



2017 MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION
Purpose. Values. Character.

September 30, 2017





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

Quarter and nine months ended September 30, 2017
compared with quarter and nine months ended
September 30, 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 and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 and, where presented, the quarter and nine months ended September 30, 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 October 30, 2017, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters and nine months ended September 30, 2017 and 2016, which are included as part of the Company's 2017 Third 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 note 2 and 3 to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with IFRS. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at www.sedar.com.

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

Non-IFRS Financial Measures

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A are defined as follows:

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



Stuart Adair

annualized percentage of average shareholders' equity employed in the period;

- iii) Book value per share – book value is defined as total shareholders' equity and is the same as the net asset value of the Company (calculated as total assets minus total liabilities) less non-controlling interests. Book value per share is the book value divided by the number of common shares outstanding as of a particular date;
- iv) Financial condition and leverage ratios – (a) total equity expressed as a percentage of total assets; and (b) debt (bank indebtedness and notes payable) expressed as a percentage of total 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 is 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, inventory, lease and equipment financing), working capital financing, film and media 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, details of which are set out in note 18(a) to the Statements.

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

Acquisition of BondIt Media Capital

Effective July 1, 2017, the Company made a strategic investment acquiring a 51% controlling interest in BondIt, a U.S. finance company that specializes in film and media finance, for a total purchase consideration of \$6,488,500 (US\$5,000,000). Details of the transaction and the assets acquired and liabilities assumed are set out in note 4 to the Statements. Notes 4 and 8 also provide details of the goodwill acquired.

The investment in BondIt strengthens Accord's presence on the U.S. West Coast and allows it to enter the film and media finance business.

Results of Operations

Quarter ended September 30, 2017 compared with quarter ended September 30, 2016

Shareholders' net earnings for the quarter ended September 30, 2017 increased by \$718,000 to \$1,983,000 compared to the \$1,265,000 earned in 2016. They were \$541,000 below 2015's third quarter shareholders' net earnings of \$2,524,000. Shareholders' net earnings increased compared to 2016 mainly as a result of higher revenue. Shareholders' net earnings decreased compared to 2015 mainly as a result of a higher provision for losses and increased interest expense. Net earnings attributable to non-controlling interests in subsidiary for the quarter ended September 30, 2017 totalled \$21,000 (2016 – nil).

Earnings per common share increased 60% to 24 cents from the 15 cents earned in the third quarter of 2016 but were 20% below

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended	Revenue	Shareholders' Net Earnings	Earnings Per Common Share
2017 September 30	\$ 8,370	\$ 1,983	\$ 0.24
June 30	6,603	369	0.04
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.

the 30 cents earned in the third quarter of 2015.

Adjusted net earnings for the third quarter were \$2,166,000, \$243,000 higher than the \$1,923,000 earned in the third quarter of 2016 but \$385,000 lower than the \$2,551,000 earned in the third quarter of 2015. Adjusted EPS were 26 cents compared to the 23 cents earned in the third quarter of 2016 and 31 cents earned in 2015.

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

Quarter ended September 30 (in thousands)	2017	2016	2015
Shareholders' net earnings	\$ 1,983	\$ 1,265	\$ 2,524
Adjustments, net of tax:			
Stock-based compensation	47	34	(79)
Business acquisition expenses	136	94	106
Restructuring expenses	—	530	—
Adjusted net earnings	\$ 2,166	\$ 1,923	\$ 2,551

Revenue increased by 19% or \$1,338,000 to \$8,370,000 compared with \$7,032,000 last year but was 2% lower than the \$8,521,000 in the third quarter of 2015. Revenue increased compared to 2016 mainly as a result of higher funds employed and revenue from BondIt which totalled \$607,000 in the current quarter. Revenue decreased compared to 2015 as a result of lower yields on funds employed and reduced receivables management fees.

Average funds employed were a record \$189 million in the third quarter of 2017 compared to \$151 million and \$156 million in the third quarter of 2016 and 2015, respectively. Funds employed were a record high \$221 million at September 30, 2017 compared to \$162 million and \$154 million at September 30, 2016 and 2015, respectively.

Total expenses for the third quarter of 2017 increased by \$231,000 to \$6,052,000 compared to \$5,821,000 last year. Interest expense increased by \$517,000, while the provision for credit and loan losses and business acquisition expenses (transaction and integration costs and amortization of intangible assets) rose by \$443,000 and \$74,000, respectively. General and administrative expenses ("G&A") and depreciation decreased by \$756,000 and \$3,000, respectively. There was no impairment of assets held for sale in the current quarter (2016 – \$44,000).

