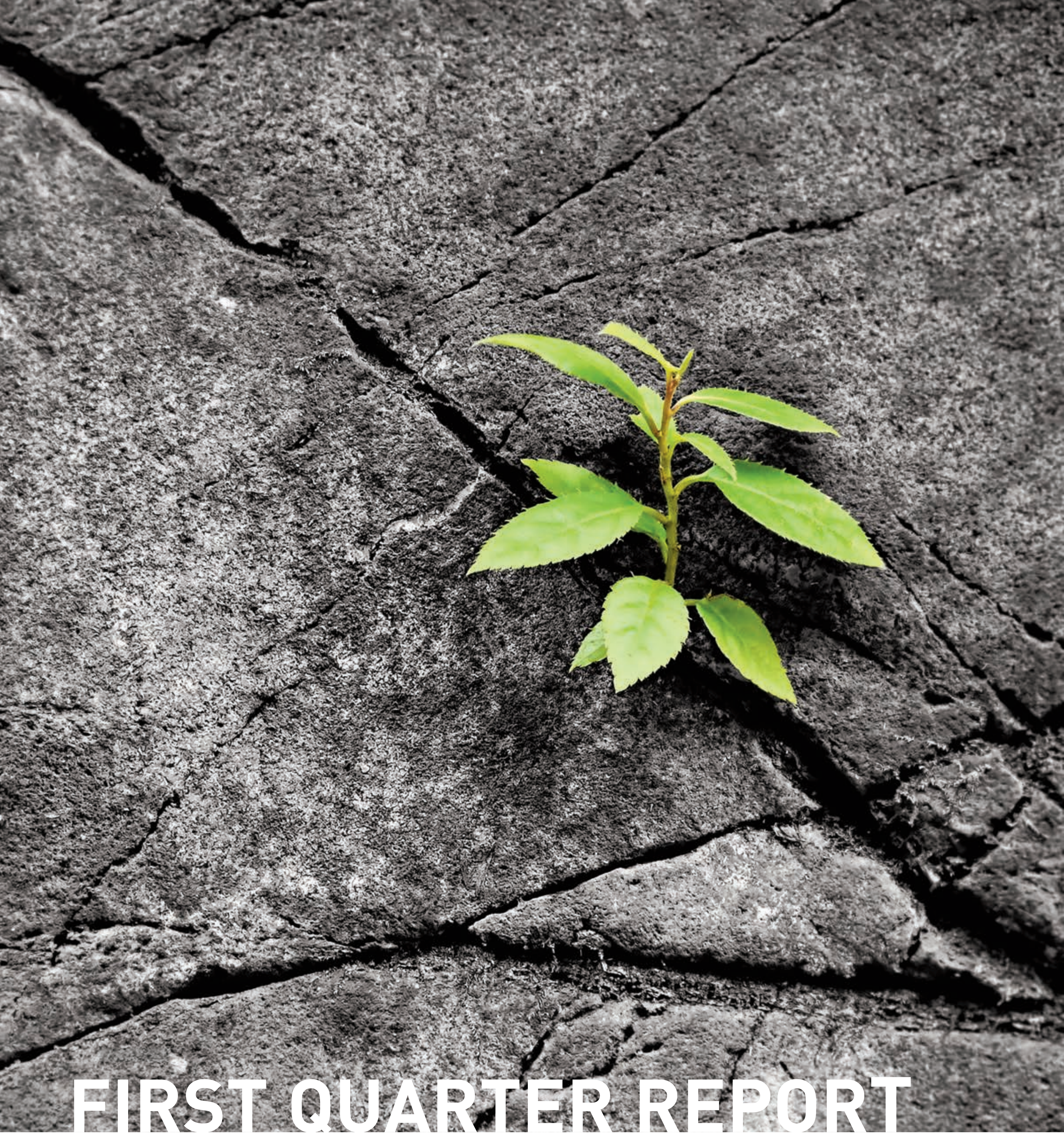

FIRST QUARTER REPORT

Purpose. Values. Character.

March 31, 2017

ACCORD FINANCIAL
We're worth it.

Purpose. Values. Character.

We love helping companies reach their potential.

In fact, it's our core purpose – our very reason for being. Our clients may be in growth mode, or restructuring and rebuilding. Whatever phase they're in, we stand ready with a full range of working capital solutions to help them get wherever they want to go.

Our versatile finance programs allow our clients to transform their accounts receivable, inventory and equipment into valuable working capital. We've been doing it successfully for almost 40 years. How?

By living our values of Integrity (you can be confident we'll do what we say), Reliability (we'll be here when you need us) and Transparency (we're public, so you can see what we're made of).

And then there is our fundamental character. We are highly Accessible: you can talk to a decision maker any time you wish. We are Meticulous: we take our business seriously and approach every situation as such. And we are Passionate: we LOVE coming to work.

Purpose, values and character. As our clients attest, together they're the bedrock of our ability to deliver far more than just money.

We're worth it.

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Just ask them.

"Accretive Solutions needed a financing arrangement that was easy to administer operationally. The Accord Financial team was interested in our challenges. They got to know us and the operational obstacles we were facing. Accord then came up with a great solution for us. The relationship is now in its third year. Not only do we appreciate the way our facility was structured from the start but, also, Accord is always responsive and interested in helping us to be successful. We truly value our excellent working relationship with Accord."

~ **JoAnn Lilek,** Chief Financial Officer
Consulting and Executive Search Firm

"Trident Labs, Inc. has been financing with Accord since Jan. 2012. Accord has acted as a true business partner, taking the time to understand our company and industry. The relationship has been straightforward and uncomplicated. Accord was flexible and reasonable, even when asked to make certain short-term allowances along the way. They were right by our side, helping us grow. I have worked with numerous banks and financing firms in my career and I can honestly say it is a pleasure to work with the very professional and knowledgeable staff at Accord. I am and we are pleased to highly recommend Accord."

~ **Scott Bowen,** President and Managing Director
SHB Consulting Group Acting as Chief Financial Officer of
Trident Labs, Inc.

"Accord's flexibility and quick reaction to support our opportunities and initiatives has enabled Reliable to achieve record performance. Although we have more choices today with regard to our short-term financing, we remain with Accord for the simple reason that we can count on them."

~ **Roy D. Johnson,** President
Reliable Bookbinders Ltd.
Service provider for binding, finishing of books and mailing

"Twenty years ago we switched our business to another service provider. Our company was growing and we were enticed by a lower rate. Soon after leaving Accord, it was clear that the service level and attention to detail wasn't the same. We also came to appreciate that Accord's reporting was simple and easy to understand. After a short absence, we went back to Accord and we've been there ever since. I might also add that we've been dealing with the same management people at Accord over our 30-year association – a testament to their consistency and professionalism."

~ **Eric Grundy,** Chief Executive Officer
Jaytex Group
Fashion importer

"I truly enjoy working with the team at Accord. Your pragmatic approach to working with us is a wonderful change from the traditional banking relationships."

~ **Mario Ricci,** Chief Financial Officer
Pharmetics (2011) Inc.
Manufacturer of vitamins, supplements, cold products
and over-the-counter medicines

Message from the President and CEO

Tom Henderson

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2017 together with comparative figures for the same period of 2016. 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 were $1,226,000 compared with $1,465,000 for the first quarter of 2016. Net earnings decreased 16% mainly as a result of lower revenue. Earnings per share were 15 cents compared to 18 cents last year.

