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

September 30, 2019

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Quarter and nine months ended September 30, 2019 compared with quarter and nine months ended September 30, 2018

Financial Highlights

(unaudited, in thousands except average funds employed, earnings per share and book value per share)	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Average funds employed (millions)	**$ 383**	$ 283	**$ 373**	$ 256
Revenue	**15,299**	13,120	**41,878**	33,976
Earnings before income tax	**4,063**	3,105	**8,911**	7,104
Net earnings attributable to shareholders	**3,237**	2,616	**7,102**	6,195
Adjusted net earnings	**2,862**	2,842	**7,075**	6,957
Earnings per common share (basic and diluted)	**0.38**	0.31	**0.84**	0.75
Adjusted earnings per common share (basic and diluted)	**0.34**	0.34	**0.84**	0.84
Book value per share (September 30)			**$ 11.07**	$ 9.82

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, 2019 compared with the quarter and nine months ended September 30, 2018 and, where presented, the quarter and nine months ended September 30, 2017. 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, 2019, 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, 2019 and 2018, which are included as part of the Company's 2019 Third Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2018 audited consolidated financial statements and notes thereto included in the Company's 2018 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

Stuart Adair

prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and elsewhere in the Company's 2019 Third Quarter Report are defined as follows:

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

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

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

iv) **Financial condition and leverage ratios** – the table on page 11 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages provide information on trends in the Company's financial condition and leverage; and

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 one of North America's leading independent finance companies serving clients throughout the United States and Canada. Accord's flexible finance programs cover the full spectrum of asset-based lending ("ABL"), from receivables and inventory finance, to equipment and trade finance, to film and media finance. Accord's business also includes credit protection and receivables management, as well as supply chain financing for importers. The Company's financial services are discussed in more detail in its 2018 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 21(a) to the Statements.

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

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

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Net earnings	Earnings per common share*
2019	**September 30**	**$ 15,299**	**$ 3,237**	**$ 0.38**
	June 30	**13,991**	**2,222**	**0.26**
	March 31	**12,588**	**1,643**	**0.19**
2018	December 31	$ 12,951	$ 4,161	$ 0.50
	September 30	13,120	2,616	0.31
	June 30	10,823	2,363	0.28
	March 31	10,033	1,216	0.15
Fiscal 2018		$ 46,927	$ 10,356	$ 1.24
2017	December 31	$ 9,935	$ 2,433	$ 0.29
	September 30	8,370	1,983	0.24
	June 30	6,603	369	0.04
	March 31	6,501	1,226	0.15
Fiscal 2017		$ 31,409	$ 6,010**	$ 0.72

* *Basic and diluted*

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

Results of Operations

Quarter ended September 30, 2019 compared with quarter ended September 30, 2018

Shareholders' net earnings for the quarter ended September 30, 2019 increased by 24% or $621,000 to $3,237,000 compared to the $2,616,000 earned in the third quarter of 2018 and were $1,254,000 higher than the $1,983,000 earned in third quarter of 2017. Shareholders' net earnings compared to 2018 and 2017 rose mainly as a result of a higher net revenue, (revenue less interest expense) reduced business acquisition expenses and a lower provision for credit and loan losses. Earnings before income tax rose by 31% to $4,063,000 compared to $3,105,000 last year and $2,318,000 in 2017. Basic and diluted earnings per common share ("EPS") increased by 23% to 38 cents compared to the 31 cents earned in the third quarter of 2018 and were 58% higher than the 24 cents earned in the third quarter of 2017.

