equipment and working capital loans are usually term loans with payments spread out evenly over the term of the lease or loan, which can be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at any time. Of the total managed receivables that the Company guarantees payment, 0.3% were past due more than 60 days at March 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 employs client rating systems to assess the credit risk in its asset-based lending and leasing businesses, which review, amongst other things, the financial strength of each client and the Company's underlying collateral security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their credit risk rating (low risk, medium risk, high risk) and also by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of good quality and any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

As detailed in note 4, the Company had past due finance receivables and loans of $11,442,000 at March 31, 2021, of which $8,954,000 related to BondIt, the Company's media finance subsidiary, while $2,488,000 related to ASBF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as delays in production and the sale thereof. BondIt's operations have not been particularly impacted by Covid-19. Of the ASBF loans past due, $673,000 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 March 31, 2021, the Company had impaired finance receivables and loans of $2,003,000. The impaired loans, which have been written down to NRV (being fair value less costs of realization) where necessary, are mainly collateralized by receivables, inventory and equipment, the estimated NRV of which was $2,046,000 at March 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 NRV 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

Company's Credit Committee on a case-by-case basis. Note 22(a) to the Statements provides details of the Company's credit exposure by industrial sector.

The Company's allowance for losses on Loans, calculated under the ECL criteria of IFRS 9, totalled $5,673,000 at March 31, 2021 compared to $6,314,000 at December 31, 2020 and $7,421,000 at March 31, 2020. This represents management's best estimate of its allowance for loan losses based on information available at those dates. Depending on how long the economic impacts of Covid-19 last and the timing and nature of any economic recovery, the measurement of the allowance could fluctuate substantially in future periods. See also discussion on loan modifications in note 4. The modifications, which have decreased substantially since March 31, 2020, principally relate to temporary over advances or payment deferrals on accounts totalling $4.6 million that were otherwise in good standing at March 31, 2021 (December 31, 2020 - $18.1 million, March 31, 2020 - $62.5 million). The allowance for losses on the guarantee of managed receivables totalled $186,000 at March 31, 2021 compared to $555,000 at December 31, 2020 and $2,083,000 at March 31, 2020. This significant decrease in the allowance for losses on the guarantee of managed receivables at March 31, 2021 resulted from a significant reduction in the managed receivables and 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 losses accounts in the first quarter of 2021 and 2020 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and supportable.

Assets held for sale totalled $151,000 at March 31, 2021 compared to $1,514,000 at December 31, 2020 and $6,585,000 at March 31, 2020 and comprised certain repossessed assets securing defaulted equipment leases with a number of clients. The decrease compared to December 31, 2020 resulted from asset disposals totalling $533,000 and impairment charges of $852,000. Assets totalling $37,000 were added to assets held for sale during the first quarter of 2021. The remaining assets, which are stated at their NRV at March 31, 2021, are currently being actively marketed for sale and will be disposed as market conditions permit. See note 5 to the Statements.

Cash increased to $13,570,000 at March 31, 2020 compared to $5,546,000 at December 31, 2020 but was lower than the $20,481,000 at March 31, 2020. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled $3,191,000 at March 31, 2021 compared to $3,278,000 at December 31, 2020 and $3,849,000 at March 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 ASBF acquisition on January 31, 2014. These were amortized over a period of 5 to 7 years and, at March 31, 2021, are now fully amortized. Please refer to note 8 to the Statements.

Goodwill totalled $13,074,000 at March 31, 2021 compared to $13,219,000 at December 31, 2020 and $14,410,000 at March 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 ASBF acquisition and is carried in the Company's Canadian operations. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 7 to the Statements for information regarding the Company's annual goodwill impairment reviews.

Other assets, income taxes receivable, net deferred tax assets, and property and equipment at March 31, 2021 and 2020, and December 31, 2020 were not significant.

Total liabilities increased by $7,830,000 to $298,984,000 at March 31, 2021 compared to $291,154,000 at December 31, 2020 but were $27,426,000 lower compared to the $326,410,000 at March 31, 2020. The increase since December 31, 2020 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by $826,000 to $2,084,000 at March 31, 2021 compared to $2,910,000 at December 30, 2020 but were $479,000 higher than the $1,605,000 at March 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 increased by $7,162,000 to $218,102,000 at March 31, 2021 compared to $210,940,000 at December 31, 2020 but was $35,723,000 lower than the $253,825,000 at March 31, 2020. Bank indebtedness increased mainly as a result of the Company holding cash at March 31, 2021 on a temporary basis, which was subsequently used to repay bank debt and on higher funds employed since December 31, 2020. The Company's current bank facility totals $367 million with a syndicate of six banks. The Company was in compliance with all loan covenants at March 31, 2021 and 2020, and December 31, 2020. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable increased by $4,253,000 to $25,630,000 at March 31, 2021 compared to $21,377,000 at December 31, 2020 and was $9,032,000 higher than the $16,598,000 at March 31, 2020. During 2020, this line was increased to US$20,000,000. The line, which was renewed in October 2020, expires on May 31, 2022. BondIt was in compliance with all loan covenants during the quarter ended March 31, 2021 and 2020. See note 10 to the Statements.

Accounts payable and other liabilities decreased by $2,893,000 to $7,943,000 at March 31, 2020 compared to $10,836,000 at December 31, 2020 but were $325,000 higher than the $7,618,000 at March 31, 2020. The decrease since December 31, 2020 mainly resulted from payments of certain employee related liabilities, the payment to a vendor on behalf of a lessee and a decrease in the allowance for losses on the guarantee of managed receivables, a component of other liabilities.

Notes payable decreased by $450,000 to $16,984,000 at March 31, 2021 compared to $17,434,000 at December 31, 2020 and were $1,239,000 lower than the $18,223,000 at March 31, 2020. The decrease in notes payable resulted from redemptions thereof. Please see Related Party Transactions section below and note 11(a) to the Statements.

Convertible debentures with a face value of $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 the above noted discount, a total of $23,781,000 was raised. Please see note 12 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At March 31, 2021, the debt component totalled $24,115,000 (December 31, 2020 – $23,510,000, March 31, 2020 – $23,519,000), while the equity component totalled $1,005,000 (December 31 and March 31, 2020 – $1,005,000), net of deferred taxes.

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

Capital stock totalled $9,448,000 at March 31, 2021 and 2020, and December 31, 2020. There were 8,558,913 common shares outstanding at those dates. Please see note 14(c) to the Statements and the consolidated statements of changes in equity on page 27 of this report for details of changes in capital stock during the first three months of 2021 and 2020. At the date of this MD&A, May 5, 2021, 8,558,913 common shares remained outstanding.

Contributed surplus totalled $1,202,000 at March 31, 2021 and 2020, and December 31, 2020. As noted above, included in contributed surplus at March 31, 2021 and 2020, and December 31, 2020 is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax. Please refer to note 14(d) to the Statements. Please see the consolidated statements of changes in equity on page 27 of this report for details of changes in contributed surplus during the first quarter of 2021 and 2020.

Retained earnings increased by $2,157,000 to $75,281,000 at March 31, 2021 compared to $73,124,000 at December 31, 2020 and were $7,166,000 above the $68,115,000 at March 31, 2020. The increase in 2021 comprised the shareholders' net earnings of $2,585,000 less dividend paid of $428,000 (5 cents per common share). Please see the consolidated statements of changes in equity on page 27 of this report for changes in retained earnings during the first quarter of 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 totalled $5,641,000 at March 31, 2021 compared to $6,076,000 at December 31, 2020 and $9,130,000 at March 31, 2020. Please refer to note 18 to the Statements and the consolidated statements of changes in equity on page 27 of this report, which details movements in the AOCI account during the first three months of 2021 and 2020. The decrease in AOCI balance in the first quarter of 2021 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.2725 at December 31, 2020 to $1.2562 at March 31, 2021. This reduced the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries by $435,000.