Adjusted net earnings, which comprise net earnings before stock-based compensation and amortization of intangible assets, were $1,362,000, 14% lower than the $1,591,000 earned in the first quarter of 2016. Adjusted EPS, based on adjusted net earnings, were 16 cents compared to 19 cents last year.

Revenue in the first quarter of 2017 declined to $6,501,000 from $6,871,000 in 2016 mainly as a result of lower yields. Average funds employed in the quarter totalled $143 million compared to $142 million last year. The Company ended the first quarter with net funds employed of $153 million compared with $144 million a year ago. Although there was an increase in interest expense, overall, expenses fell to $5,086,000 in 2017 from $5,301,000 in 2016 on a lower provision for losses and reduced overhead.

Equity nearly reached $76 million at March 31, 2017 compared to $71 million a year ago. Book value per share at March 31, 2017 was a record $9.13 versus $8.61 at March 31, 2016.

In my letter accompanying the 2016 annual report, I outlined several important initiatives we are taking to help your company grow. I will take this opportunity to give you a brief update on three of them.

In April we rolled out our new "brand foundation", which adds to our nearly forty years of success by encapsulating Accord's unique advantages in a vision aimed at energizing all of our stakeholders. The Accord brand foundation captures why we do what we do, how we do it and why our unique approach adds value to, and strengthens relationships with various stakeholders. To launch the initiative all of our staff took part in a series of internal presentations and I'm pleased to report they were very receptive and enthusiastic. I strongly believe that our efforts to increasingly popularize the Accord brand will significantly increase the value of your company. The new Accord brand foundation is punctuated by an upgraded and more stylized logo and the introduction of a new tagline: "*We're worth it*". The tagline is designed to capture the attention of our various referral sources and prospective clients by reinforcing their impression that Accord provides unique benefits not available from other financial sources.

Secondly, I advised that we are planning to bring more products and businesses under the Accord banner either through de novo activity or via the acquisition of other financial service businesses. The process of looking at potential acquisitions has moved into high gear and I am cautiously optimistic that we will be able to report significant developments later this year.

Finally, I reported that we are well along in the process of upgrading our website in order to be certain that we are attracting prospective clients who do not seek financing through traditional sources such as investment bankers and other financial professionals. I am pleased to tell you that the upgrade is almost complete and we will go live in the second quarter.

At a recent Board of Directors meeting, a regular quarterly dividend of 9 cents per common share was declared payable, June 1, 2017 to shareholders of record May 17, 2017.

Sincerely,

Tom Henderson
President and Chief Executive Officer
May 3, 2017

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

Quarter ended March 31, 2017 compared with quarter ended March 31, 2016

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, 2017 compared with the quarter ended March 31, 2016 and, where presented, the quarter ended March 31, 2015. 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 3, 2017, 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, 2017 and 2016, which are included as part of this 2017 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2016 audited consolidated financial statements and notes thereto included in the Company's 2016 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 notes 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 are defined as follows:

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

ii) Adjusted net earnings, adjusted earnings per common share and adjusted ROE – adjusted net earnings presents net earnings before stock-based compensation and the amortization of intangible assets. The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of operating performance than net earnings as it excludes items which do not directly relate to ongoing operating

Stuart Adair

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 equity employed in the period;

iii) Book value per share – book value is the net asset value of the Company calculated as total assets minus total liabilities and, by definition, is the same as total equity. Book value per share is the net asset value divided by the number of common shares outstanding as of a particular date;

iv) Financial condition and leverage ratios – (a) equity expressed as a percentage of total assets; and (b) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages provide information on trends in the Company's financial position and leverage.

v) 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.

Accord's Business

Accord is a leading North American provider of asset-based financial services to businesses, namely, asset-based lending ("ABL") (including factoring, lease and equipment financing), working capital financing, credit protection and receivables management, and supply chain financing for importers. The Company's financial services are discussed in more detail in its 2016 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 17(a) to the Statements.

The Company founded in 1978 operates four finance companies in North America, namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion Capital Corp. ("Varion") (now doing business as Accord Small Business Finance ("ASBF")) in Canada, and Accord Financial, Inc. ("AFIU") 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 and working capital lending by ASBF; and (iii) credit protection and receivables management services by AFL, which principally involves providing credit protection and collection services, generally without financing.

Results of Operations

Quarter ended March 31, 2017 compared with quarter ended March 31, 2016

Net earnings for the quarter ended March 31, 2017 decreased by $239,000 or 16% to $1,226,000 compared to the $1,465,000 earned in the first quarter of 2016 and were 28% below 2015's first quarter net earnings of $1,705,000. Net earnings mainly decreased compared to 2016 and 2015 as a result of lower revenue.

Earnings per common share were 15 cents, 17% lower than the 18 cents earned in the first quarter of 2016 and 29% below the 21 cents earned in the first quarter of 2015. ROE in the current quarter was 6.6% compared to 8.2% last year and 10.8% in the first quarter of 2015.

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Net Earnings	Earnings Per Common Share*
2017	**March 31**	**$ 6,501**	**$ 1,226**	**$ 0.15**
2016	December 31	$ 7,722	$ 2,210	$ 0.27
	September 30	7,032	1,265	0.15
	June 30	6,897	1,627	0.20
	March 31	6,871	1,465	0.18
Fiscal 2016		$ 28,522	$ 6,566**	$ 0.79**
2015	December 31	$ 7,840	$ 2,794	$ 0.34
	September 30	8,521	2,524	0.30
	June 30	7,657	1,736	0.21
	March 31	7,559	1,705	0.21
Fiscal 2015		$ 31,577	$ 8,759	$ 1.05**

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

Adjusted net earnings totalled $1,362,000, 14% lower than the $1,591,000 in the first quarter of 2016 and 27% below the $1,865,000 earned in the first quarter of 2015. Adjusted EPS were 16 cents compared to the 19 cents earned in the first quarter of 2016 and the 22 cents earned in 2015. Adjusted ROE in the current quarter was 7.4% compared to 8.9% and 11.8%, respectively, in the first quarter of 2016 and 2015.

The following table provides a reconciliation of net earnings to adjusted net earnings:

Quarter ended March 31 (in thousands)	2017	2016	2015
Net earnings	**$ 1,226**	$ 1,465	$ 1,705
Adjustments, net of tax:			
Stock-based compensation	**69**	32	54
Amortization of intangible assets	**67**	94	106
Adjusted net earnings	**$ 1,362**	$ 1,591	$ 1,865

Revenue in the current quarter totalled $6,501,000, 5% lower than last year's $6,871,000 and 14% below the $7,559,000 in the first quarter of 2015. Revenue decreased compared to 2016 mainly as a result of lower yields, while it declined compared to 2015 on reduced yields and lower receivables management fees. Average funds employed in the first quarter of 2017 were $143 million, compared to $142 million in 2016 and 2015. Funds employed at March 31, 2017 were $153 million compared to $144 million and $159 million at March 31, 2016 and 2015, respectively.

Total expenses for the first quarter of 2017 decreased by $215,000 to $5,086,000 compared to $5,301,000 last year. The provision for credit and loan losses decreased by $188,000, general and administrative expenses ("G&A") declined by $113,000, while the amortization of intangibles was $35,000 lower. Interest expense was $118,000 higher, while depreciation increased by $3,000.