Adjusted net earnings rose by $20,000 to $2,862,000 in 2019 compared to $2,842,000 in the third quarter of 2018 and were $696,000 higher than the $2,166,000 earned in the third quarter of 2017. Adjusted EPS remained unchanged at 34 cents compared to the third quarter of 2018 and were 31% higher than the 26 cents earned in the third quarter of 2017. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarter ended September 30 (in thousands)	2019	2018	2017
Shareholders' net earnings	**$ 3,237**	$ 2,616	$ 1,983
Adjustments, net of tax:			
Stock-based compensation expense	**48**	34	47
Business acquisition expenses	**(423)**	192	136
Adjusted net earnings	**$ 2,862**	$ 2,842	$ 2,166

Revenue rose by $2,179,000 or 17% to $15,299,000 in the current quarter compared to $13,120,000 in the third quarter of 2018 and was $6,929,000 or 83% higher than the $8,370,000 in the third quarter of 2017. Interest income rose by $3,209,000 or 31% to $13,462,000 in the third quarter of 2019 compared to $10,253,000 in the third quarter of 2018 on a 35% increase in average funds employed partly offset by a 3% decrease in average loan yields. Other income declined by $1,030,000 to $1,837,000 in the current quarter compared to $2,867,000 in the third quarter of 2018 as management fees earned by CapX for managing a legacy equipment finance fund declined as the fund winds down, and receivables management fees decreased. Interest income in the current quarter increased by $7,050,000 or 110% compared to the third quarter of 2017 on a 103% rise in average funds employed and a 3% increase in average loan yields. Other income in the current quarter declined by $121,000 compared to the third quarter of 2017 on reduced receivables management fees. Average funds employed in the third quarter of 2019 increased to $383 million compared to $283 million in the third quarter of 2018 and $189 million in the third quarter of 2017.

Total expenses for the third quarter of 2019 increased by $1,221,000 or 12% to $11,236,000 compared to $10,015,000 last year. Interest, G&A and depreciation increased by $1,731,000, $691,000 and $122,000, respectively. Business acquisition costs (transaction costs and amortization of intangibles) and the provision for credit and loan losses declined by $808,000 and $515,000, respectively.

Interest expense rose by 65% to $4,386,000 in the third quarter of 2019 from $2,655,000 last year on 41% higher average borrowings and increased interest rates. Market interest rates rose, while the Company also borrowed an increased proportion of its debt at higher rates of interest than bank debt under its loan payable, term notes payable and convertible debentures.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A increased by 12% to $6,502,000 in the current quarter compared to $5,811,000 last year. G&A increased on higher personnel costs, which rose by $737,000, mainly as a result of increased head count required to support the Company's growth, higher profit sharing bonus accrual, as well as a $158,000 severance cost. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses decreased by 42% to $719,000 in the third quarter of 2019 compared to $1,234,000 last year. The provision comprised:

Quarter ended September 30 (in thousands)	**2019**	2018
Net charge-offs	$ 705	$ 162
Reserves expense related to increase in total allowances for losses	14	1,072
	$ 719	$ 1,234

There were net charge-offs of $705,000 in the current quarter compared to $162,000 last year, while the non-cash reserves expense declined to $14,000. The Company's allowances for losses and its portfolio are discussed in detail below and also in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies or other one-off losses.

Depreciation expense increased by $122,000 to $184,000 in the third quarter of 2019. On January 1, 2019, the Company adopted IFRS 16, Leases, and capitalized four office leases as "right-of-use" assets (see detail on page 10 below). Depreciation of $109,000 (2018 – nil) was charged on the right-of-use assets in the current quarter.

Business acquisition expenses saw a recovery of $554,000 (2018 – expense $254,000) in the third quarter of 2019. Transaction costs saw a recovery of $628,000 (2018 – expense $151,000) resulting from a reduction in the fair value of contingent consideration related to the CapX acquisition (in October 2017) expected to be paid, while the amortization of intangible assets relating to ASBF and CapX decreased to $74,000 (2018 – $103,000).

Income tax expense rose by $805,000 to $1,079,000 in the current quarter compared to $274,000 in the third quarter of 2018. U.S. tax regulations released in December 2018 have impacted tax planning such that the Company will see an increase in its effective tax rate in 2019 and potentially for years thereafter. The Company is currently reviewing alternative tax planning opportunities in order to lower its effective tax rate in future years.