Non-controlling interests in subsidiaries totalled $4,123,000 at March 31, 2021 compared with $3,909,000 at December 31, 2020 and $3,936,000 at March 31, 2020. Please see note 19 to the Statements for details thereof and the consolidated statement of changes in equity on page 27 of this report, which details movements in non-controlling interests in the first three months of 2021 and 2020.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to total equity and its total equity and tangible equity to total assets. These ratios are set out in the table below.

| (as a percentage) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Tangible equity / assets | **20%** | 20% | 18% |
| Total equity / assets | **24%** | 24% | 22% |
| Debt* / total equity | **298%** | 291% | 340% |

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

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

The Company had credit lines totalling approximately $392 million at March 31, 2021 and had borrowed $244 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 22(b) details the Company's financial assets and liabilities at March 31, 2021 by their maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $13,570,000 at March 31, 2021 compared to $5,546,000 at December 31, 2020. 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.

*Cash flow for the three months ended March 31, 2021 compared with the three months ended March 31, 2020*

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $3,164,000 in the first quarter of 2021 compared to an outflow of $2,819,000 last year. After changes in operating assets and liabilities and income tax payments or refunds are taken into account, there was a net cash outflow from operating activities of $4,588,000 in the first quarter of 2021 compared to an inflow of $15,492,000 last year. The net cash outflow in the current quarter largely resulted from funding gross loans of $5,689,000. In the first quarter of 2020, the net cash inflow largely resulted from repayment of gross loans of $20,388,000. 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 28 of this report.

Cash outflows from investing activities totalled $21,000 (2020 – $20,000) in the current quarter and comprised property and equipment additions.

Net cash inflow from financing activities totalled $12,840,000 in the current quarter compared an outflow to $600,000 last year. The net cash inflow this quarter resulted from a $9,260,000 increase in bank indebtedness and a $4,527,000 rise in loan payable. Partially offsetting these inflows were a dividend paid of $428,000, notes payable redeemed, net, of $415,000 and payment of lease liabilities of $104,000. In the first quarter of 2020, the net cash outflow resulted from a decrease in bank indebtedness of $2,758,000, notes payable redeemed, net, of $985,000, a dividend paid of $772,000, the repurchase of shares under the Company's normal course issuer bid totalling $264,000, the purchase of an additional 2% interest in AEF from a non-controlling interest for $181,000 and payment of lease liabilities of $84,000. Partially offsetting these outflows was an increase in loan payable totalling $4,444,000.

The effect of exchange rate changes on cash comprised a cash reduction of $206,000 in the current quarter compared to $1,167,000 in the quarter ended March 31, 2020.

Overall, there was a net cash inflow of $8,024,000 in the current quarter compared to $13,704,000 in the first quarter of 2020.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT MARCH 31, 2021

| | Payments due in | | | | |
|---|---|---|---|---|---|
| (in thousands) | Less than 1 year | 1 to 3 years | 4 to 5 years | Thereafter | **Total** |
| Debt obligations | $ 260,717 | $ 24,115 | $ — | $ — | **$ 284,832** |
| Operating lease obligations | 499 | 469 | 184 | 92 | **1,244** |
| Purchase obligations | 84 | 23 | — | — | **107** |
| | $ 261,300 | $ 24,607 | $ 184 | $ 92 | **$ 286,183** |

## RELATED PARTY TRANSACTIONS

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise demand notes and short-term notes (all due on or before December 31, 2021). Notes payable comprise: (i) demand notes due on, or within a week of, demand ($1,641,000), which bear interest at rates that vary with bank prime rate or Libor; (ii) short-term BondIt notes ($2,387,000) which are repayable on various dates the latest of which is December 31, 2021 and which bear interest at rates ranging from 8.5% to 11%; and (iii) term notes totalling $12,956,000 which mature on July 31, 2021 and pay a fixed interest rate of 7%. Notes payable totalled $16,984,000 at March 31, 2021 compared to $17,434,000 at December 31, 2020 and $18,223,000 at March 31, 2020. Of these notes payable, $15,305,000 (December 31, 2020 – $15,072,000, March 31, 2020 – $15,465,000) was owing to related parties and $1,679,000 (December 31, 2020 – $2,362,000, March 31, 2020 – $2,758,000) to third parties. Interest expense on these notes in the first three months of 2021 totalled $295,000 (2020 – $320,000). Please refer to note 11(a) to the Statements.

The following related parties had notes payable with the Company:

| | | | |
|---|---|---|---|
| Hitzig Bros., Hargreaves & Co. Inc.* | Directors | C$ | $ 4,850,000 |
| Hitzig Bros., Hargreaves & Co. LLC.* | Directors | US$ | 700,000 |
| Oakwest Corporation Inc.* | Director | C$ | 3,000,000 |
| Ken Hitzig | Director | C$ | 2,906,000 |

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

Accord pays a rate of interest related to Canadian prime (currently it pays 1.95% or 2.45%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a Libor based rate of interest (currently 2.25%). These rates of interest are below the rates that Accord pays on its main banking facility with The Bank of Nova Scotia ("BNS") resulting in interest savings to the Company.

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

## FINANCIAL INSTRUMENTS

All financial assets and liabilities, with the exception of derivative financial instruments, the guarantee of managed receivables and the Company's LTIP liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets and liabilities, other than the lease receivables and term loans to clients in our equipment and small business finance businesses and lease liabilities, are short-term in nature and, therefore, their carrying values approximate fair values.

At March 31, 2021, the Company had entered into forward exchange contracts with a financial institution which must be exercised by the Company between July 30, 2021 and August 31, 2021 and which oblige the Company to sell Canadian dollars and buy US$700,000 at exchange rates ranging from 1.2675 to 1.3180. These contracts were entered into by the Company on behalf of a client and similar forward exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$700,000 to the client. These contracts are discussed further in note 17 to the Statements.

## CRITICAL ACCOUNTINGS POLICIES AND ESTIMATES

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

(i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, typical industry loss experience, macro-economic factors and forward-looking information. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency, or may result from severe adverse economic conditions as we are seeing as a result of Covid-19.

The Company's allowance for losses on its Loans and its guarantee of managed receivables are provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against accounts which have not experienced a significant increase in credit risk ("SICR") and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve-month period after the reporting date. Stage 1 accounts are considered to be in good standing. In establishing its Stage 1 allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for losses when the Company judges that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net recoverable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. Management believes that its allowances for losses, which require a high degree of reasonable and supportable expert credit judgment, are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d), 4 and 22(a) to the Statements.

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

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

## CONTROL ENVIRONMENT

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at March 31, 2021, management evaluated and concluded on the effective design of the Company's DC&P and ICFR and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's 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.

## 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 22 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 19.

**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 19.

**Dependence on key personnel**

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

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

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

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

**Risk of future legal proceedings**
The Company is threatened from time to time with, or is named as a defendant in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting its businesses. A significant judgment or the imposition of a significant fine or penalty on the Company could have a material adverse impact on the Company's business, financial condition and results of operation. Significant obligations may also be imposed on the Company by reason of a settlement or judgment involving

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

## OUTLOOK

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

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, which declined, as well as led to a significantly increased provision for losses. At the time the pandemic arose, all our operating companies 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.

Funds employed have recovered somewhat from the Covid-19 induced low point of $317 million last June 30 to $363 million at March 31, 2021 and, once Covid-19 passes, it is expected the Company will see strong growth in funds employed again from its equipment finance businesses, AEF and ASBF, as well as at its media finance business, BondIt, with more moderate growth coming from the Company's asset-based financing units, AFIC and AFIU. ASBF, in particular, is seeing a strong upward trend in its funds employed, in large part due to its successful AccordExpress product launch, which is backed by Export Development Canada. As noted, 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 its 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 should provide it with the majority of funding needed to support further growth in the next twelve months. Today, in the wake of Covid-19, our banking partners continue to be very supportive.