Interest expense rose by 24% to $619,000 in the first quarter of 2017 compared to $501,000 last year mainly as a result of higher interest rates. Average borrowings increased by 2%.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A decreased by 3% to $3,991,000 in the current quarter compared to $4,104,000 last year mainly as a result of lower personnel costs. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by 35% to $347,000 in the first quarter of 2017 compared to $535,000 last year. The provision for the first quarter of 2017 and 2016 comprised:

Quarter ended March 31 (in thousands)	2017	2016
Net charge-offs	**$ 388**	$ 450
Reserves (recovery) expense related to (decrease) increase in total allowances for losses	**(41)**	85
	$ 347	$ 535

Net charge-offs decreased by $62,000 or 14% to $388,000 in the current quarter compared to $450,000 last year, while there was a reserves recovery of $41,000, $126,000 lower than last year's reserves expense of $85,000. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

Amortization of intangible assets totalled $92,000 in the current quarter compared to $127,000 in the first quarter of 2016. The Company's intangible assets were acquired as part of the Varion acquisition on January 31, 2014.

Income tax expense increased by 80% to $189,000 in the current quarter compared to $105,000 in the first quarter of 2016. The Company's effective corporate income tax rate increased to 13.4% in the first quarter of 2017 compared to 6.7% last year.

Canadian operations reported a 28% increase in net earnings in the first quarter of 2017 compared to 2016 (see note 16 to the Statements). Net earnings rose by $132,000 to $608,000 on higher revenue and lower expenses. Revenue increased by 2% or $90,000 to $4,536,000. Expenses decreased by $116,000 to $3,666,000. G&A declined by $132,000 to $2,606,000, amortization of intangible assets decreased $35,000 to $92,000, while the provision for credit and loan losses was $12,000 lower at $370,000. Interest expense and depreciation increased by $61,000 and $2,000, respectively. Income tax expense rose by 39% to $262,000 on a 31% rise in pre-tax earnings.

U.S. operations reported a 38% decrease in net earnings in the first quarter of 2017 compared to 2016. Net earnings declined by $371,000 to $618,000 mainly as a result of lower revenue. Revenue decreased by $490,000 or 20% to $1,965,000 largely due to lower yields. Expenses decreased by $129,000 to $1,420,000. The provision for losses was $176,000 lower to a recovery of $23,000. Interest expense increased by $27,000 to $46,000, G&A rose by $19,000 to $1,385,000, while interest expense and depreciation were slightly higher at $46,000 and $12,000, respectively. Income tax rose by $10,000 to an income tax recovery of $73,000.

Review of Financial Position

Equity at March 31, 2017 was a record $75,859,000, $177,000 higher than the $75,682,000 at December 31, 2016 and $4,362,000 higher than the $71,497,000 at March 31, 2016. Book value per common share was also a record $9.13 at March 31, 2017 compared to $9.11 at December 31, 2016 and $8.61 a year earlier. The increase in equity since December 31, 2016 resulted from a rise in retained earnings. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 15 of this report.

Total assets were $163,107,000 at March 31, 2017 compared to $154,869,000 at December 31, 2016 and $158,331,000 at March 31, 2016. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located in the United States were 36% of total assets at March 31, 2017 compared to 43% at December 31, 2016 and March 31, 2016.

Loans, before the allowance for losses thereon, totalled $152,954,000 at March 31, 2017, 10% above the $139,631,000 at December 31, 2016 and 6% higher than the $144,483,000 at March 31, 2016. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	**Mar. 31, 2017**	Dec. 31, 2016	Mar. 31, 2016
Factored receivables	**$ 82,445**	$ 74,333	$ 86,946
Loans to clients	**63,434**	57,342	51,568
Lease receivables	**7,075**	7,956	5,969
Finance receivables and loans	**152,954**	139,631	144,483
Less allowance for losses	**1,443**	1,516	1,686
Finance receivables and loans, net	**$ 151,511**	$ 138,115	$ 142,797

The Company's factored receivables increased by 11% to $82,445,000 at March 31, 2017 compared to $74,333,000 at December 31, 2016 but were 5% lower than the $86,946,000 at March 31, 2016. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment and unsecured working capital loans, rose by 11% to $63,434,000 at March 31, 2017 compared to $57,342,000 at December 31, 2016 and were 23% above the $51,568,000 last March 31. Lease receivables, representing ASBF's net investment in equipment leases, declined 11% to $7,075,000 at March 31, 2017 compared to $7,956,000 at December 31, 2016 but were 19% higher than $5,969,000 at March 31, 2016. Net of the allowance for losses thereon, Loans increased by 10% to $151,511,000 at March 31, 2017 compared to $138,115,000 at December 31, 2016 and were 6% higher than the $142,797,000 at March 31, 2016. The Company's Loans represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 75 clients in a wide variety of industries at March 31, 2017, as well as ASBF's lease receivables and equipment, working capital and other related loans to approximately 410 clients. Five clients each comprised over 5% of total Loans at March 31, 2017, of which the largest client comprised 7%.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables usually 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 $69 million at March 31, 2017 compared to $56 million at December 31, 2016 and $80 million at March 31, 2016. Managed receivables comprise the receivables of 92 clients at March 31, 2017. The 25 largest clients comprised 83% of non-recourse volume in the first quarter of 2017. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At March 31, 2017, the 25 largest customers accounted for 55% of the total managed receivables, of which the largest five comprised 31%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

The Company's total portfolio, which comprises both Loans, as set out above, and managed receivables increased by 14% to $222 million at March 31, 2017 compared to $195 million at December 31, 2016 but were slightly lower than the $225 million at March 31, 2016.

As described in note 17(a) to the Statements, 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. Credit in the Company's asset-based lending, including factoring and leasing, and credit protection business is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1.0 million, the Company's President and the Chairman of its Board. Credit in excess of $2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. 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 lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 3.5% were past due more than 60 days at March 31, 2017. 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 a client rating system to assess credit risk in its asset-based lending business, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. 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. When the Company lends against receivables, it assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. The financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

The Company also minimizes credit risk by limiting the maximum amount 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. 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 equipment leasing and lending operations, security deposits are obtained in respect of each equipment lease or loan. In its 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 customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. Note 17(a) to the Statements provides details of the Company's credit exposure by industrial sector.

After the customary detailed quarter-end review of the Company's portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for where necessary. The Company maintains separate allowances on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans decreased by 5% to $1,443,000 at March 31, 2017 compared to $1,516,000 at December 31, 2016. The allowance was 14% lower than the $1,686,000 at March 31, 2016. The allowance for losses on the guarantee of managed receivables increased by 21% to $158,000 at March 31, 2017 compared to $131,000 at December 31, 2016 but was 15% lower than the $185,000 at March 31, 2016. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first quarter of 2017 and 2016 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash declined to $4,117,000 at March 31, 2017 compared with $9,076,000 at December 31, 2016 and $7,887,000 at March 31, 2016. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Assets held for sale, which comprise certain assets securing defaulted loans that the Company obtained title to or repossessed, are stated at the lower of cost or estimated net realizable value and totalled $1,216,000 at March 31, 2017 and December 31, 2016, below the $1,491,000 on March 31, 2016. Please refer to note 5 to the Statements for details of changes in the assets held for sale balance during the first quarter of 2017 and 2016. There was no change to the assets held for sale during the first quarter of 2017. The estimated net realizable value of the assets at March 31, 2017 and 2016 and December 31, 2016 was based upon appraisals thereof.