Interest expense rose by 94% to \$1,067,000 in the third quarter of 2017 compared to \$550,000 last year as a result of a 50% rise in average borrowings and higher interest rates.

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 16% or \$756,000 to \$3,962,000 in the current quarter compared to \$4,718,000 last year mainly on the absence of a restructuring expense this year (2016 – \$738,000). BondIt's G&A for the current quarter totalled \$207,000.

The provision for credit and loan losses rose by \$443,000 to \$781,000 in the third quarter of 2017 compared to \$338,000 last year mainly as a result of a higher reserves expense related to an increase in the Company's total allowances for losses. The provision for the third quarter of 2017 and 2016 comprised:

Quarter ended September 30 (in thousands)	2017	2016
Net charge-offs	\$ 238	\$ 232
Reserves expense related to an increase in total allowances for losses	543	106
	\$ 781	\$ 338

Net charge-offs increased by \$6,000 to \$238,000 in the current quarter, while the non-cash reserves expense rose by \$437,000 to \$543,000 mainly as result of a \$46 million increase in funds employed in the third quarter. Included in the reserves expense was \$157,000 required to set up an allowance for losses on

BondIt's funds employed of approximately \$8 million at September 30, 2017. 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.

Business acquisition expenses consist of transaction and integration costs related to BondIt acquisition and amortization of intangibles related to the Varion acquisition. For the quarter ended September 30, 2017, these expenses totalled \$202,000 (2016 – \$128,000). Transaction and integration costs related to the BondIt acquisition totalled \$110,000 (2016 – nil), while amortization of intangible assets relating to Varion totalled \$92,000 in the current quarter compared to \$128,000 in the third quarter of 2016.

Income tax increased to an expense of \$314,000 in the current quarter compared to an income tax recovery of \$54,000 in the third quarter of 2016.

Canadian operations reported a substantial rise in shareholders' net earnings in the third quarter of 2017 compared to 2016 (see note 17 to the Statements). Shareholders' net earnings rose by \$926,000 to \$1,061,000 on higher revenue and, to a lesser extent, lower expenses. Revenue rose by \$1,080,000 to \$5,610,000. Expenses were \$206,000 lower at \$4,117,000. G&A, impairment of assets held for sale and business acquisition expenses decreased by \$884,000, \$44,000 and \$35,000, respectively. Interest expense and the provision for credit and loan losses increased by \$444,000 and \$313,000, respectively. Depreciation was unchanged. Income tax expense rose by \$360,000 to \$432,000 on a \$1,286,000 increase in pre-tax earnings.

U.S. operations reported a decline in shareholders' net earnings in the third quarter of 2017 compared to 2016. U.S. operations in the current quarter included the results of BondIt. Shareholders' net earnings declined by \$187,000 to \$922,000 as a result of higher expenses. Revenue increased by \$269,000 or 11% to \$2,760,000, including BondIt revenue of \$607,000. Expenses increased by \$448,000 to \$1,935,000. Provision for losses was \$129,000 higher at \$240,000, while G&A rose by \$127,000 to \$1,475,000. Business acquisition expenses totalled \$110,000, while interest expense increased by \$85,000 to \$101,000. Depreciation was slightly lower. Income tax rose by \$8,000 to a recovery of \$118,000. Net earnings attributable to non-controlling interests in subsidiary totalled \$21,000.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Shareholders' net earnings in the first nine months of 2017 decreased by \$780,000 to \$3,577,000 compared to \$4,357,000 last year. Shareholders' net earnings decreased compared to 2016 as a result of a higher provision for losses and increased interest expense. EPS for the current nine months were 43 cents compared to the 52 cents earned last year. ROE in the first nine months of 2017 was 6.2% compared to 8.0% last year. Net earnings attributable to non-controlling interests in subsidiary in the current nine months totalled \$21,000 (2016 – nil).

Adjusted net earnings decreased by \$1,211,000 to \$4,102,000 in the first nine months of 2017 compared to \$5,313,000 last year. Adjusted EPS declined to 49 cents compared to 64 cents in the first nine months of 2016. Adjusted ROE for the first nine months of 2017 was 7.1% compared to 9.8% in 2016.