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

Stuart Adair

Stuart Adair
Senior Vice President, Chief Financial Officer
May 5, 2021

# ACCORD FINANCIAL CORP.

## Consolidated Statements of Financial Position (unaudited)

| | **March 31, 2021** | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 13,570,210** | $ 5,545,951 | $ 20,480,917 |
| Finance receivables and loans, net (note 4) | **357,726,412** | 354,023,167 | 362,993,960 |
| Income tax receivable | **1,541,412** | 1,842,751 | 3,309,125 |
| Other assets | **1,637,376** | 1,833,242 | 3,060,775 |
| Assets held for sale (note 5) | **150,608** | 1,513,567 | 6,584,596 |
| Deferred tax assets, net | **2,288,710** | 2,002,180 | 1,286,071 |
| Property and equipment (note 6) | **1,501,405** | 1,655,193 | 2,266,579 |
| Intangible assets (note 8) | **3,190,536** | 3,277,744 | 3,849,204 |
| Goodwill (note 7) | **13,073,633** | 13,218,843 | 14,409,939 |
| | **$ 394,680,302** | $ 384,912,638 | $ 418,241,166 |
| **Liabilities** | | | |
| Due to clients | **$ 2,084,297** | $ 2,909,880 | $ 1,605,000 |
| Bank indebtedness (note 9) | **218,102,349** | 210,940,174 | 253,825,190 |
| Loan payable (note 10) | **25,630,262** | 21,376,479 | 16,597,710 |
| Accounts payable and other liabilities | **7,943,330** | 10,836,423 | 7,618,332 |
| Income tax payable | **1,850,085** | 1,575,643 | — |
| Notes payable (note 11(a)) | **16,984,237** | 17,434,054 | 18,222,634 |
| Convertible debentures (note 12) | **24,115,188** | 23,509,573 | 23,518,572 |
| Lease liabilities (note 13) | **1,096,895** | 1,207,264 | 1,577,183 |
| Deferred income | **640,409** | 761,514 | 1,110,475 |
| Deferred tax liabilities, net | **537,435** | 602,510 | 2,334,489 |
| | **298,984,487** | 291,153,514 | 326,409,585 |
| **Equity** | | | |
| Capital stock (note 14) | **9,448,264** | 9,448,264 | 9,448,264 |
| Contributed surplus (note 14(d)) | **1,201,785** | 1,201,785 | 1,201,785 |
| Retained earnings | **75,281,474** | 73,124,659 | 68,115,408 |
| Accumulated other comprehensive income (note 18) | **5,641,253** | 6,075,665 | 9,130,339 |
| Shareholders' equity | **91,572,776** | 89,850,373 | 87,895,796 |
| Non-controlling interest in subsidiaries (note19) | **4,123,039** | 3,908,751 | 3,935,785 |
| **Total equity** | **95,695,815** | 93,759,124 | 91,831,581 |
| | **$ 394,680,302** | $ 384,912,638 | $ 418,241,166 |

**Notice to Reader** - Management has prepared these condensed interim unaudited consolidated financial statements and notes and is responsible for the integrity and fairness of the financial information presented therein. They have been reviewed and approved by the Company's Audit Committee and Board of Directors. Pursuant to National Instrument 51-102, Part 4, Subsection 4.3(3)(a), the Company advises that its independent auditor has not performed a review or audit of these condensed interim unaudited consolidated financial statements.

# ACCORD FINANCIAL CORP.

## Consolidated Statements of Earnings (unaudited)

| Three months ended March 31 | 2021 | 2020 |
|---|---|---|
| **Revenue** | | |
| Interest (note 4) | **$ 11,432,219** | $ 10,635,954 |
| Other income (note 4) | **2,048,152** | 1,379,093 |
| | **13,480,371** | 12,015,047 |
| **Expenses** | | |
| Interest | **3,286,309** | 4,005,071 |
| General and administrative (note 24) | **7,069,119** | 6,947,497 |
| (Recovery of) provision for credit and loan losses (note 4) | **(896,462)** | 8,822,324 |
| Impairment of assets held for sale (note 5) | **852,464** | 897,277 |
| Depreciation | **166,371** | 178,764 |
| Business acquisition expenses: | | |
| Transaction costs | **23,412** | — |
| Amortization of intangible assets | **45,658** | 74,585 |
| | **10,546,871** | 20,925,518 |
| Earnings (loss) before income tax | **2,933,500** | (8,910,471) |
| Income tax expense (recovery) | **82,000** | (2,856,000) |
| **Net earnings (loss)** | **2,851,500** | (6,054,471) |
| Net earnings (loss) attributable to non-controlling interests in subsidiaries | **266,739** | (178,009) |
| **Net earnings (loss) attributable to shareholders** | **$ 2,584,761** | $ (5,876,462) |
| **Basic and diluted earnings (loss) per common share (note 15)** | **$ 0.30** | $ (0.69) |

## Consolidated Statements of Comprehensive Income (Loss) (unaudited)

| Three months ended March 31 | 2021 | 2020 |
|---|---|---|
| **Net earnings (loss)** | **$ 2,584,761** | $ (5,876,462) |
| Other comprehensive (loss) income: | | |
| Items that are or may be reclassified to profit or loss: | | |
| Unrealized foreign exchange (loss) income on translation of self-sustaining foreign operations (note 18) | **(434,412)** | 2,413,758 |
| **Comprehensive income (loss)** | **$ 2,150,349** | $ (3,462,704) |

## Consolidated Statements of Changes in Equity (unaudited)

| | Capital stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of common shares outstanding | Amount | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Non-controlling interests in subsidiaries | Total |
| 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 income (loss) | — | — | — | (5,876,462) | 2,413,758 | — | (3,462,704) |
| Dividend paid | — | — | — | (771,580) | — | — | (771,580) |
| 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 loss attributable to non-controlling interests in subsidiaries | — | — | — | — | — | (178,009) | (178,009) |
| Translation adjustment on non-controlling interests | — | — | — | — | — | 260,570 | 260,570 |
| Balance at March 31, 2020 | 8,558,913 | $ 9,448,264 | $ 1,201,785 | $ 68,115,408 | $ 9,130,339 | $ 3,935,785 | $ 91,831,581 |
| Balance at January 1, 2021 | **8,558,913** | **$ 9,448,264** | **$ 1,201,785** | **$ 73,124,659** | **$ 6,075,665** | **$ 3,908,751** | **$ 93,759,124** |
| Comprehensive income (loss) | **—** | **—** | **—** | **2,584,761** | **(434,412)** | **—** | **2,150,349** |
| Dividend paid | **—** | **—** | **—** | **(427,946)** | **—** | **—** | **(427,946)** |
| Net earnings attributable to non-controlling interests in subsidiaries | **—** | **—** | **—** | **—** | **—** | **266,739** | **266,739** |
| Translation adjustment on non-controlling interests | **—** | **—** | **—** | **—** | **—** | **(52,451)** | **(52,451)** |
| Balance at March 31, 2021 | **8,558,913** | **$ 9,448,264** | **$ 1,201,785** | **$ 75,281,474** | **$ 5,641,253** | **$ 4,123,039** | **$ 95,695,815** |