Intangible assets were acquired as part of the Varion acquisition on January 31, 2014 and comprise existing customer contracts and broker relationships. Intangible assets, net of accumulated amortization, totalled $895,000 at March 31, 2017 compared to $987,000 at December 31, 2016 and $1,369,000 at March 31, 2016. Please refer to note 6 to the Statements.

Goodwill totalled $3,161,000 at March 31, 2017 compared to $3,174,000 at December 31, 2016 and $3,131,000 at March 31, 2016. Goodwill of $1,883,000 was acquired as part of the Varion acquisition on January 31, 2014. Goodwill of US$962,000 is also carried in the Company's U.S. operations and 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.

Other assets, income taxes receivable, deferred tax assets, and capital assets at March 31, 2017 and 2016 and December 31, 2016 were not material.

Total liabilities increased by $8,061,000 to $87,248,000 at March 31, 2017 compared to $79,187,000 at December 31, 2016 and were $415,000 higher than the $86,833,000 at March 31, 2016. The increase since December 31 and March 31, 2016 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by $1,362,000 to $2,720,000 at March 31, 2017 compared to $4,082,000 at December 31, 2016 and were $824,000 lower than the $3,544,000 at March 31, 2016. 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 $10,886,000 to $69,672,000 at March 31, 2017 compared with $58,786,000 at December 31, 2016 and was $1,894,000 higher than the $67,778,000 at March 31, 2016. Bank indebtedness mainly increased to fund the rise in Loans. The Company had approved credit lines with a number of banks totalling $155 million at March 31, 2017 and was in compliance with all loan covenants thereunder during the three months ended March 31, 2017 and 2016. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Accounts payable and other liabilities, income taxes payable, deferred income and deferred tax liabilities at March 31, 2017 and 2016 and December 31, 2016 were not material.

Notes payable decreased to $11,297,000 at March 31, 2017 compared to $11,370,000 at December 31, 2016 and $11,649,000 at March 31, 2016. The decrease in notes payable resulted from redemptions. Please see Related Party Transactions section below and note 9 to the Statements.

Capital stock totalled $6,896,000 at March 31, 2017 and 2016 and December 31, 2016. There were 8,307,713 common shares outstanding at those dates. Please see note 10 to the Statements and the consolidated statements of changes in equity on page 15 of this report for details of changes in capital stock in the first quarter of 2017 and 2016. At the date of this MD&A, May 3, 2017, 8,307,713 common shares remained outstanding.

Retained earnings totalled $61,120,000 at March 31, 2017 compared to $60,642,000 at December 31, 2016 and $57,783,000 at March 31, 2016. In the first quarter of 2017 retained earnings increased by $478,000. The increase comprised net earnings of $1,226,000 less dividends paid of $748,000 (9 cents per common share). Please see the consolidated statements of changes in equity on page 15 of this report for details of changes in retained earnings in the first quarter of 2017 and 2016.

The Company's 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 $7,613,000 at March 31, 2017 compared to $7,948,000 at December 31, 2016 and $6,732,000 at March 31, 2016. Please refer to note 14 to the Statements and the consolidated statements of changes in equity on page 15 of this report, which details movements in the AOCI account during the first quarter of 2017 and 2016. The $335,000 decrease in the first three months of 2017 resulted from a decrease in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar weakened from $1.3427 at December 31, 2016 to $1.3299 at March 31, 2017. This decreased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$27 million by $335,000 in the first quarter.

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 equity and its equity to total assets. These ratios are set out in the table below.

(as a percentage)	**Mar. 31, 2017**	Dec. 31, 2016	Mar. 31, 2016
Debt* / Equity	**107%**	93%	111%
Equity / Assets	**47%**	49%	45%

**bank indebtedness and notes payable*

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

The Company had bank credit lines totalling approximately $155 million at March 31, 2017 and had borrowed approximately $70 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $4,117,000 at March 31, 2017 compared to $9,076,000 at December 31, 2016. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flow for the quarter ended March 31, 2017 compared with the quarter ended March 31, 2016

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $1,522,000 in the first quarter of 2017 compared to $2,019,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash outflow from operating activities of $15,256,000 in the first quarter of 2017 compared to $17,532,000 last year. The net cash outflow in the current quarter largely resulted from financing Loans of $13,795,000. In the first quarter of 2016, the net cash outflow principally resulted from financing Loans of $12,529,000. 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 16 of this report.

Cash outflows from investing activities totalled $2,000 (2016 – $18,000) in the current quarter and comprised capital asset additions.

Net cash inflow from financing activities totalled $10,066,000 in the current quarter compared to $13,668,000 last year. The net cash inflow in the current quarter resulted from an increase in bank indebtedness of $10,886,000. Partially offsetting this inflow was a dividend payment of $748,000 and notes payable redemptions, net, of $72,000. The net cash inflow in the first quarter of 2016 resulted from an increase in bank indebtedness of $15,965,000. Partially offsetting this inflow were notes payable redemptions, net, of $1,549,000 and a dividend payment of $748,000.

The effect of exchange rate changes on cash comprised a gain of $233,000 in the current quarter compared to a reduction of $670,000 in the quarter ended March 31, 2016.

Overall, there was a net cash outflow of $4,959,000 in the current quarter compared to $4,553,000 in the first quarter of 2016.

Contractual Obligations and Commitments at March 31, 2017

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	**Total**
Operating lease obligations	$ 363	$ 444	$ 391	$ 526	**$ 1,724**
Purchase obligations	203	57	—	—	**260**
	$ 566	$ 501	$ 391	$ 526	**$ 1,984**

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand and in some cases a week after demand and bear interest at rates that vary with bank Prime or Libor. The rates are at or below the rates charged by the Company's banks. Notes payable at March 31, 2017 totalled $11,297,000 compared with $11,370,000 at December 31, 2016 and $11,649,000 at March 31, 2016. Of these notes payable $5,482,000 (December 31, 2016 – $10,309,000; March 31, 2016 – $10,234,000) was owing to related parties and $5,815,000 (December 31, 2016 – $1,061,000; March 31, 2016 – $1,415,000) to third parties. Interest expense on these notes totalled $73,000 in the quarter ended March 31, 2017 compared to $78,000 last year. Please refer to note 9 to the Statements.

Financial Instruments

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

At March 31, 2017, there were no outstanding forward foreign exchange contracts entered into by the Company.

Critical Accounting Policies and Estimates

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

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

The Company's allowances on its Loans and its guarantee of managed receivables may comprise specific and general components. A specific allowance may be established against Loans that are identified as impaired, or non-performing, when the Company determines, based on its review, identification and evaluation of problem Loans, that the timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where a clients' customer becomes insolvent and the Company's guarantee is called upon. In such cases, the Company will estimate the fair value of the required payments to clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate.

A general or collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its collective allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are based upon historic and expected credit and loan loss experience and are reviewed for adequacy on an ongoing basis. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d) and 4 to the Statements.

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

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, 2017, 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 17 to the Statements, which discuss the Company's principal financial risk management practices.

Competition

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 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 and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, 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, operating results and financial condition. The Company will not, however, compromise its credit standards.

Economic slowdown

The Company operates mainly in Canada and the United States. Economic weakness in either of the Company's markets can affect its ability to do new business as quality prospects become limited, although in a weak economy competition may lessen, which could result in the Company seeing more prospects. Further, the Company's clients and their customers are often adversely affected by economic slowdowns and this can lead to increases in its provision for credit and loan losses.