Canadian operations reported a net loss attributable to shareholders of $342,000 in the third quarter compared to shareholders' net earnings of $675,000 last year as a result of higher interest expense (see note 19 to the statements). Revenue increased by $158,000 or 2% to $6,512,000. Expenses increased by $1,424,000 to $6,845,000. Interest expense rose by $1,537,000 to $3,883,000, depreciation increased by $47,000 to $85,000, while G&A increased by $17,000 to $2,672,000. The provision for credit and loan losses and business acquisition expenses declined by $148,000 and $29,000, respectively. Income tax expense decreased by $249,000 to $9,000 on a $1,266,000 decrease in earnings before income-tax.

U.S. operations reported a $1,638,000 increase in shareholders' net earnings in the third quarter of 2019 compared to 2018 (see note 19 to the Statements). Shareholders' net earnings rose to $3,579,000 compared to $1,941,000 last year. Revenue increased by $2,407,000 to $9,224,000 on higher funds employed. Expenses rose by $183,000 or 4% to $4,828,000. G&A increased by $675,000 to $3,830,000, interest expense rose by $579,000 to $939,000, while depreciation increased by $75,000. Business acquisition expenses declined by $779,000 to a recovery of $594,000, while the provision for credit and loan losses decreased by $367,000 to $554,000. Income tax expense increased by $1,054,000 to $1,070,000. There was a net loss attributable to non-controlling interests in subsidiaries of $253,000 compared to net earnings of $215,000 in the third quarter of 2018.

Nine months ended September 30, 2019 compared with nine months ended September 30, 2018

Shareholders' net earnings for the first nine months of 2019 increased by $907,000 or 15% to $7,102,000 compared to the $6,195,000 earned last year and the $3,577,000 in the first nine months of 2017. Shareholders' net earnings compared to 2018 and 2017 rose mainly as a result of higher net revenue, a lower provision for credit and loan losses and reduced business acquisition expenses. Earnings before income tax for the first nine months of 2019 rose by 25% to $8,911,000 compared to $7,104,000 last year and were 147% higher than the $3,602,000 in 2017. EPS rose by 12% to 84 cents compared to the 75 cents earned in the first nine months of 2018. The Company's ROE in the first nine months of 2019 remained unchanged at 10.5% compared to last year.

Adjusted net earnings increased by $118,000 to $7,075,000 in 2019 compared to $6,957,000 in the first nine months of 2018 and were 72% higher than the $4,102,000 earned in the first nine months of 2017. Adjusted EPS remained unchanged at 84 cents compared to 2018 and were 71% above the 49 cents earned in the first nine months of 2017. Adjusted ROE for the first nine months of 2019 was 10.5% compared to 11.1% in 2018 and 7.1% in 2017.

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

Nine months ended September 30 (in thousands)	2019	2018	2017
Shareholders' net earnings	$ 7,102	$ 6,195	$ 3,577
Adjustments, net of tax:			
Stock-based compensation expense	132	169	143
Business acquisition expenses	(159)	593	272
Restructuring expenses	—	—	110
Adjusted net earnings	$ 7,075	$ 6,957	$ 4,102

Revenue for the first nine months of 2019 increased by 23% or $7,902,000 to $41,878,000 compared to $33,976,000 last year. Interest income rose by $9,834,000 or 36% to $36,819,000 in the first nine months of 2019 compared to $26,985,000 in 2018 on a 46% increase in average funds employed, partly offset by a 7% decrease in average loan yields. Other income declined by $1,932,000 to $5,059,000 in the current nine months compared to $6,991,000 in 2018 as management fees earned by CapX for managing a legacy equipment finance fund declined as the fund winds down, and receivables management fees decreased. Average funds employed in the first nine months of 2019 increased to $373 million compared to $256 million in 2018.

Total expenses for the first nine months of 2019 increased by $6,095,000 or 23% to $32,967,000 compared to $26,872,000 last year. Interest, G&A and depreciation increased by $6,585,000, $1,993,000 and $383,000, respectively. The provision for credit and loan losses, business acquisition expenses and impairment of assets held for sale declined by $1,848,000, $993,000 and $25,000, respectively.

Interest expense rose by 108% to $12,697,000 compared to $6,112,000 in the first nine months of 2018 on 60% higher average borrowings and increased interest rates. Interest rates rose for reasons noted above.