# ACCORD FINANCIAL CORP.

## Consolidated Statements of Cash Flows (unaudited)

| Three months ended March 31 | 2021 | 2020 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| Net earnings (loss) | **$ 2,851,500** | $ (6,054,471) |
| Items not affecting cash: | | |
| Allowances for losses, net of write-offs and recoveries | **(959,835)** | 4,721,116 |
| Deferred income | **(30,435)** | 77,872 |
| Amortization of intangible assets | **45,658** | 74,585 |
| Depreciation of property and equipment | **166,371** | 178,764 |
| Impairment of assets held for sale | **852,464** | 897,277 |
| Accretion of convertible debentures | **156,740** | 141,756 |
| Deferred tax recovery | **(361,199)** | (288,875) |
| Current income tax expense (recovery) | **443,199** | (2,567,125) |
| | **3,164,463** | (2,819,101) |
| **Change in operating assets and liabilities:** | | |
| Finance receivables and loans, gross | **(5,688,894)** | 20,388,147 |
| Due to clients | **(822,679)** | (886,821) |
| Other assets | **80,236** | (507,524) |
| Accounts payable and other liabilities | **(2,003,787)** | (615,659) |
| Proceeds on disposal of assets held for sale | **533,439** | 15,000 |
| Income tax refund (paid), net | **148,748** | (82,006) |
| | **(4,588,474)** | 15,492,036 |
| **Investing activities:** | | |
| Property and equipment additions, net | **(21,402)** | (19,996) |
| **Financing activities:** | | |
| Bank indebtedness | **9,259,925** | (2,757,776) |
| Loan payable | **4,527,604** | 4,444,313 |
| Notes payable redeemed, net | **(415,478)** | (984,971) |
| Dividend paid | **(427,946)** | (771,580) |
| Repurchase and cancellation of shares | **—** | (264,049) |
| Purchase of 2% of Accord CapX LLC from a non-controlling interest | **—** | (181,389) |
| Lease liabilities | **(103,803)** | (84,763) |
| | **12,840,302** | (600,215) |
| **Effect of exchange rate changes on cash** | **(206,367)** | (1,167,330) |
| Increase in cash | **8,024,059** | 13,704,495 |
| Cash at January 1 | **5,545,951** | 6,776,422 |
| Cash at March 31 | **$ 13,570,010** | $ 20,480,917 |
| **Supplemental cash flow information:** | | |
| Net cash used in operating activities includes: | | |
| Interest paid | **$ 2,317,006** | $ 2,898,942 |

**1. Description of the business:**

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

**2. Basis of presentation and statement of compliance:**

These condensed interim unaudited consolidated financial statements ("Statements") are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2021, the more significant of which are detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2020.

The preparation of the condensed interim unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(d) and 4), the carrying value of assets held for sale (note 5), the determination of the valuation of goodwill and intangible assets on acquisition, as well as in the impairment testing thereof (notes 7 and 8), and the net realizable value of deferred tax assets and liabilities.

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as Covid-19. The rapid evolution of this pandemic combined with the restrictions on the movement of people and goods has led to a significant contraction in economic activity. While some of these restrictions are being lifted in stages, significant economic uncertainties persist the expected impact of which require increased judgment for many of the Company's estimates and assumptions and carry a higher degree of measurement uncertainty, variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future. Examples of significant estimates include the allowances for losses, the determination of triggering events for the impairment for 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 condensed interim unaudited consolidated financial statements of the Company have been prepared on an historical cost basis except for the following items which are recorded at fair value:

- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Senior executive long-term incentive plan ("LTIP")*; and
- Guarantee of managed receivables*

* *a component of accounts payable and other liabilities*

These condensed interim unaudited consolidated financial statements for the three months ended March 31, 2021 were approved for issue by the Company's Board of Directors ("Board") on May 5, 2021.

## 3. Significant accounting policies:

### a) Basis of consolidation

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

### b) Revenue recognition

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

**c) Finance receivables and loans**

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

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

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

**d) Allowance for losses**

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, under which allowances for expected credit losses ("ECL") are recognized on all financial assets that are classified either at amortized cost or fair value through other comprehensive income ("FVOCI") and for all loan commitments and financial guarantees that are not measured at fair value through profit and loss ("FVTPL"). ECL allowances represent credit losses that reflect an unbiased and probability weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment.

The Company's ECL allowances are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve-month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company 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. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. For Stage 3 finance receivables and loans, either an allowance for ECL is provided thereon or, where the Company intends to or has actively taken possession of its collateral with a view to realizing on same as a means of recovering some or all of the outstanding account balance, the financial instrument is written down to its estimated net recoverable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment to client(s) under its guarantee. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses.

**e) 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.

**f) Intangible assets**

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The

Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

**g) 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.

**h) Stock-based compensation**

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

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

**i) Financial assets and liabilities**

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

**j) 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.

**k) 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").

## 4. Finance receivables and loans:

As detailed in note 2, there is a high degree of uncertainty relating to the severe adverse economic impact of Covid-19 on the Company's portfolio of finance receivables and loans, and managed receivables, and the requirement to build forward-looking information or conditions into our expected credit loss models under IFRS 9. Since the first quarter of 2020, this resulted in significant increases in the Company's provision for credit and loan losses and allowances for losses, as well as downgrades in internal client credit risk ratings as detailed in notes 4(a) and 4(b) below. Certain payment modifications were also granted as a means of avoiding credit and loan losses.

### a) Finance receivables and loans

| | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Receivable loans | **$ 85,318,803** | $ 100,858,076 | $ 115,424,598 |
| Other loans* | **178,504,917** | 149,734,115 | 147,825,980 |
| Lease receivables | **99,575,692** | 109,744,976 | 107,164,382 |
| Finance receivables and loans, gross | **363,399,412** | 360,337,167 | 370,414,960 |
| Less allowance for losses | **5,673,000** | 6,314,000 | 7,421,000 |
| Finance receivables and loans, net | **$ 357,726,412** | $ 354,023,167 | $ 362,993,960 |

** Other loans primarily comprise inventory, equipment and working capital loans.*

The Company's finance receivables and loans are generally either: (i) collateralized by a charge on substantially all of the borrowers' assets; or (ii) leased assets or factored receivables which the Company owns; or (iii) are 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 ASBF and AEF as described in note 3(c). Lease receivables at March 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 March 31, 2021 totalled $4.6 million (2020 – $62.5 million).

Interest income earned on finance receivables and loans during the quarter ended March 31, 2021 totalled $11,432,219 (2020 – $10,635,954).

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Less than 1 year | **$ 206,386** | $ 206,934 | $ 224,782 |
| 1 to 2 years | **68,878** | 78,362 | 90,445 |
| 2 to 3 years | **64,865** | 57,992 | 36,435 |
| 3 to 4 years | **22,069** | 15,038 | 16,506 |
| 4 to 5 years | **1,201** | 2,011 | 2,247 |
| | **$ 363,399** | $ 360,337 | $ 370,415 |

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Current | **$ 349,954** | $ 345,163 | $ 345,113 |
| Past due but not impaired: | | | |
| Past due less than 90 days | **6,584** | 5,238 | 7,792 |
| Past due 90 to 180 days | **2,916** | 1,548 | 2,819 |
| Past due 180 days or more | **1,942** | 5,849 | 3,603 |
| Impaired loans | **2,003** | 2,539 | 11,088 |
| | **$ 363,399** | $ 360,337 | $ 370,415 |

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on the lifetime risk of default of an account, or an impairment, which may be rebutted where payments are delayed for non-credit related reasons, such as specific industry related reasons or practices as we often see across certain of the Company's lines of business. Of the past due finance receivables at March 31, 2021, $8,954,000 related to BondIt Media Capital ("BondIt"), AFIU's 51% controlled media finance subsidiary, where media productions or the sale thereof are often delayed resulting in payment delays.

As the Company's finance receivables and loans are generally collateralized, past due or impaired accounts do not necessarily lead to a significant ECL allowance depending on the net realizable value of the collateral security which may result in a low or no LGD.

At March 31, 2021, the estimated net realizable value of the collateral securing the impaired loans totalled $2,046,000. During the first quarter of 2021, lease receivables totalling $37,000 (see note 5) were transferred to assets held for sale upon default of the leases and recovery of the Company's assets.

The Company maintains internal credit risk ratings on its finance receivables and loans by client which it uses for credit risk management purposes. The Company's internal credit risk ratings are defined as follows:

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

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

**High risk:** finance receivables and loans within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average expected credit loss. Typically, these finance receivables and loans are expected to represent a small percentage of the Company's total finance receivables and loans. However, due to the adverse economic impact of Covid-19, high risk loans are anticipated to be higher than normal commencing March 31, 2020.