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

Nine months ended September 30 (in thousands)	2017	2016	2015
Shareholders' net earnings	\$ 3,577	\$ 4,357	\$ 5,965
Adjustments, net of tax:			
Stock-based compensation	143	145	18
Business acquisition expenses	272	281	317
Restructuring expenses	110	530	—
Adjusted net earnings	\$ 4,102	\$ 5,313	\$ 6,300

Revenue for the first nine months of 2017 increased by \$674,000 or 3% to \$21,474,000 compared with \$20,800,000 last year. Revenue increased compared to 2016 mainly as a result of higher funds employed, including revenue from BondIt of \$607,000. Average funds employed in the first nine months of 2017 totalled \$166 million, 12% above last year's \$148 million.

Total expenses for the current nine months increased by \$1,710,000 or 11% to \$17,872,000 compared to \$16,162,000 last year. The provision for losses, interest expense, depreciation and business acquisition expenses increased by \$1,903,000, \$814,000, \$8,000 and \$3,000, respectively. G&A and impairment of assets held for sale declined by \$974,000 and \$44,000, respectively.

Interest expense rose by 50% to \$2,440,000 compared to \$1,626,000 in the first nine months of 2016 on a 21% rise in average borrowings and higher interest rates.

G&A, decreased by 8% or \$974,000 to \$11,840,000 in the first nine months of 2017 compared to \$12,814,000 last year. G&A declined in large part on a lower restructuring expense this year of \$174,000 (2016 – \$738,000), which was in respect of staff and a facility reduction in our U.S. operations, as well as reflecting the ongoing savings from the restructuring of certain Canadian operations at the end of last year’s third quarter. BondIt’s G&A totalled \$207,000 in the current nine months.

The provision for credit and loan losses increased by \$1,903,000 to \$3,088,000 in the first nine months of 2017 compared to \$1,185,000 last year. The provision for the first nine months of 2017 and 2016 comprised:

Nine months ended September 30 (in thousands)	2017	2016
Net charge-offs	\$ 2,336	\$ 1,048
Reserves expense related to increase in total allowances for losses	752	137
	\$ 3,088	\$ 1,185

Net charge-offs rose by \$1,288,000 to \$2,336,000 in the first nine months of 2017 compared to last year, while the reserves expense increased by \$615,000 to \$752,000 on an \$81 million rise in funds employed in 2017. Net charge-offs in 2017 included \$1,576,000 taken against one impaired account. As noted above, the reserves expense included \$157,000 required to set up an allowance for losses on BondIt’s funds employed.

Business acquisition expenses, as noted above, consist of transaction and integration costs related to the BondIt acquisition and amortization of intangibles related to the Varion acquisition. For the nine months ended September 30, 2017 the expenses totalled \$386,000 (2016 – \$382,000). Transaction and integration costs related to BondIt totalled \$110,000 (2016 – nil), while amortization of intangible assets relating to Varion totalled \$276,000 (2016 – \$382,000).

Income tax expense decreased by \$278,000 to \$4,000 compared to \$282,000 in the first nine months of 2016.

Canadian operations reported a 76% increase in shareholders’ net earnings in the first nine months of 2017 compared to 2016 (see note 17 to the Statements). Shareholders’ net earnings rose by \$1,048,000 to \$2,419,000 compared to \$1,371,000 last year on higher revenue and lower expenses. Revenue increased by \$1,219,000 or 9% to \$14,756,000 on higher funds employed. Expenses declined by \$253,000 to \$11,362,000. G&A was \$1,404,000 lower at \$7,396,000, while business acquisition expenses

and impairment of assets held for sale declined by \$106,000 and \$44,000, respectively. Interest expense rose by \$651,000, while the provision for credit and loan losses and depreciation increased by \$639,000 and \$11,000, respectively.

U.S. operations reported lower shareholders’ net earnings compared to the first nine months of 2016. U.S. operations include the results of BondIt from July 1, 2017. Shareholders’ net earnings decreased by \$1,828,000 to \$1,158,000 compared to \$2,986,000 last year. Revenue decreased by \$563,000 or 8% to \$6,718,000, which included BondIt revenue of \$607,000. Expenses increased by \$1,946,000 or 43% to \$6,510,000. The provision for loan losses rose by \$1,264,000 to \$1,733,000 as a result of a charge-off of \$1,576,000 against one impaired account. G&A increased by \$430,000 to \$4,444,000, including BondIt G&A of \$207,000 and restructuring expenses of \$174,000. Interest expense rose by \$145,000 to \$192,000. Depreciation expense declined by \$3,000. Income tax decreased by \$702,000 to a recovery of \$971,000. Net earnings attributable to non-controlling interests in subsidiary totalled \$21,000.