Credit risk

The Company is in the business of financing its clients' receivables and making asset-based loans, including lease financing. The Company's portfolio totalled $222 million at March 31, 2017. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 17(a) to the Statements.

Interest rate risk

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 some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. This is partially mitigated in its leasing business, where lease receivables and term loans to clients tend to be at fixed effective interest rates, while related bank borrowings tend to be floating rate. Please refer to note 17(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources is held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. 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 impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the AOCI component of equity to a loss position, although this has now recovered to a sizable gain position at March 31, 2017. Please see notes 14 and 17(c)(i) to the Statements.

Potential acquisitions and investments

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth. Business combinations also require management to exercise judgment in measuring the fair value of assets acquired, liabilities and contingent liabilities assumed and equity instruments issued.

Personnel significance

Employees are a significant asset of the Company. Market forces and competitive pressures may adversely affect the ability of the Company to recruit and retain key qualified personnel. The Company mitigates this risk by providing a competitive compensation package, which includes profit sharing, long-term incentives, and medical benefits, as it continuously seeks to align the interests of employees and shareholders.

Outlook

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

Our first quarter net earnings were below 2016's, however, funds employed increased toward the end of the quarter and we ended March 31 with funds employed 6% higher than a year earlier, which bodes well for the future although the Company continues to face intense competition in the U.S., which has resulted in lower yields there.

It is anticipated that the Company's asset-based financing units will be able to continue to build their funds employed despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business is experiencing growth, continues to expand its product offerings and is quite profitable. It also launched an internet-based working capital loan product at the end of 2015 that it hopes will accelerate its growth over the next few years and it is now doing larger equipment finance deals. Our credit protection and receivables management business continues to face intense competition from multinational credit insurers, although as a result of a restructuring in last year's third quarter, we expect net earnings improvements to continue.

We will remain vigilant in maintaining portfolio quality in the face of an increasingly uncertain global economy. The Company continues to actively seek opportunities to acquire companies or portfolios to grow its business and is hopeful it will be able to report significant developments in this respect later this year. Overall, the Company is cautiously optimistic about its prospects for 2017.

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

Stuart Adair

Stuart Adair
Senior Vice President, Chief Financial Officer
May 3, 2017

Consolidated Statements of Financial Position (unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016
Assets			
Cash	**$ 4,116,698**	$ 9,075,993	$ 7,886,778
Finance receivables and loans, net (note 4)	**151,511,265**	138,115,297	142,796,874
Income taxes receivable	**412,459**	428,678	633,304
Other assets	**953,733**	1,081,066	504,570
Assets held for sale (note 5)	**1,215,656**	1,215,656	1,491,239
Deferred tax assets, net	**517,083**	432,165	182,103
Capital assets	**324,103**	359,466	335,549
Intangible assets (note 6)	**894,710**	986,718	1,368,861
Goodwill (note 7)	**3,161,468**	3,173,777	3,131,463
	$ 163,107,175	$ 154,868,816	$ 158,330,741
Liabilities			
Due to clients	**$ 2,719,691**	$ 4,082,439	$ 3,544,326
Bank indebtedness (note 8)	**69,672,378**	58,786,548	67,777,852
Accounts payable and other liabilities	**2,211,192**	3,246,723	2,029,803
Income taxes payable	**477,292**	810,791	734,006
Notes payable (note 9)	**11,297,360**	11,369,553	11,649,361
Deferred income	**433,995**	449,221	537,013
Deferred tax liabilities, net	**436,100**	441,482	560,932
	87,248,008	79,186,757	86,833,293
Equity			
Capital stock (note 10)	**6,896,153**	6,896,153	6,896,153
Contributed surplus	**229,709**	195,704	86,564
Retained earnings	**61,119,899**	60,641,807	57,782,975
Accumulated other comprehensive income (note 14)	**7,613,406**	7,948,395	6,731,756
	75,859,167	75,682,059	71,497,448
	$ 163,107,175	$ 154,868,816	$ 158,330,741

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.

Consolidated Statements of Earnings (unaudited)

Three months ended March 31	2017	2016
Revenue		
Interest and other income (note 4 and 5)	$ 6,500,953	$ 6,870,616
Expenses		
Interest	618,805	500,889
General and administrative	3,991,197	4,104,130
Provision for credit and loan losses (note 4)	347,195	534,662
Depreciation	36,962	34,017
Amortization of intangible assets	92,008	127,381
	5,086,167	5,301,079
Earnings before income tax expense	1,414,786	1,569,537
Income tax expense	189,000	105,000
Net earnings	$ 1,225,786	$ 1,464,537
Basic and diluted earnings per common share (note 10)	$ 0.15	$ 0.18

Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2017	2016
Net earnings	$ 1,225,786	$ 1,464,537
Other comprehensive income:		
Items that are or may be reclassified to profit or loss: Unrealized foreign exchange loss on translation of self-sustaining foreign operations (note 14)	(334,989)	(2,311,314)
Comprehensive income (loss)	$ 890,797	$ (846,777)

Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock					
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2016	8,307,713	$ 6,896,153	$ 60,329	$ 57,066,132	$ 9,043,070	$ 73,065,684
Comprehensive loss	—	—	—	1,464,537	(2,311,314)	(846,777)
Stock-based compensation expense related to stock option grant	—	—	26,235	—	—	26,235
Dividend paid	—	—	—	(747,694)	—	(747,694)
Balance at March 31, 2016	8,307,713	$ 6,896,153	$ 86,564	$ 57,782,975	$ 6,731,756	$ 71,497,448
Balance at January 1, 2017	8,307,713	$ 6,896,153	$ 195,704	$ 60,641,807	$ 7,948,395	$ 75,682,059
Comprehensive loss	—	—	—	1,225,786	(334,989)	890,797
Stock-based compensation expense related to stock option grants	—	—	34,005	—	—	34,005
Dividend paid	—	—	—	(747,694)	—	(747,694)
Balance at March 31, 2017	8,307,713	$ 6,896,153	$ 229,709	$ 61,119,899	$ 7,613,406	$ 75,859,167

Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2017	2016
Cash provided by (used in)		
Operating activities		
Net earnings	$ 1,225,786	$ 1,464,537
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	(40,983)	84,607
Deferred income	(15,075)	162,395
Amortization of intangible assets	92,008	127,381
Depreciation	36,962	34,017
Loss on disposal of assets held for sale	—	15,019
Stock-based compensation expense related to stock option grants	34,005	26,235
Deferred tax recovery	(91,824)	(3,292)
Current income tax expense	280,824	108,292
	1,521,703	2,019,191
Changes in operating assets and liabilities		
Finance receivables and loans, gross	(13,794,591)	(12,528,824)
Due to clients	(1,355,980)	(5,833,710)
Other assets	123,109	141,410
Accounts payable and other liabilities	(1,145,281)	(847,158)
Disposal of assets held for sale, net	—	60,924
Income tax paid, net	(604,828)	(544,073)
	(15,255,868)	(17,532,240)
Investing activities		
Additions to capital assets, net	(2,469)	(18,274)
	(2,469)	(18,274)
Financing activities		
Bank indebtedness	10,885,830	15,965,148
Notes payable redeemed, net	(72,095)	(1,549,877)
Dividend paid	(747,694)	(747,694)
	10,066,041	13,667,577
Effect of exchange rate changes on cash	233,001	(670,428)
Decrease in cash	(4,959,295)	(4,553,365)
Cash at January 1	9,075,993	12,440,143
Cash at March 31	$ 4,116,698	$ 7,886,778
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 593,781	$ 432,122

Notes to Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017 and 2016

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 financial services, including factoring, financing, leasing, credit investigation, credit protection and receivables management, to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 40 Eglinton Avenue West, 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, 2017, 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, 2016.