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

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Low risk | **$ 86,483** | $ 130,160 | $ 112,032 |
| Medium risk | **240,844** | 189,225 | 184,794 |
| High risk | **34,069** | 38,413 | 62,501 |
| Impaired | **2,003** | 2,539 | 11,088 |
| | **$ 363,399** | $ 360,337 | $ 370,415 |

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Stage 1 | **$ 322,015** | $ 314,111 | $ 339,331 |
| Stage 2 (SICR) | **39,381** | 43,687 | 19,996 |
| Stage 3 (Impaired) | **2,003** | 2,539 | 11,088 |
| | **$ 363,399** | $ 360,337 | $ 370,415 |

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 losses on finance receivables and loans account during the first quarter of 2021 and 2020 was as follows:

| | **2021** | 2020 |
|---|---|---|
| Allowance for losses at January 1 | **$ 6,314,000** | $ 4,520,000 |
| Provision for (recovery of) loan losses | **(510,742)** | 6,688,144 |
| Write-offs | **(143,455)** | (4,012,818) |
| Recoveries | **63,362** | 6,790 |
| Foreign exchange adjustment | **(50,165)** | 218,884 |
| Allowance for losses at March 31 | **$ 5,673,000** | $ 7,421,000 |

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Allowance for losses at January 1, 2021 | **$ 3,527,040** | **$ 2,786,960** | **$ —** | **$ 6,314,000** |
| Transfer between stages | **(61,469)** | **61,469** | **—** | **—** |
| Reserves expense (recovery)* related to change in allowance for losses | **115,450** | **(706,285)** | **—** | **(590,835)** |
| Foreign exchange adjustment | **(30,880)** | **(19,285)** | **—** | **(50,165)** |
| Allowance for losses at March 31, 2021 | **$ 3,550,141** | **$ 2,122,859** | **$ —** | **$ 5,673,000** |

** a component of the provision for loan losses*

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Allowance for losses at January 1, 2020 | $ 2,911,016 | $ 1,608,984 | $ — | $ 4,520,000 |
| Transfer between stages | (136,022) | (910,000) | 1,046,022 | — |
| Reserves expense (recovery)* related to change in allowance for losses | 3,095,160 | 631,396 | (1,044,440) | 2,682,116 |
| Foreign exchange adjustment | 174,066 | 46,400 | (1,582) | 218,884 |
| Allowance for losses at March 31, 2020 | $ 6,044,220 | $ 1,376,780 | $ — | $ 7,421,000 |

** a component of the provision for loan losses*

There was no Stage 3 allowance for losses at March 31, 2021 and 2020 as the impaired finance receivables and loans were in respect of accounts where the Company intended to or had actively taken possession of its collateral and was currently or will be liquidating same as a means of recovering some or all of the outstanding account balance. In such cases, the finance receivables and loans have been written down to the present value of their estimated net recoverable amounts and any allowance for losses thereon reversed.

The nature of the Company's business involves funding or assuming the credit risk on the 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 22(a).

At March 31, 2021, the Company held cash collateral of $4,958,964 (December 31, 2020 - $5,142,539, March 31, 2020 – $3,778,974) 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 March 31, 2021, the gross amount of these managed receivables was $11,713,503 (December 31, 2020 – $18,522,441, March 31, 2020 – $35,632,953). Fees from the Company's receivables management and credit protection business during the first quarter of 2021 totalled $127,656 (2020 – $519,315). This is included in other income.

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Current | **$ 9,579** | $ 12,350 | $ 26,837 |
| Past due but not impaired: | | | |
| Past due less than 90 days | **2,110** | 5,455 | 8,425 |
| Past due more than 90 days | **25** | 717 | 371 |
| | **$ 11,714** | $ 18,522 | $ 35,633 |

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

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Low risk | **$ 162** | $ 4,857 | $ 2,976 |
| Medium risk | **10,502** | 11,308 | 13,266 |
| High risk | **1,050** | 2,357 | 19,391 |
| Impaired | — | — | — |
| | **$ 11,714** | $ 18,522 | $ 35,633 |

The significant high risk rated managed receivables at March 31, 2020 directly resulted from the adverse economic impact of COVID-19 and the Company's exposure to the retail industry which was and still is significantly impacted by COVID-19 prevention measures.

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

| (in thousands) | **March 31, 2021** | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Stage 1 | **$ 10,664** | $ 15,530 | $ 2,976 |
| Stage 2 (SICR) | **1,050** | 2,992 | 32,657 |
| Stage 3 (Impaired) | — | — | — |
| | **$ 11,714** | $ 18,522 | $ 35,633 |

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. There were no Stage 3 (impaired) managed receivables at the above dates as any outstanding client claims for payment under the Company's guarantees are an actual liability that is accrued for and included in accounts payable and other liabilities. In this respect, at March 31, 2021 there were no outstanding unpaid claims, while at December 31, 2020 and March 31, 2020 amounts totalling $128,000 and $28,000, respectively, had been accrued to payout claims under the Company's guarantees.

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

The activity in the allowance for losses on the guarantee of managed receivables account during the first quarter of 2021 and 2020 was as follows:

| | **2021** | 2020 |
|---|---|---|
| Allowance for losses at January 1 | **$ 555,000** | $ 44,000 |
| Provision for (recovery of) credit losses | **(385,720)** | 2,134,180 |
| Write-offs | **(853)** | (95,831) |
| Recoveries | **17,573** | 651 |
| Allowance for losses at March 31 | **$ 186,000** | $ 2,083,000 |

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

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Allowance for losses at January 1, 2021 | **$ 267,400** | **$ 287,600** | **$ —** | **$ 555,000** |
| Reserves recovery* related to decrease in allowance for losses | **(162,400)** | **(206,600)** | **—** | **(369,000)** |
| Allowance for losses at March 31, 2021 | **$ 105,000** | **$ 81,000** | **$ —** | **$ 186,000** |

** a component of the provision for loan losses*

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

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Allowance for losses at January 1, 2020 | $ 40,480 | $ 3,520 | $ — | $ 44,000 |
| Transfer between stages | (36,045) | 36,045 | — | — |
| Reserves expense* related to increase in allowance for losses | 17,883 | 2,021,117 | — | 2,039,000 |
| Allowance for losses at March 31, 2020 | $ 22,318 | $ 2,060,682 | $ — | $ 2,083,000 |

** a component of the provision for loan losses*

## 5. Assets held for sale:

Assets held for sale and movements therein during the first quarter of 2021 and 2020 were as follows:

| | **2021** | 2020 |
|---|---|---|
| Assets held for sale at January 1 | **$ 1,513,567** | $ 6,970,369 |
| Additions | **37,550** | — |
| Disposals | **(533,439)** | (15,000) |
| Impairment charge | **(852,464)** | (897,277) |
| Foreign exchange adjustment | **(14,606)** | 526,504 |
| Assets held for sale at March 31 | **$ 150,608** | $ 6,584,596 |

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

During the first quarter of 2021 assets totalling $37,550 were added, while assets were disposed of for net proceeds of $533,439. An impairment charge of $852,464 was booked against the assets in the quarter to write them down to NRV. In the first quarter of 2020, the assets disposed of were sold for $15,000, while an impairment charge of $897,277 was booked to write the assets down to NRV.

## 6. Property and equipment

Property and equipment include the Company's right-of-use assets, comprising four office leases. The Company's right-of-use assets and movements therein during the first quarter of 2021 and 2020 were as follows:

| (in thousands) | 2021 | 2020 |
|---|---|---|
| Right-of-use assets at January 1 | **$ 1,103** | $ 1,544 |
| Depreciation expense | **(106)** | (110) |
| Foreign exchange adjustment | **(6)** | 62 |
| Right-of-use assets at March 31 | **$ 991** | $ 1,496 |

Property and equipment also include capital assets, net, with a net book value of $510,331 (2020 – $770,481).

## 7. Goodwill:

| | 2021 | 2020 |
|---|---|---|
| Goodwill at January 1 | **$ 13,218,843** | $ 13,454,926 |
| Foreign exchange adjustment | **(145,210)** | 955,013 |
| Goodwill at March 31 | **$ 13,073,633** | $ 14,409,939 |

At March 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 March 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| U.S. operations | **$ 11,191,126** | $ 12,527,432 |
| Canadian operations | **1,882,507** | 1,882,507 |
| | **$ 13,073,633** | $ 14,409,939 |

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2020, the Company conducted annual impairment reviews on each CGU and determined that there was no impairment to the carrying value of goodwill.