G&A increased by 12% to $18,924,000 in the current nine months compared to $16,931,000 last year. G&A increased on higher personnel costs, which rose by $2,125,000 mainly as a result of increased head count to support the Company's growth and higher and profit sharing bonus accrual, as well as severance costs of $438,000. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by $1,848,000 to $1,011,000 in the first nine months of 2019 compared to $2,859,000 last year. The provision comprised:

Nine months ended September 30 (in thousands)	**2019**	2018
Net charge-offs	**$ 719**	$ 776
Reserves expense related to increase in total allowances for losses	**292**	2,083
	$ 1,011	$ 2,859

Net charge-offs declined by $57,000 to $719,000 in the first nine months of 2019 compared to $776,000 last year, while the non-cash reserves expense declined by $1,791,000 to $292,000. The Company's allowances for losses and its portfolio are discussed in detail below and also in the Statements. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies or one-off losses.

There was no impairment of assets held for sale during the first nine months of 2019 (2018 – $25,000).

Depreciation expense increased by $383,000 to $544,000 in the first nine months of 2019. As noted above, the Company adopted IFRS 16, Leases, in 2019 and capitalized four office leases as "right-of-use" assets. Depreciation of $328,000 (2018 – nil) was charged on the right-of-use assets in the first nine months of 2019.

Business acquisition expenses saw a recovery of $208,000 (2018 – expense $785,000) in the first nine months of 2019. There was a recovery of transaction costs of $434,000 (2018 – expense $478,000) for the reason noted above, while the amortization of intangible assets relating to ASBF and CapX totalled $226,000 (2018 – $307,000).

Income tax expense increased by $2,060,000 to $2,267,000 in the first nine months of 2019 compared to $207,000 last year for reasons noted above.

Canadian operations reported a net loss attributable to shareholders of $1,151,000 in the first nine months of 2019 compared to shareholders' net earnings of $1,161,000 in 2018. Net earnings declined as a result of a higher interest expense. Revenue increased by $1,916,000 or 11% to $18,685,000. Expenses increased by $4,815,000 to $19,950,000. Interest expense rose by $5,784,000 to $11,345,000, while depreciation increased by $148,000 to $249,000. The provision for credit and loan losses decreased by $929,000 to $182,000, while business acquisition expenses, G&A and impairment of assets held for sale declined by $84,000, $79,000 and $25,000, respectively. Income tax decreased by $587,000 to a recovery of $114,000 on a $2,899,000 decrease in earnings before income tax.

U.S. operations reported a $3,219,000 increase in shareholders' net earnings in the first nine months of 2019 compared to 2018. Shareholders' net earnings rose to $8,253,000 compared to $5,034,000 last year. Revenue increased by $6,702,000 to $24,004,000 on higher funds employed. Expenses rose by $1,996,000 to $13,828,000. G&A increased by $2,072,000 to $10,875,000, interest expense rose by $1,517,000 to $2,163,000, while depreciation was $235,000 higher. The provision for credit and loan losses decreased by $919,000 to $829,000, while business acquisition expenses declined by $909,000 to a recovery of $333,000. Income tax increased by $2,647,000 to an expense of $2,381,000. Net loss attributable to non-controlling interests in subsidiaries totalled $458,000 compared to net earnings of $702,000 in the first nine months of 2018.

Review of Financial Position

Shareholders' equity at September 30, 2019 was a record high $93,491,000, 4% higher than the $89,818,000 at December 31, 2018 and 15% higher than the $81,605,000 at September 30, 2018. The increase in shareholders' equity since December 31, 2018 resulted from increases in retained earnings, capital stock and contributed surplus which were partially offset by a decline in accumulated other comprehensive income. Book value per common share was also a record high $11.07 at September 30, 2019 compared to $10.66 at December 31, 2018 and $9.82 at September 30, 2018. Please also see the consolidated statements of changes in equity on page 22 of the Company's 2019 Third Quarter Report.