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 determination of the value of intangible assets and goodwill on acquisition (notes 6 and 7), as well as the net realizable value of assets held for sale (notes 3(g) and 5) and deferred tax assets and liabilities. Management believes that these estimates are reasonable 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:

- Cash
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Share appreciation rights ("SARs") liability*
- Guarantee of managed receivables*

  **a component of accounts payable and other liabilities*

The condensed interim unaudited consolidated financial statements for the three months ended March 31, 2017 were approved for issue by the Company's Board of Directors ("Board") on May 3, 2017.

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. ("Varion") in Canada and Accord Financial, Inc. ("AFIU") in the United States. The Company exercises 100% control over each of its subsidiaries. The accounting policies of the Company's subsidiaries are aligned with IFRS. Intercompany balances and transactions are eliminated upon consolidation.

(b) Revenue recognition

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. 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. Interest charged on finance receivables and loans to clients is recognized as revenue using the effective interest rate method. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of Varion 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 due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(c) Finance receivables and loans

The Company finances its clients principally by factoring their receivables, providing asset-based loans and financing equipment leases. Finance receivables (namely, factored receivables and lease receivables) and loans to clients 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 to clients are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method.

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

(d) Allowances for losses

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables. At each reporting date, the Company assesses whether there is objective evidence that the finance receivables and loans or managed receivables are impaired. A finance receivable or loan or a group of finance receivables or loans is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of these asset(s), and that the loss event has an effect on the future cash flows resulting from the finance receivable(s) or loan(s) that can be estimated reliably. In respect of the Company's guarantee of managed receivables, a loss event has occurred if there exists objective evidence that a debtor is bankrupt or insolvent and payments, which can be estimated reliably, are required to be made to clients under the Company's guarantees to them.

The Company maintains these allowances for losses 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 customer receivable portfolios and typical industry loss experience.

The Company considers evidence of impairment for finance receivables and loans and managed receivables at both a specific asset and collective level. All finance receivables and loans and managed receivables are first assessed for specific impairment and, if found not to be specifically impaired, they are then collectively assessed for any impairment that has been incurred but not yet identified.

Losses on finance receivables and loans are charged to the respective allowance for losses account when collectability becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Recoveries from previously written-off accounts are credited to the respective allowance for losses account once collected. The allowance for losses on finance receivables and loans is recorded at amortized cost, while the allowance for losses on the guarantee of managed receivables is recorded at fair value.

(e) 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.

(f) Stock-based compensation

The Company accounts for SARs and 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 SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

The Company's senior executive long-term incentive plan ("LTIP") (note 10(g)) contemplates that grants thereunder may be settled in common shares and/or cash. Grants are based on 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 awards, calculated at each reporting date, is recorded in general and administrative expenses over the awards' vesting period, with a corresponding liability established.

(g) 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").

(h) Future accounting policies

IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements. The Standard includes new guidance on: (i) classification and measurement of financial assets and liabilities; (ii) impairment of financial assets; and (iii) hedge accounting. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The impact of adoption of IFRS 9 has not yet been determined.

IFRS 15, Revenue from Contracts with Customers, will replace the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts in the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. IFRS 15 is effective for the fiscal year beginning January 1, 2018. The impact of adoption of IFRS 15 has not yet been determined.

IFRS 16, Leases, will replace existing guidance on accounting for leases. The accounting treatment of leases by lessees will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for fiscal years beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

4. Finance receivables and loans

	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
Factored receivables	$ 82,445,221	$ 74,332,950	$ 86,945,608
Loans to clients	63,434,215	57,341,953	51,567,703
Lease receivables	7,074,829	7,956,394	5,969,563
Finance receivables and loans, gross	152,954,265	139,631,297	144,482,874
Less allowance for losses	1,443,000	1,516,000	1,686,000
Finance receivables and loans, net	$ 151,511,265	$138,115,297	$ 142,796,874

Lease receivables comprise Varion's net investment in leases as described in note 3(c). Varion's lease receivables at March 31, 2017 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans during the quarter ended March 31, 2017 totalled $5,123,151 (2016 – $5,706,594). Fees from receivables management and credit protection services during the quarter ended March 31, 2017 totalled $1,001,515 (2016 – $940,968).

The Company's allowance for losses on finance receivables and loans to clients at March 31, 2017 and 2016 and December 31, 2016 comprised only a collective allowance. The activity in the allowance for losses on finance receivables and loans account during the first three months of 2017 and 2016 was as follows:

	2017	2016
Allowance for losses at January 1	$ 1,516,000	$ 1,648,000
Provision for loan losses	260,246	459,908
Charge-offs	(329,572)	(394,301)
Recoveries	1,343	—
Foreign exchange adjustment	(5,017)	(27,607)
Allowance for losses at March 31	$ 1,443,000	$ 1,686,000

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, 2017, the gross amount of these managed receivables was $68,841,051 (December 31, 2016 – $55,682,019; March 31, 2016 – $80,154,063). At March 31, 2017, management provided an amount of $158,000 (December 31, 2016 – $131,000; March 31, 2016 – $185,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. 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 statement of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during three months ended March 31, 2017 and 2016 was as follows:

	2017	2016
Allowance for losses at January 1	$ 131,000	$ 166,000
Provision for credit losses	86,949	74,754
Charge-offs	(64,261)	(73,296)
Recoveries	4,312	17,542
Allowance for losses at March 31	$ 158,000	$ 185,000

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 and factoring activities. The Company controls the credit risk associated with its finance receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 17(a).

At March 31, 2017, the Company held cash collateral of $1,525,386 (December 31, 2016 – $1,877,450; March 31, 2016 – $1,514,622) to help reduce the risk of loss on certain of the Company's finance receivables and loans and managed receivables.

The Company considers the allowances for losses on both its finance receivables and loans to clients and its guarantee of managed receivables critical to its financial results (see note 3(d)). As noted above, 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 estimated losses thereon. The allowances are based upon several considerations, including current economic environment, condition of the loan and receivable portfolios and typical industry loss experience. 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.

In establishing its collective allowances, the Company applies percentage formulae to its finance receivables and loans and managed receivables. The Company reviewed and adjusted its allowance for losses formulae at the beginning of 2017. The changes in estimate did not have a material impact on the Company's consolidated financial statements.

5. Assets held for sale

Assets held for sale and movements therein during the first three months of 2017 and 2016 were as follows:

	2017	2016
Assets held for sale at January 1	**$ 1,215,656**	$ 1,544,182
Additions	**—**	23,000
Disposals	**—**	(75,943)
Assets held for sale at March 31	**$ 1,215,656**	$ 1,491,239

During 2016 and prior years, the Company obtained title to or repossessed certain long-lived assets securing defaulted loans. These assets will be disposed as market conditions permit. The estimated net realizable value of the assets at the above dates was based upon appraisals of the assets.

There were no additions to or disposals of the assets held for sale during the quarter ended March 31, 2017. In the first quarter of 2016, the assets disposed were sold for $60,924 resulting in a loss on sale of $15,019 compared to the estimated net realizable value thereof. The loss was included in other income.