## 8. Intangible assets:

Intangible assets and movements therein during the first quarter of 2021 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 | **(24,825)** | **—** | **(22,201)** | **(47,026)** |
| March 31, 2021 | **$ 1,913,193** | **$ 1,343,938** | **$ 1,710,944** | **$ 4,968,075** |
| **Accumulated amortization** | | | | |
| January 1, 2021 | **$ (406,875)** | **$ (1,330,482)** | **$ —** | **$ (1,737,357)** |
| Amortization expense | **(32,202)** | **(13,456)** | **—** | **(45,658)** |
| Foreign exchange adjustment | **5,476** | **—** | **—** | **5,476** |
| March 31, 2021 | **$ (433,601)** | **$ (1,343,938)** | **$ —** | **$ (1,777,539)** |
| **Book value** | | | | |
| January 1, 2021 | **$ 1,531,143** | **$ 13,456** | **$ 1,733,145** | **$ 3,277,744** |
| March 31, 2021 | **$ 1,479,592** | **$ —** | **$ 1,710,944** | **$ 3,190,536** |

Intangible asset movements during the first quarter of 2020 were as follows:

| 2020 | Customer and referral relationships | Broker relationships | Brand name | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2020 | $ 1,978,377 | $ 1,343,938 | $ 1,769,238 | $ 5,091,553 |
| Foreign exchange adjustment | 163,266 | — | 146,006 | 309,272 |
| March 31, 2020 | $ 2,141,643 | $ 1,343,938 | $ 1,915,244 | $ 5,400,825 |
| **Accumulated amortization** | | | | |
| January 1, 2020 | $ (283,239) | $ (1,168,846) | $ — | $ (1,452,085) |
| Amortization expense | (34,176) | (40,409) | — | (74,585) |
| Foreign exchange adjustment | (24,951) | — | — | (24,951) |
| March 31, 2020 | $ (342,366) | $ (1,209,255) | $ — | $ (1,551,621) |
| **Book value** | | | | |
| January 1, 2020 | $ 1,695,138 | $ 175,092 | $ 1,769,238 | $ 3,639,468 |
| March 31, 2020 | $ 1,799,277 | $ 134,683 | $ 1,915,244 | $ 3,849,204 |

## 9. Bank indebtedness:

A revolving line of credit totalling approximately $367 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line is collateralized primarily by the Company's finance receivables and loans. At March 31, 2021, the amount outstanding under the line of credit totalled $218,102,349 (December 31, 2020 – $210,940,174, March 31, 2020 – $253,825,190). The Company was in compliance with all loan covenants under its bank line of credit during the first three months of 2021 and 2020.

## 10. Loan payable:

A revolving line of credit totalling was established by BondIt in 2018 with a non-bank lender, which bears interest varying with the U.S. base rate. This line, which is collateralized by all of BondIt's assets, expires on May 31, 2022. During 2020, the line was increased to US$20,000,000 ($25,124,000). At March 31, 2021, the amount outstanding under this line of credit totalled $25,630,262 (December 31, 2020 –

$21,376,479, March 31, 2020 – $16,597,710). BondIt was in compliance with all loan covenants under this facility in the first quarter of 2021 and 2020.

**11. Related parties:**

**a) Notes payable:**

Notes payable comprise: (i) unsecured demand notes due on, or within a week of, demand ($1,641,257); (ii) numerous BondIt notes ($2,386,780), which are repayable on various dates the latest of which is December 31, 2021; and (iii) term notes which mature on July 31, 2021 ($12,956,200). Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable were as follows:

| | March 31, 2021 | Dec. 31, 2020 | March 31, 2020 |
|---|---|---|---|
| **Short-term notes (due within one year)** | | | |
| Related parties | **$ 15,305,250** | $ 15,071,938 | $ 3,208,578 |
| Third parties | **1,678,987** | 2,362,116 | 2,757,856 |
| | **16,984,237** | 17,434,054 | 5,966,434 |
| **Long-term notes (due after one year)** | | | |
| Related parties | **—** | — | 12,256,200 |
| | **$ 16,984,237** | $ 17,434,054 | $ 18,222,634 |

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

Interest expense on the notes payable for the first three months ended March 31 was as follows:

| | 2021 | 2020 |
|---|---|---|
| Related parties | **$ 266,276** | $ 258,433 |
| Third parties | **28,554** | 61,392 |
| | **$ 294,830** | $ 319,825 |

**b) 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 March 31, 2021, participations in BondIt client loans totalled US$18,599,000 (December 31, 2020 – US$14,765,000, March 31, 2020 – US$6,778,000), of which US$1,696,000 (December 31, 2020 – US$2,405,000, March 31, 2020 – US$2,324,000) was provided by related parties. These participations are not included in the Company's Statements of Financial Position.

## 12. 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 are not redeemable by the Company prior to December 31, 2021 except in limited circumstances following a change of control. On or after December 31, 2021 and at any time prior to December 31, 2022, the debentures may be redeemed at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon provided that the market price of the Company's common shares is at least 125% of the conversion price. On or after December 31, 2022 and prior to the maturity date, these debentures may be redeemed in whole or in part at the option of the Company at a redemption price equal to 100% of their principal amount plus any accrued and unpaid interest thereon.

The Company used the residual method to calculate the allocation between the debt and equity components of the debentures. The gross proceeds of $25,626,800 were allocated towards the debt component of these debentures by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debentures. The equity component is initially determined to be the difference between the gross proceeds and the debt component. Transaction costs were then allocated to the debt and equity components on a pro-rata basis. The equity component is carried net of deferred taxes and is included in contributed surplus.

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at March 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 | 1,252,739 | — | 1,252,739 |
| Accrued interest | 448,875 | — | 448,875 |
| | $ 24,115,188 | $ 1,005,105 | $ 25,120,293 |

The allocation of the gross proceeds from the convertible debentures issuance and the balances outstanding on the debt and equity components at March 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 | 656,123 | — | 656,123 |
| Accrued interest | 448,875 | — | 448,875 |
| | $ 23,518,572 | $ 1,005,105 | $ 24,523,677 |

At March 31, 2021 all debentures remained outstanding.

## 13. Lease liabilities:

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

| (in thousands) | **2021** | 2020 |
|---|---|---|
| Less than one year | **$ 499** | $ 518 |
| One to five years | **653** | 1,122 |
| Thereafter | **92** | 184 |
| Total undiscounted lease obligations | **1,244** | 1,824 |
| Less: short-term lease commitments elected for exemption under IFRS 16 | **(12)** | (26) |
| Less: future interest | **(135)** | (221) |
| Lease liabilities at March 31 | **$ 1,097** | $ 1,577 |

For the three months ended March 31, 2021, principal and interest payments for the four office leases recognized as right-of-use assets under IFRS 16 totalled $103,803 (2020 - $84,763) and $18,099 (2020 - $39,717), respectively, for total lease payments of $121,902 (2020 - $124,480). No variable lease payments are included in the measurement of the Company's lease liabilities.

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

### a) Authorized capital stock

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

### b) Issued and outstanding

The Company's issued and outstanding common shares during the first three months of 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 the first quarter of 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 the first three months of 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 the three months ended March 31, 2021, a dividend of $0.05 (2020 – $0.09) per common share, was declared and paid totalling $427,946 (2020 – $771,580).

On April 22, 2021, the Company declared a quarterly dividend of $0.05 per common share, payable June 1, 2021 to shareholders of record at the close of business on May 14, 2021.

**f) Stock option plans**

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

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

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

The Company's Board of Directors ("Board") terminated the KESOP and NEDSOP on March 10, 2021 and no further option grants will be made thereunder. A new stock option plan ("SOP") is being presented to shareholders for approval at the Company's Annual and Special Meeting of Shareholders to be held on May 5, 2021.

Outstanding options granted under the NEDSOP were as follows:

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

A director who did not stand for re-election on May 6, 2020 did not exercise his options within the required sixty-day period after he ceased to be director. Accordingly, his 40,000 options expired on July 5, 2020. On October 27, 2020, 80,000 options granted on October 28, 2015 expired unexercised. Although the NEDSOP has been terminated, the 60,000 options outstanding thereunder can still be exercised until their expiry.