Total assets rose by 10% to $409,928,000 at September 30, 2019 compared to $373,783,000 at December 31, 2018 and were 26% higher than the $325,331,000 at September 30, 2018. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 61% of total assets at September 30, 2019 compared to 62% at December 31, 2018 and 53% at September 30, 2018 (see note 19 to the Statements).

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, increased by 13% to $384,585,000 at September 30, 2019 compared to $339,102,000 at December 31, 2018 and were 26% higher than the $303,731,000 at September 30, 2018. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Sept. 30, 2019	Dec. 31, 2018	Sept. 30, 2018
Receivable loans	$ 118,200	$ 134,422	$ 121,643
Other loans*	179,355	135,307	124,706
Lease receivables	87,030	69,373	57,382
Finance receivables and loans	384,585	339,102	303,731
Less allowance for losses	3,676	3,450	4,163
Finance receivables and loans	$ 380,909	$ 335,652	$ 299,568

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

The Company's receivable loans decreased by 12% to $118,200,000 at September 30, 2019 compared to $134,422,000 at December 31, 2018 and were 3% lower than the $121,643,000 at September 30, 2018. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, rose by 33% to $179,355,000 at September 30, 2019 compared to $135,307,000 at December 31, 2018 and were 44% higher than the $124,706,000 at September 30, 2018. Lease receivables, representing ASBF's and CapX's net investment in equipment leases, rose by 25% to $87,030,000 at September 30, 2019 compared to $69,373,000 at December 31, 2018 and were 52% higher than the $57,382,000 at September 30, 2018. Net of the allowance for losses thereon, Loans increased by 13% to $380,909,000 at September 30, 2019 compared to $335,652,000 at December 31, 2018 and were 27% higher than the $299,568,000 at September 30, 2018. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 70 clients in a wide variety of industries, as well as ASBF's and CapX's lease receivables and equipment and related loans to over 220 clients. The largest client comprised 6% of gross Loans.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $49 million at September 30, 2019 compared to $40 million at December 31, 2018 and $60 million at September 30, 2018. Managed receivables comprise the receivables of approximately 70 clients at September 30, 2019. The 25 largest clients comprised 85% of total volume in the first nine months of 2019. 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, 2019, the 25 largest customers accounted for 61% of total managed receivables, of which the largest five comprised 45%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and monitored.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, rose by 15% to $434 million at September 30, 2019 compared to $379 million at December 31, 2018 and was 19% higher than the $364 million at September 30, 2018.

As described in note 21(a) to the Statements, the Company's business principally involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's asset-based lending businesses, AFIC and AFIU, media finance business, Canadian equipment finance business (ASBF), 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 $1,000,000 (US$500,000 for BondIt), the Company's Chairman and Vice Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by CapX's Investment Committee, with amounts in excess of US$2,500,000 also being approved by the Company's Chairman and Vice Chairman. CapX credit in excess of US$4,000,000 is then approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, the Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are usually term loans with payments spread out evenly over the term of the lease or loan, which can be up to 60 months, although ASBF has a "revolving" equipment loan product which has no fixed repayment terms and can be repaid at anytime. Of the total managed receivables that the Company guarantees payment, 1.3% were past due more than 60 days at September 30, 2019. 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 internal client rating systems to assess the credit risk in its asset-based lending and leasing businesses, which review, amongst other things, the financial strength of each client and the Company's underlying collateral security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4 to the Statements which presents tables summarizing the Company's finance receivables and loans, and managed receivables, by their internal credit risk rating (low risk, medium risk, high risk) and also by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the good quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

As detailed in note 4, the Company had past due finance receivables and loans of $10,069,000 at September 30, 2019, of which $8,744,000 related to BondIt, the Company's media finance subsidiary. Repayments of BondIt's loans are often delayed for non-credit related reasons such as production delays. At September 30, 2019, the Company also had impaired finance receivables and loans of $8,928,000, of which one loan comprised $6,902,000 thereof. The impaired loans, which have been written down to net realizable value where necessary, are mainly collateralized by receivables, inventory and equipment, the estimated net realizable value of which was $9,850,000 at September 30, 2019.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$4 million in the case of CapX) is approved by the Company's Credit Committee on a case-by-case basis. Note 21(a) to the

Statements provides details of the Company's credit exposure by industrial sector.