6. Intangible assets

The Company's intangible assets were as follows:

	Existing customer contracts	**Broker relationships**	**Total**
Cost			
January 1, 2017 and March 31, 2017	**$1,179,097**	**$ 1,343,938**	**$ 2,523,035**
Accumulated amortization			
January 1, 2017	**$ (940,921)**	**$ (595,396)**	**$(1,536,317)**
Amortization expense	**(40,974)**	**(51,034)**	**(92,008)**
March 31, 2017	**$ (981,895)**	**$ (646,430)**	**$(1,628,325)**
Book value			
January 1, 2017	**$ 238,176**	**$ 748,542**	**$ 986,718**
March 31, 2017	**$ 197,202**	**$ 697,508**	**$ 894,710**

	Existing customer contracts	Broker relationships	Total
Cost			
January 1, 2016 and March 31, 2016	$ 1,179,097	$ 1,343,938	$ 2,523,035
Accumulated amortization			
January 1, 2016	$ (635,533)	$ (391,260)	$(1,026,793)
Amortization expense	(76,347)	(51,034)	(127,381)
March 31, 2016	$ (711,880)	$ (442,294)	$(1,154,174)
Book value			
January 1, 2016	$ 543,564	$ 952,678	$ 1,496,242
March 31, 2016	$ 467,217	$ 901,644	$ 1,368,861

7. Goodwill

	2017	2016
Balance at January 1	**$ 3,173,777**	$ 3,213,495
Foreign exchange adjustment	**(12,309)**	(82,032)
Balance at March 31	**$ 3,161,468**	$ 3,131,463

Goodwill is tested for impairment annually. During 2016, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2017's impairment review will be conducted in the Company's fourth quarter unless impairment indicators arise earlier. Goodwill of US$961,697 is carried in the Company's U.S. subsidiary and a foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at the prevailing period-end exchange rate.

8. Bank indebtedness

Revolving lines of credit totalling approximately $155,000,000 have been established with a number of banks, bearing interest varying with the bank prime rate or Libor. These lines of credit are collateralized primarily by finance receivables and loans to clients. At March 31, 2017, the amounts outstanding under the Company's lines of credit totalled $69,672,378 (December 31, 2016 – $58,786,548; March 31, 2016 – $67,777,852). The Company was in compliance with all loan covenants under these lines of credit during the three months March 31, 2017 and 2016.

9. Related party transactions (notes payable)

Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. The notes are unsecured, due on demand, or for some notes, a week after requesting repayment, and bear interest at rates below those of the Company's bank lines of credit.

Notes payable were as follows:

	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
Related parties	**$ 5,482,359**	$ 10,308,352	$ 10,234,556
Third parties	**5,815,001**	1,061,201	1,414,805
	$ 11,297,360	$ 11,369,553	$ 11,649,361

Interest expense on the notes payable for the three months ended March 31, 2017 and 2016 was as follows:

	2017	2016
Related parties	**$ 35,164**	$ 70,054
Third parties	**37,480**	7,700
	$ 72,644	$ 77,754

10. Capital stock, contributed surplus, dividends, share appreciation rights, 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, 2017 and 2016 and December 31, 2016, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during the first quarter of 2017 and 2016 are set out in the consolidated statements of changes in equity.

(c) Contributed surplus

	2017	2016
January 1	**$ 195,704**	$ 60,329
Stock-based compensation expense related to stock option grant (note 10(f))	**34,005**	26,235
March 31	**$ 229,709**	$ 86,564

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2017 and March 31, 2016, dividends totalling $747,694 or $0.09 per common share were declared and paid.

On April 17, 2017, the Company declared a quarterly dividend of $0.09 per common share, payable June 1, 2017 to shareholders of record at the close of business on May 17, 2017.

(e) Share appreciation rights

The Company has established a SARs plan, whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be granted in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company at the time of grant. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the ten days that the shares were traded immediately preceding the date of grant, or other ten day trading period that the Company's Board may determine. Employees can sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant. Directors have to sell their remaining SARs to the Company on or before October 27, 2017 at which time they will automatically be sold.

No SARs have been granted by the Company to directors or employees since 2011. During the three months ended March 31, 2017 and 2016, no SARs were exercised.

SARs grant price	Grant date	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
$ 6.03	July 28, 2009	**7,500**	7,500	7,500
$ 5.50	May 7, 2010	**15,000**	15,000	15,000
$ 7.95	May 4, 2011	**45,000**	45,000	55,000
$ 7.56	July 26, 2011	**—**	—	5,000
		67,500	67,500	82,500

At March 31, 2017, the Company had accrued $122,025 (December 31, 2016 – $123,375; March 31, 2016 – $150,450) in respect of the fair value of its liability for outstanding SARs. At March 31, 2017, only SARs held by the Company's directors remained outstanding.

(f) Stock option plans

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

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

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

Outstanding options granted under the NEDSOP were as follows:

Exercise price	Grant date	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
$9.56	Oct. 28, 2015	**100,000**	100,000	100,000
$9.28	July 27, 2016	**100,000**	100,000	—
		200,000	200,000	100,000
Earned and exercisable		**50,000**	50,000	—

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

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

(g) Senior executive long-term incentive plan

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined based on the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted consolidated net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

(h) Stock-based compensation

During the three months ended March 31, 2017, the Company recorded a stock-based compensation expense of $81,655 (2016 – $35,135), of which $49,000 (2016 – $48,500) was in respect of LTIP awards, and $34,005 (2016 – $26,235) was in respect of the NEDSOP grants, while there was a recovery of $1,350 (2016 – recovery $39,600) in respect of outstanding SARs.

11. 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 period 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 period, which in the Company's case consists entirely of stock options.

For the three months ended March 31, 2017 and 2016, all outstanding options were excluded from the calculation of the diluted weighted average number of common shares outstanding because they were considered to be anti-dilutive for earnings per common share purposes. Details of outstanding options are set out in note 10(f).

12. Contingent liabilities

(a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At March 31, 2017, 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 (March 31, 2016 – nil).

(b) At March 31, 2017, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $91,763 (December 31, 2016 – $827,289; March 31, 2016 – $278,002). In addition, at March 31, 2017 the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of $398,970 (December 31, 2016 – $402,810; March 31, 2016 – $150,000). These amounts were considered in determining the allowance for losses on finance receivables and loans.

13. Derivative financial instruments

At March 31, 2017, there were no outstanding forward foreign exchange contracts entered into by the Company.

At December 31, 2016, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 1, 2017 and February 28, 2017 and which obliged the Company to sell Canadian dollars and buy US$1,172,516 at exchange rates ranging from 1.2880 to 1.3790, while at March 31, 2016, the Company had entered into a forward foreign exchange contract with a financial institution that matured between April 1, 2016 and February 28, 2017 and which obliged the Company to sell Canadian dollars and buy US$798,840 at exchange rates ranging from 1.3280 to 1.4050. These contracts were entered into by the Company on behalf of clients and similar forward foreign exchange contracts were entered into between the Company and the clients, whereby the Company bought Canadian dollars from and sold US$1,172,516 and US$798,840, respectively, to the clients.

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, which totalled nil (December 31, 2016 – $49,623, March 31, 2016 – $66,849), were classified as Level 2 under IFRS 7, Financial Instruments – Disclosures. During the three months ended March 31, 2017 and 2016, there were no transfers between the three-level fair value hierarchy described in note 3(p) to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2016.

14. 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, 2017 and 2016 are set out in the consolidated statements of changes in equity.