The fair value of the options granted in 2016 and 2015 was determined using the Black-Scholes option-pricing model with the following assumptions on the grant dates:

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

**g) Senior executive long-term incentive plan:**

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted consolidated net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Company's Board termimanted the LTIP on March 10, 2021. Any payouts in respect of the outstanding unvested 2019 and 2020 LTIP awards will be settled in cash.

## 15. Earnings per common share and weighted average number of common shares outstanding:

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

All outstanding stock options and convertible debentures were excluded from the calculation of the diluted weighted average number of shares outstanding for the three months ended March 31, 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 14(f).

**16. Contingent liabilities:**

**a)** In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters, represent potential financial loss to the Company. The Company accues 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 March 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 March 31, 2021 and 2020 and December 31, 2020, there were no letters of credit issued on behalf of clients for which the Company was contingently liable. The Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of $640,662 at March 31, 2021 (December 31, 2020 – $648,975, March 31, 2020 – $717,162). These amounts were considered in determining the allowance for losses on finance receivables and loans.

**17. Derivative financial instruments:**

At March 31, 2021, the Company had entered into forward exchange contracts with a financial institution which must be exercised by the Company between July 30, 2021 and August 31, 2021 and which oblige the Company to sell Canadian dollars and buy US$700,000 at exchange rates ranging from 1.2675 to 1.31800. These contracts were entered into by the Company on behalf of a client and similar forward exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$700,000 to the client. 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 ranging from 1.27650 to 1.35930, while, at March 31, 2020, the Company had entered into forward foreign exchange contracts with a financial institution that matured between May 29, 2020 and July 31, 2020 and obliged the Company to sell Canadian dollars and buy US$694,000 at exchange rates ranging from 1.3015 to 1.3174. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company bought Canadian dollars from and sold US$744,000 and US$694,000, respectively, 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 the first quarter of 2021 and 2020 there was no movement between the three-level fair value hierarchy.

**18. Accumulated other comprehensive income:**

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the three months ended March 31, 2021 and 2020 are set out in the consolidated statements of changes in equity.

**19. Non-controlling interests in subsidiaries:**

Non-controlling interests in subsidiaries at March 31, 2021 and 2020, and December 31, 2020 comprised a 49% interest in BondIt’s common member units and an 8% interest in CapX’s common units. Please see the consolidated statements of changes in equity for movements in non-controlling interests during the three months ended March 31, 2021 and 2020.

**20. Fair value of financial assets and liabilities:**

Financial assets or liabilities, other than lease receivables and term loans to clients in our equipment and small business finance businesses, lease liabilities and convertible debentures are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company’s financial instruments resulting in a favourable or unfavourable 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.

**21. Segmented information:**

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

| Three months ended March 31 | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | **Canada** | **United States** | **Inter-Company** | **Total** | Canada | United States | Inter-Company | Total |
| Identifiable assets | **$182,590** | **$212,123** | **$ (33)** | **$394,680** | $178,193 | $255,541 | $ (15,493) | $ 418,241 |
| Revenue | | | | | | | | |
| Interest income | **$ 5,268** | **$ 6,254** | **$ (90)** | **$ 11,432** | $ 4,521 | $ 6,233 | $ (118) | $ 10,636 |
| Other income | **1,172** | **876** | **—** | **2,048** | 926 | 453 | — | 1,379 |
| | **6,440** | **7,130** | **(90)** | **13,480** | 5,447 | 6,686 | (118) | 12,015 |
| Expenses | | | | | | | | |
| Interest | **2,219** | **1,157** | **(90)** | **3,286** | 3,358 | 765 | (118) | 4,005 |
| General and administrative | **3,154** | **3,915** | **—** | **7,069** | 2,615 | 4,332 | — | 6,947 |
| Provision for credit and loan losses | **(34)** | **(862)** | **—** | **(896)** | 5,527 | 3,295 | — | 8,822 |
| Impairment of assets held for sale | **140** | **712** | **—** | **852** | — | 897 | — | 897 |
| Depreciation | **69** | **97** | **—** | **166** | 81 | 98 | — | 179 |
| Business acquisition expenses | **13** | **56** | **—** | **69** | 41 | 34 | — | 75 |
| | **5,561** | **5,075** | **(90)** | **10,546** | 11,622 | 9,421 | (118) | 20,925 |
| Earnings (loss) before income tax | **879** | **2,055** | **—** | **2,934** | (6,175) | (2,735) | — | (8,910) |
| Income tax expense (recovery) | **187** | **(105)** | **—** | **82** | (1,438) | (1,418) | — | (2,856) |
| Net earnings (loss) | **692** | **2,160** | **—** | **2,852** | (4,737) | (1,317) | — | (6,054) |
| Net earnings (loss) attributable to non-controlling interests in subsidiaries | **—** | **267** | **—** | **267** | — | (178) | — | (178) |
| Net earnings (loss) attributable to shareholders | **$ 692** | **$ 1,893** | **$ —** | **$ 2,585** | $ (4,737) | $ (1,139) | $ — | $ (5,876) |

## 22. 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 ($363 million) and managed receivables ($12 million) represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company usually owns the factored receivables or leased assets that it finances. The Company does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending business, the Company makes loans that are, in most cases, secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate. The Company provides a loss allowance on all of its finance receivables and loans based on the assessed credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during the three months ended March 31, 2021 and 2020.

At March 31, 2021, the Company had impaired loans of $2,003,000 (December 31, 2020 – $2,539,000, March 31, 2020 – $11,088,000), while at that date, it held collateral for these loans with an estimated net realizable value of $2,046,000 (December 31, 2020 – $3,013,000, March 31, 2020 – $11,480,000). These impaired loans were mainly secured by receivables, inventory and/or equipment. The Company did not have any impaired managed receivables at March 31, 2021 and 2020, and December 31, 2020, as an accrued liability is established in respect of any unpaid claims under the Company's credit guarantees (see note 4(b)).

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 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, which comprises three directors. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. In its asset-based lending operations, a primary focus continues to be on the credit-worthiness and collectability of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment loans are mainly term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 0.3% were past due more than 60 days at March 31, 2021 (December 31, 2020 – 6.1%, March 31, 2020 – 1.7%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and equipment finance businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 which presents the Company’s finance receivables and loans and managed receivables by their internal credit risk rating (low risk, medium risk, high risk) and by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

In the Company’s credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Credit Committee of the Board on a case-by-case basis. At March 31, 2021, the Company did not have any guaranteed accounts receivable in excess of $5 million for any customer.

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

| | **March 31, 2021** | | March 31, 2020 | |
|---|---|---|---|---|
| (in $000's) | **Gross finance receivables and loans** | **% of total** | Gross finance receivables and loans | % of total |
| Manufacturing | **$ 100,078** | **27** | $ 92,899 | 25 |
| Professional services | **67,505** | **19** | 83,391 | 23 |
| Financial services | **51,247** | **14** | 41,161 | 11 |
| Media | **42,522** | **12** | 25,506 | 7 |
| Wholesale and distribution | **29,027** | **8** | 37,645 | 10 |
| Construction | **21,007** | **6** | 19,125 | 5 |
| Transpotation | **17,829** | **5** | 22,828 | 6 |
| Retail | **8,655** | **2** | 17,858 | 5 |
| Other | **25,529** | **7** | 30,002 | 8 |
| | **$ 363,399** | **100** | $ 370,415 | 100 |

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

| | **March 31, 2021** | | March 31, 2020 | |
|---|---|---|---|---|
| (in $000's) | **Managed receivables** | **% of total** | Managed receivables | % of total |
| Wholesale and distribution | **$ 7,265** | **62** | $ 912 | 3 |
| Retail | **4,449** | **38** | 30,760 | 86 |
| Other | **–** | **–** | 3,961 | 11 |
| | **$ 11,714** | **100** | $ 35,633 | 100 |

As set out in notes 3(d) and 4, the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables in accordance with IFRS 9. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