The Company's allowance for losses on Loans, calculated under the expected credit loss ("ECL") criteria of IFRS 9, totalled $3,676,000 at September 30, 2019 compared to $3,450,000 at December 31, 2018 and $4,163,000 at September 30, 2018. The allowance for losses on the guarantee of managed receivables totalled $76,000 at September 30, 2019 compared to $74,000 at December 31, 2018 and $110,000 at September 30, 2018. 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 nine months of 2019 and 2018 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 decreased to $4,717,000 at September 30, 2019 compared to $16,346,000 at December 31, 2018 and $5,045,000 at September 30, 2018. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

The Company adopted IFRS 16, Leases, effective January 1, 2019, which replaced IAS 17, Leases. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at January 1, 2019 for four of the Company's office leases which resulted in an increase in both assets and liabilities. Right-of-use assets and lease liabilities totalling $2,027,000 were recorded at that date, with no impact on retained earnings. The Company's right-of-use assets totalled $1,668,000 at September 30, 2019. See detailed discussion on the adoption of IFRS 16 below and notes 3(a) and 5 to the Statements.

Intangible assets, net of accumulated amortization, totalled $3,780,000 at September 30, 2019 compared to $4,116,000 at December 31, 2018 and $4,016,000 at September 30, 2018. Intangible assets totalling US$2,885,000 were acquired upon the acquisition of CapX on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the ASBF acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 7 to the Statements.

Goodwill totalled $13,679,000 at September 30, 2019 compared to $14,031,000 at December 31, 2018 and $13,382,000 at September 30, 2018. Goodwill of US$2,409,000 and US$5,538,000 was acquired on the acquisition of BondIt and CapX on July 1, 2017 and October 27, 2017, respectively. BondIt and CapX goodwill is carried in the Company's U.S. operations, together with US$962,000 from a much earlier acquisition. Goodwill of $1,883,000 was also acquired as part of the ASBF acquisition and is carried in the Company's Canadian operations. The goodwill in the Company's U.S. operations is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 6 to the Statements for information regarding the Company's annual goodwill impairment reviews.

Other assets, income taxes receivable, net deferred tax assets, assets held for sale and capital assets at September 30, 2019 and 2018 and December 31, 2018 were not significant.

Total liabilities increased by $33,264,000 to $311,862,000 at September 30, 2019 compared to $278,598,000 at December 31, 2018 and were $72,621,000 higher than the $239,241,000 at September 30, 2018. The increase mainly resulted from higher bank indebtedness and convertible debentures issued.

Amounts due to clients decreased by $382,000 to $2,774,000 at September 30, 2019 compared to $3,156,000 at December 31, 2018 and were $450,000 below the $3,224,000 at September 30, 2018. 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 $18,806,000 to $241,668,000 at September 30, 2019 compared to $222,862,000 at December 31, 2018 and was $46,378,000 higher than the $195,290,000 at September 30, 2018. Bank indebtedness mainly increased to fund the rise in Loans. In the third quarter of 2018, the Company increased its bank credit facility to $292 million for a three-year term maturing on July 25, 2021 with a syndicate of six banks. In July 2019, the Company's banking syndicate approved a $75 million increase in the facility taking the Company's credit limit to $367 million. The Company was in compliance with all loan covenants under the current and previous bank facilities in the first nine months of 2019 and 2018. Bank indebtedness principally fluctuates with the quantum of Loans outstanding.

Loan payable increased by $3,800,000 to $9,495,000 at September 30, 2019 compared to $5,695,000 at December 31, 2018 and was $4,162,000 higher than the $5,333,000 at September 30, 2018. A revolving line of credit totalling $13,241,000 (US$10,000,000) was established during the second quarter of 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. BondIt failed a specific covenant test at September 30, 2019 which the lender subsequently waived. See note 9 to the Statements.