Review of Financial Position

Shareholders’ equity at September 30, 2017 totalled \$74,605,000, a decrease of \$1,077,000 compared to \$75,682,000 at December 31, 2016 but \$1,286,000 above the \$73,319,000 at September 30, 2016. Book value per common share was \$8.98 at September 30, 2017 compared to \$9.11 at December 31, 2016 and \$8.83 a year earlier. The decrease in equity since December 31, 2016 mainly resulted from a reduction in accumulated other comprehensive income. This is discussed below. Please also see the consolidated statements of changes in equity on page 15 of the Company’s 2017 Third Quarter Report.

Total assets increased to \$236,086,000 at September 30, 2017 compared to \$154,869,000 at December 31, 2016 and \$177,921,000 at September 30, 2016. Total assets largely comprised funds employed. Excluding inter-company loans, identifiable assets located in the United States were 38% of total assets at September 30, 2017 compared to 43% at December 31, 2016 and 45% at September 30, 2016.

Loans, before the allowance for losses thereon, were a record high \$220,712,000 at September 30, 2017, 58% higher than the \$139,631,000 at December 31, 2016 and 36% higher than the \$162,153,000 at September 30, 2016. As detailed in note 5 to the Statements, the Company’s Loans comprised:

(in thousands)	Sept. 30, 2017	Dec. 31, 2016	Sept. 30, 2016
Factored receivables	\$ 107,041	\$ 74,333	\$ 86,334
Loans to clients	105,578	57,342	67,880
Lease receivables	8,093	7,956	7,939
Finance receivables and loans	220,712	139,631	162,153
Less allowance for losses	2,190	1,516	1,744
Finance receivables and loans, net	\$ 218,522	\$ 138,115	\$ 160,409

The Company's factored receivables increased by 44% to \$107,041,000 at September 30, 2017 compared to \$74,333,000 at December 31, 2016 and were 24% higher than the \$86,334,000 at September 30, 2016. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, as well as unsecured working capital loans, rose to \$105,578,000 at September 30, 2017, 84% higher than the \$57,342,000 at December 31, 2016 and 56% higher than the \$67,880,000 at September 30, 2016. Loans to clients at September 30, 2017 include BondIt's loans of \$7,866,000. Lease receivables, representing ASBF's net investment in equipment leases, rose to \$8,093,000 at September 30, 2017, compared to \$7,956,000 at December 31, 2016 and \$7,939,000 at September 30, 2016. Net of the allowance for losses thereon, Loans increased by 58% to \$218,522,000 at September 30, 2017 compared to \$138,115,000 at December 31, 2016 and were 36% higher than the \$160,409,000 at September 30, 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 September 30, 2017, ASBF's lease receivables, equipment and related loans, and working capital loans, to approximately 350 small business clients, as well as BondIt's media finance loans to approximately 35 media productions. Three clients each comprised over 5% of gross Loans at September 30, 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 \$79 million at September 30, 2017 compared to \$56 million at December 31, 2016 and \$80 million at September 30, 2016. Managed receivables comprise the receivables of approximately 80 clients at September 30, 2017. The 25 largest clients comprised 84% of non-recourse volume in the first nine months 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 September 30, 2017, the 25 largest customers accounted for 60% 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 gross Loans, and managed receivables as set out above, increased to a record high \$300 million at September 30, 2017 compared to \$195 million at December 31, 2016 and \$242 million at September 30, 2016.

As described in note 18(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. In the case of BondIt's media financing, credit is approved by BondIt's head of underwriting, credit committee and, in the case of credit in excess of \$0.5 million, BondIt's credit committee and an executive of the Company. BondIt credit in excess of \$1.0 million is approved by two of the Company's senior executives. All asset-based lending and BondIt 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 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. 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. BondIt's loans to clients are typically for terms of six to nine months. Of the total managed