**b) Liquidity risk:**

The Company's financial assets and liabilities at March 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 | **$ 13,570** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 13,570** |
| Finance receivables and loans | **174,494** | **55,221** | **85,655** | **42,193** | **5,836** | **—** | **363,399** |
| All other assets | **3,256** | **—** | **—** | **—** | **—** | **—** | **3,256** |
| | **$ 191,320** | **$ 55,221** | **$ 85,655** | **$ 42,193** | **$ 5,836** | **$ —** | **$380,225** |
| **Financial liabilities** | | | | | | | |
| Due to clients | **$ 2,084** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 2,084** |
| Bank indebtedness | **218,102** | **—** | **—** | **—** | **—** | **—** | **218,102** |
| Loan payable | **25,630** | **—** | **—** | **—** | **—** | **—** | **25,630** |
| Notes payable | **16,984** | **—** | **—** | **—** | **—** | **—** | **16,984** |
| Convertible debentures | **—** | **—** | **24,115** | **—** | **—** | **—** | **24,115** |
| All other liabilities | **9,352** | **483** | **72** | **77** | **83** | **89** | **10,156** |
| | **$ 272,152** | **$ 483** | **$ 24,187** | **$ 77** | **$ 83** | **$ 89** | **$ 297,071** |

The Company's financial assets and liabilities at March 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 | $ 20,481 | $ — | $ — | $ — | $ — | $ — | $ 20,481 |
| Finance receivables and loans | 194,644 | 58,952 | 49,710 | 52,648 | 14,461 | — | 370,415 |
| All other assets | 7,171 | — | — | — | — | — | 7,171 |
| | $ 222,296 | $ 58,952 | $ 49,710 | $ 52,648 | $ 14,461 | $ — | $ 398,067 |
| **Financial liabilities** | | | | | | | |
| Due to clients | $ 1,605 | $ — | $ — | $ — | $ — | $ — | $ 1,605 |
| Bank indebtedness | 253,825 | — | — | — | — | — | 253,825 |
| Loan payable | 16,598 | — | — | — | — | — | 16,598 |
| Notes payable | 5,967 | 12,256 | — | — | — | — | 18,223 |
| Convertible debentures | — | — | — | 23,519 | — | — | 23,519 |
| All other liabilities | 6,756 | 414 | 365 | 72 | 77 | 172 | 7,856 |
| | $ 284,751 | $ 12,670 | $ 365 | $ 23,591 | $ 77 | $ 172 | $ 321,626 |

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities. At March 31, 2021, revolving credit lines totalling approximately $392,000,000 have been established with a syndicate of banks, as well as a non-bank lender, bearing interest varying with the bank prime rate or Libor. At March 31, 2021, the Company had borrowed $243,732,611 (December 31, 2020 – $232,316,653, March 31, 2020 – $270,422,900) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. As detailed in note 9, the Company was in compliance with all loan covenants under its bank line of credit during the first quarter of 2021 and 2020, while BondIt was compliant with all covenants under its line of credit with its non-bank lender. See note 10.

Notes payable of $1,641,257 are due on, or within a week of demand, while BondIt notes totalling $2,386,780 are repayable at various dates the latest of which is December 31, 2021. A further $12,956,200 of term notes payable mature on July 31, 2021 (see note 11(a)). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At March 31, 2021, 90% (2020 – 85%) of these notes were due to related parties and 10% (2020 – 15%) to third parties. The Company's convertible debenture liability was $24,115,188 at March 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 March 31, 2021, the Company had gross finance receivables and loans totalling $363,399,412 (December 31, 2020 – $360,337,167, March 31, 2020 – $370,414,960) which substantially exceeded its total liabilities of $298,984,487 at that date (December 31, 2020 – $291,153,514, March 31, 2020 – $326,409,585). 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 March 31, 2021, the Company's unhedged foreign currency positions in its Canadian operations totalled $126,000 (2020 – $213,000). 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 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 somewhat below its floating and short-term fixed rate (usually 30 days) borrowings, the Company may deploy interest rate hedges or term out certain of its borrowings in future periods to match up with fixed rate term loan maturities in our equipment and small business finance businesses.

The following table shows the interest rate sensitivity gap at March 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 | $ 11,485 | $ — | $ — | $ — | $ — | $ 2,085 | **$ 13,570** |
| Finance receivables and loans, net | 203,495 | 14,317 | 124,664 | 20,909 | | (5,659) | **357,726** |
| All other assets | — | 1,667 | — | — | — | 21,717 | **23,384** |
| | $ 214,980 | $ 15,984 | $124,664 | $ 20,909 | $ — | $ 18,143 | **$ 394,680** |
| **Liabilities** | | | | | | | |
| Due to clients | $ — | $ — | $ — | $ — | $ — | $ 2,084 | **$ 2,084** |
| Bank indebtedness | 14,820 | 203,438 | — | — | — | (156) | **218,102** |
| Loan payable | 25,630 | — | — | — | — | — | **25,630** |
| Notes payable | 1,642 | 15,342 | — | — | — | — | **16,984** |
| Convertible debentures | — | — | 24,115 | — | — | — | **24,115** |
| All other liabilities | — | 2,284 | 413 | 160 | 89 | 9,123 | **12,069** |
| **Equity** | — | — | — | — | — | 95,696 | **95,696** |
| | 42,092 | 221,064 | 24,528 | 160 | 89 | 106,747 | **394,680** |
| | $ 172,888 | $(205,080) | $100,136 | $ 20,749 | $ (89) | $ (88,604) | **$ —** |

Based on the Company's interest rate positions as at March 31, 2021, a sustained 100 basis point rise in interest rates across all currencies and maturities would reduce net earnings by approximately $320,000 over a one-year period. A decrease of 100 basis points in interest rates would increase net earnings by a similar extent.

## 23. Capital disclosure:

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. At March 31, 2021, as a percentage, these ratios were 298% (December 31, 2020 – 291%, March 31, 2020 – 340%) and 24% (December 31, 2020 – 24%, March 31, 2020 – 22%), 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 March 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 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.

## 24. Government grants:

During the first three month of 2021, the Company received $103,207 (2020 – nil) under the Canadian Emergency Wage Subsidy program and $25,217 (2020 – nil) under the Canadian Emergency Rent Subsidy program. These grants were offset against their respective payroll and rent expenses in G&A.

## 25. Subsequent events:

At May 5, 2021, there were no subsequent events occurring after March 31, 2021 that required disclosure or adjustments to the financial statements.

# Corporate Information

## Board of Directors

**Ken Hitzig**, Toronto, Ontario [2,3]
**Simon Hitzig**, Toronto, Ontario
**David Beutel**, Toronto, Ontario [1,3]
**Jean Holley**, Alpharetta, Georgia [2]
**Gary Prager**, Wake Forest, North Carolina [1,3]
**Stephen D. Warden**, Oakville, Ontario [1,2]

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

## Officers

**Ken Hitzig**, Chairman of the Board
**Simon Hitzig**, President & CEO
**Stuart Adair**, Senior Vice President, Chief Financial Officer
**Barrett Carlson**, Senior Vice President, Corporate Development
**Irene Eddy**, Senior Vice President, Capital Markets
**Cathy Osborne**, Senior Vice President, Human Resources
**Eric Starr**, Senior Vice President, Program Operations and Risk
**Jim Bates**, Secretary

## Subsidiaries

**Accord Financial Ltd.**
Jim Bates, President
**Accord Financial Inc.**
Jason Rosenfeld, President
**Accord Financial, Inc.**
Terry Keating, President
**Accord Small Business Finance**
James Jang, President
**Accord Equipment Finance**
Jeff Pfeffer, President
**BondIt Media Capital**
Matthew Helderman, President

## Auditors

KPMG LLP

## Legal Counsel

Stikeman Elliott

## Bankers

Bank of Montreal
The Bank of Nova Scotia
Truist Bank
Canadian Imperial Bank of Commerce
HSBC Bank Canada
M&T Bank
The Toronto-Dominion Bank

## Stock Exchange Listings

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

## Registrar & Transfer Agent

Computershare Trust Company of Canada

## Annual Meeting

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

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