15. Fair values of financial assets and liabilities

Any financial assets or liabilities recorded at cost are short term in nature and, therefore, their carrying values approximate fair values. Under the fair value hierarchy, finance receivables and loans would be classified as Level 3.

16. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. There were no significant changes to capital assets and goodwill during the periods under review.

Three months ended March 31, 2017:

(in thousands)	**Canada**	**United States**	**Inter-company**	**Total**
Identifiable assets	**$ 103,822**	**$ 59,285**	**$ —**	**$ 163,107**
Revenue	**$ 4,536**	**$ 1,965**	**$ —**	**$ 6,501**
Expenses				
Interest	**573**	**46**	**—**	**619**
General and administrative	**2,606**	**1,385**	**—**	**3,991**
Provision for credit and loan losses	**370**	**(23)**	**—**	**347**
Depreciation	**25**	**12**	**—**	**37**
Amortization of intangible assets	**92**	**—**	**—**	**92**
	3,666	**1,420**	**—**	**5,086**
Earnings before income tax expense (recovery)	**870**	**545**	**—**	**1,415**
Income tax expense (recovery)	**262**	**(73)**	**—**	**189**
Net earnings	**$ 608**	**$ 618**	**$ —**	**$ 1,226**

Three months ended March 31, 2016:

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 90,769	$ 71,458	$ (3,896)	$ 158,331
Revenue	$ 4,446	$ 2,455	$ (30)	$ 6,871
Expenses				
Interest	512	19	(30)	501
General and administrative	2,738	1,366	—	4,104
Provision for credit and loan losses	382	153	—	535
Depreciation	23	11	—	34
Amortization of intangible assets	127	—	—	127
	3,782	1,549	(30)	5,301
Earnings before income tax expense (recovery)	664	906	—	1,570
Income tax expense (recovery)	188	(83)	—	105
Net earnings	$ 476	$ 989	$ —	$ 1,465

17. 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 transactions with a counterparty that the Company deals with. The carrying amount of these loans and managed receivables 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, including factoring and leasing, 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. Typically, the Company takes title to the factored receivables and collateral security over the other assets that it lends against and does not lend on an unsecured basis. It does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending and credit protection and receivables management operations, credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1.0 million, the Company's President and the Chairman of its Board. Credit in excess of $2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. 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 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 invoice date. Varion's lease receivables and equipment and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 3.5% were past due more than 60 days at March 31, 2017 (December 31, 2016 – 4.1%; March 31, 2016 – 1.4%). In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. 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. 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 financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

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 purchases. 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 leasing operations, security deposits are usually obtained in respect of each equipment lease or loan.

In its credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At March 31, 2017, the Company had not guaranteed any accounts receivable in excess of $10 million for any customer.

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

	March 31, 2017	
Industrial sector (in thousands)	**Gross finance receivables and loans**	**% of total**
Financial and professional services	**$ 57,295**	**37**
Wholesale and distribution	**38,950**	**26**
Manufacturing	**30,375**	**20**
Other	**26,334**	**17**
	$ 152,954	**100**

	March 31, 2016	
Industrial sector (in thousands)	Gross finance receivables and loans	% of total
Financial and professional services	$ 50,776	35
Manufacturing	37,903	26
Wholesale and distribution	32,669	23
Other	23,135	16
	$ 144,483	100

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

	March 31, 2017	
Industrial Sector (in thousands)	**Managed receivables**	**% of total**
Retail	**$ 57,294**	**83**
Other	**11,547**	**17**
	$ 68,841	**100**

	March 31, 2016	
Industrial Sector (in thousands)	Managed receivables	% of total
Retail	$ 67,041	84
Other	13,113	16
	$ 80,154	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. The Company maintains a separate allowance for losses on each of these 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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately $155,000,000 have been established at a number of banking institutions, bearing interest varying with the bank prime rate or Libor. At March 31, 2017, the Company had borrowed $69,672,378 (December 31, 2016 – $58,786,548; March 31, 2016 – $67,777,852) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit during the three months ended March 31, 2017. Notes payable are due on demand, or a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at March 31, 2017, 49% of these notes were due to related parties and 51% to third parties. 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, 2017, the Company had gross finance receivables and loans totalling $152,954,265 (December 31, 2016 – $139,631,297; March 31, 2016 – $144,482,874) which substantially exceeded its total liabilities of $87,248,008 at that date (December 31, 2016 – $79,186,757; March 31, 2016 – $86,833,293). 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.

All assets and liabilities, other than Varion's lease receivables and equipment loans, capital assets, deferred tax, intangible assets, goodwill, SARs and the LTIP liability are expected to be settled within 12 months at the values stated in the consolidated statements of financial position.

(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 is exposed to currency risk primarily in its foreign operations, which operate in U.S. dollars, to the full extent of the foreign operations net assets of U.S. $26,817,000 at March 31, 2017. The Company's investment in its foreign operations is not hedged as they are long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's foreign operations into Canadian dollars each period-end. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the AOCI component of equity (note 14). The Company is also subject to foreign currency risk on the earnings of its foreign operations, which are unhedged. Based on the foreign operations results for the three months ended March 31, 2017, a one-cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $16,000. It would also change other comprehensive income and the AOCI component of equity by approximately $270,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness and 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, 2017, the Company's unhedged foreign currency positions in its Canadian operations totalled $117,000 (December 31, 2016 – $188,000; March 31, 2016 – $68,000). 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 its unhedged foreign currency positions against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

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

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's finance receivables and loans substantially exceed its floating and short-term fixed rate (usually 30 days) borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity. This is partially mitigated in the Company's leasing business, where Varion's lease receivables and term loans to clients are usually at fixed effective interest rates for up to five years, while related bank borrowings are currently at floating rates.

The following table shows the interest rate sensitivity gap at March 31, 2017:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 2,054	$ —	$ —	$ —	$ 2,063	$ 4,117
Finance receivables and loans, net	125,996	15,262	10,976	685	(1,408)	151,511
All other assets	—	412	—	—	7,067	7,479
	128,050	15,674	10,976	685	7,722	163,107
Liabilities						
Due to clients	—	—	—	—	2,720	2,720
Bank indebtedness	11,600	58,072	—	—	—	69,672
Notes payable	11,297	—	—	—	—	11,297
All other liabilities	—	477	—	—	3,082	3,559
Equity	—	—	—	—	75,859	75,859
	22,897	58,549	—	—	81,661	163,107
	$105,153	$(42,875)	$ 10,976	$ 685	$(73,939)	$ —

Based on the Company's interest rate positions as at March 31, 2017, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $620,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

18. Capital management

The Company considers its capital structure to include equity and debt, namely, its bank indebtedness and notes payable. 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 reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, these ratios were 107% (December 31, 2016 – 93%; March 31, 2016 – 111%) and 47% (December 31, 2016 – 49%; March 31, 2016 – 45%), respectively, at March 31, 2017 indicating the Company's continued financial strength and relatively low degree of leverage. 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, 2017, AFIC and AFIU are required to maintain a debt to TNW ratio of less than 3.0 on a combined basis. Varion is also required to maintain a debt to TNW ratio of less than 3.0. The Company was fully compliant with its banking covenants during the three months ended March 31, 2017 and 2016. There were no changes in the Company's approach to capital management from previous periods.

19. Subsequent events

At May 3, 2017 there were no other subsequent events occurring after March 31, 2017 that required disclosure.

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