receivables that the Company guarantees payment, 2.4% were past due more than 60 days at September 30, 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 and equipment finance businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection 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 assessed and valued. 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 18(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 increased by 44% to \$2,190,000 at September 30, 2017 compared to \$1,516,000 at December 31, 2016. The allowance was 26% higher than the \$1,744,000 at September 30, 2016. The allowance for losses on the guarantee of managed receivables increased by 40% to \$184,000 at September 30, 2017 compared to \$131,000 at December 31, 2016 but was slightly lower than the \$185,000 at September 30, 2016. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. The allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first nine months of 2017 and 2016 is set out in note 5 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash declined to \$6,084,000 at September 30, 2017 compared with \$9,076,000 at December 31, 2016 and \$9,437,000 at September 30, 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 September 30, 2017 and December 31, 2016 compared \$1,353,000 last September 30. Please refer to note 6 to the Statements for details of changes in the assets held for sale in the first nine months of 2017 and 2016. There were no changes to the assets held for sale during the first nine months of 2017. The estimated net realizable value of the assets at September 30, 2017 and 2016 and December 31, 2016 was based upon valuations 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 \$711,000 at September 30, 2017 compared to \$987,000 at December 31, 2016 and \$1,114,000 at September 30, 2016. Please refer to note 7 to the Statements.

Goodwill totalled \$6,022,000 at September 30, 2017 compared

to \$3,174,000 at December 31, 2016 and \$3,144,000 at September 30, 2016. Goodwill of \$3,056,000 (US\$2,355,000) was acquired as part of the BondIt acquisition effective July 1, 2017. Goodwill of \$1,883,000 was also acquired as part of the Varion acquisition. Goodwill of US\$3,317,000 is 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 8 to the Statements.

Income taxes receivable, other assets, deferred tax assets and capital assets at September 30, 2017 and 2016 and December 31, 2016 were not material.

Total liabilities increased by \$79,101,000 to \$158,288,000 at September 30, 2017 compared to \$79,187,000 at December 31, 2016 and were \$53,687,000 higher than the \$104,601,000 at September 30, 2016. The increase since December 31, 2016 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by \$258,000 to \$3,824,000 at September 30, 2017 compared to \$4,082,000 at December 31, 2016 and were \$2,725,000 lower than the \$6,549,000 at September 30, 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 \$76,271,000 to \$135,057,000 at September 30, 2017 compared with \$58,786,000 at December 31, 2016 and was \$53,792,000 higher than the \$81,265,000 at September 30, 2016. Bank indebtedness increased compared to last December 31 largely to fund the \$81 million rise in Loans. The Company had approved credit lines with a number of banks totalling \$162 million at September 30, 2017 and was in compliance with all loan covenants thereunder in the nine months ended September 30, 2017. 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.

Notes payable increased to \$15,576,000 at September 30, 2017 compared to \$11,370,000 at December 31, 2016 and \$11,850,000 at September 30, 2016. The increase in notes payable largely resulted from new notes issued. Please see Related Party Transactions section below and note 10 to the Statements.

Accounts payable and other liabilities, income taxes payable, deferred income and deferred tax liabilities at September 30, 2017, December 31, 2016 and September 30, 2016 were not material.

Capital stock totalled \$6,896,000 at September 30, 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 the Company's 2017 Third Quarter Report. There were no changes in capital stock in the first nine months of 2017 and 2016. At the date of this MD&A, October 30, 2017, 8,307,713 common shares remained outstanding.

Retained earnings totalled \$61,976,000 at September 30, 2017 compared to \$60,642,000 at December 31, 2016 and \$59,180,000 at September 30, 2016. In the first nine months of 2017, retained earnings increased by \$1,334,000 which comprised shareholders' net earnings of \$3,577,000 less dividends paid of \$2,243,000 (27 cents per common share). Please see the consolidated statements of changes in equity on page 15 of the Company's 2017 Third Quarter Report for details of changes in retained earnings in the first nine months of 2017 and 2016.

The Company's AOCI account solely comprises the cumulative unrealized foreign exchange income attributable to the Company's shareholders arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled \$5,447,000 at September 30, 2017 compared to \$7,948,000 at December 31, 2016 and \$7,087,000 at September 30, 2016. Please refer to note 15 to the Statements and the consolidated statements of changes in equity on page 15 of the Company's 2017 Third Quarter Report, which details movements in the AOCI account during the first nine months of 2017 and 2016. The \$2,501,000 decline in the first nine months of 2017 resulted from a fall 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 \$1.2480 at September 30, 2017. This decreased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US\$28 million by \$2,501,000 in the first nine months of 2017.

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's

objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

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

(as a percentage)	Sept, 30, 2017	Dec. 31, 2016	Sept, 30, 2016
Debt* / Equity	194%	93%	127%
Equity / Assets	33%	49%	41%

*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 \$162 million at September 30, 2017 and had borrowed \$135 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 \$6,084,000 at September 30, 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 nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled \$4,881,000 in the first nine months of 2017 compared to an inflow of \$5,838,000 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 \$81,304,000 in the first nine months of 2017 compared to an outflow of \$27,645,000 last year. The net cash outflow in the current nine months largely resulted from financing Loans of \$83,441,000. In the first nine months of 2016, the net cash outflow principally resulted from financing Loans of \$29,379,000. 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 the Company's 2017 Third Quarter Report.

Cash inflows from investing activities totalled \$811,000 compared to an outflow of \$125,000 in the first nine months of 2017. Cash consideration of \$6,489,000 was paid for the BondIt acquisition while cash acquired from the acquisition was \$7,565,000 before non-controlling interests therein for a net inflow of \$1,077,000. Capital asset addition totalled \$266,000, net.

Net cash inflow from financing activities totalled \$76,731,000 in the first nine months of 2017 compared to an inflow of \$25,414,000 last year. The net cash inflow in the current nine months resulted from an increase in bank indebtedness of \$77,570,000 and notes payables issued, net of \$1,404,000. Partially offsetting this inflow were dividend payments of \$2,243,000. The net cash inflow in the first nine months of 2016 resulted from an increase in bank indebtedness of \$29,006,000. Partially offsetting this inflow were dividend payments of \$2,243,000 and notes payable redeemed, net of \$1,349,000.

The effect of exchange rate changes on cash comprised a gain of \$771,000 in the first nine months of 2017 compared to a reduction of \$648,000 in the first nine months of 2016.

Overall, there was a net cash outflow of \$2,992,000 in the first nine months of 2017 compared to an outflow of \$3,004,000 in the first nine months of 2016.

Contractual Obligations and Commitments at September 30, 2017

(in thousands of dollars)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	
Operating lease obligations	\$ 398	\$ 670	\$ 652	\$ 423	\$ 2,143
Purchase obligations	158	29	—	—	187
	\$ 556	\$ 699	\$ 652	\$ 423	\$ 2,330

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 bank. Notes payable at September 30, 2017 were \$15,576,000 compared with \$11,370,000 at December 31, 2016 and \$11,850,000 at September 30, 2016. Of these notes payable, \$8,530,000 (December 31, 2016 – \$10,309,000; September 30, 2016 – \$10,798,000) was owing to related parties and \$7,046,000 (December 31, 2016 – \$1,061,000; September 30, 2016 – \$1,052,000) to third parties. Interest expense on these notes in the current quarter and first nine months of 2017 totalled \$135,000 (2016 – \$73,000) and \$283,000 (2016 – \$224,000), respectively.

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 ASBF equipment finance business, are short term in nature and, therefore, their carrying values approximate fair values.

At September 30, 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 client's 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 5 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 September 30, 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

18 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 \$300 million at September 30, 2017. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 18(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 18(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 September 30, 2017. Please see notes 15 and 18(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

Our third quarter net earnings improved on 2016's as the Company started to benefit from the substantial rise in its funds employed, which rose to a record \$221 million at September 30, 2017. This bodes well for future results although

the Company continues to face intense competition, particularly in the U.S. which has resulted in lower loan yields there.

It is anticipated 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, ASBF, is also experiencing strong growth, continues to expand its product offerings and is quite profitable. ASBF launched a working capital loan product 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 with last year's restructuring behind it, we expect net earnings improvements to continue.

Effective July 1, 2017, the Company acquired a 51% majority interest in BondIt based in Santa Monica, California. This investment strengthens Accord's presence on the U.S. West Coast and allows it to enter the film and media finance sector. We expect BondIt to grow substantially over the next few years and become an increasing contributor to our earnings.

Finally, effective October 27, 2017, the Company acquired a 90% interest Accord CapX LLC (see note 20 to the statements), an equipment finance company based in Chicago, that will market itself as CapX Partners. CapX was formed 18 years ago and since then has generated more than US\$500 million in equipment lease and finance transactions. A transformative transaction for Accord, we expect this acquisition to add substantially to Accord's earnings once it reaches a critical mass.

The Company will remain vigilant in maintaining portfolio quality in the face of an increasingly uncertain global economy. It will also continue to actively seek opportunities to acquire companies or portfolios to further grow its business. Overall, the Company is optimistic about its prospects for the remainder of 2017 and beyond.



Stuart Adair
Senior Vice President, Chief Financial Officer
October 30, 2017



In Canada

Toronto (800) 967-0015
Montreal (800) 231-2977
Vancouver (844) 982-3010

In the U.S.

(800) 231-2757
www.accordfinancial.com