Accounts payable and other liabilities decreased by $1,391,000 to $9,303,000 at September 30, 2019 compared to $10,694,000 at December 31, 2018 and were $2,259,000 below the $11,562,000 a year earlier. The decrease since December 31, 2018 mainly resulted from payment of liabilities relating to the issuance of convertible debentures in December 2018 and 2018 employee bonuses.

Notes payable increased by $691,000 to $18,770,000 at September 30, 2019 compared to $18,079,000 at December 31, 2018 but were $3,291,000 below the $22,061,000 at September 30, 2018. The increase in notes payable since last year-end resulted from new notes issued, as well as accrued interest. Please see Related Party Transactions section below and note 10 to the Statements.

Convertible debentures with a face value of $18.4 million were issued by the Company in December 2018. These debentures are listed for trading on the Toronto Stock Exchange ("TSX"). On January 18, 2019, the underwriters of the convertible debenture issue exercised their over-allotment option and a further 1,090 debentures were issued with a face value of $1,090,000. On July 23, 2019, the Company issued a further 1,160 convertible debentures with a face value of $1,160,000 by way of private placement, bringing the total face value of these listed debentures issued to $20,650,000, being the maximum that could be issued under their trust indenture. The debentures issued on July 23, 2019 were issued at a $23,200 discount to face value and overall gross proceeds of these TSX listed debentures was $20,626,800. On September 13, 2019, under a supplemental trust indenture, 5,000 unlisted convertible debentures were issued with similar terms to the TSX listed debentures, bringing the total face value of debentures issued to $25,650,000. These unsecured convertible debentures carry a coupon rate of 7.0% with interest payable semi-annually on June 30 and December 31 each year. These debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares at a conversion price of $13.50 per common share. Net of transaction costs, a total of $23,781,000 was raised. Please see note 11 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At September 30, 2019, the debt component was $23,171,000 (December 31, 2018 – $15,955,000, September 30, 2018 – nil), while the equity component was $1,005,000 (December 31, 2018 – $755,000, September 30, 2018 – nil), net of deferred taxes.

As described above, the Company adopted IFRS 16 on January 1, 2019 pursuant to which lease liabilities totalling $2,027,000 for four of the Company's office leases were recognized as a liability. Outstanding lease liabilities totalled $1,725,000 at September 30, 2019. See detailed discussion in notes 3(a) and 12 to the Statements.

Income taxes payable, deferred income and net deferred tax liabilities at September 30, 2019 and 2018 and December 31, 2018 were not material.

Capital stock totalled $8,275,000 at September 30, 2019 compared to $8,115,000 at December 31, 2018 and $6,914,000 at September 30, 2018. There were 8,445,783 common shares outstanding at September 30, 2019 (December 31, 2018 – 8,428,542, September 30, 2018 – 8,309,642). Please see note 13 to the Statements and the consolidated statements of changes in equity on page 22 of the Company's 2019 Third Quarter Report for details of changes in capital stock during the first nine months of 2019 and 2018. At the date of this MD&A, October 30, 2019, 8,445,783 common shares remained outstanding.

Contributed surplus totalled $1,323,000 at September 30, 2019 compared to $1,073,000 at December 31, 2018 and $317,000 at September 30, 2018. As noted above, included in contributed surplus at September 30, 2019, is the equity component of the convertible debentures issued which totalled $1,005,000, net of deferred tax (December 31, 2018 – $755,000, September 30, 2018 – nil). Please refer to note 11 to the Statements. Please see the consolidated statements of changes in equity on page 22 of the Company's 2019 Third Quarter Report for details of changes in contributed surplus during the first nine months of 2019 and 2018.

Retained earnings totalled $76,382,000 at September 30, 2019 compared to $71,559,000 at December 31, 2018 and $67,700,000 at September 30, 2018. In the first nine months of 2019, retained earnings increased by $4,823,000. The increase comprised shareholders' net earnings of $7,102,000 less dividends paid of $2,279,000 (27 cents per common share). Please see the consolidated statements of changes in equity on page 22 of the Company's 2019 Third Quarter Report for details of changes in retained earnings during the first nine months of 2019 and 2018.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCI balance totalled $7,512,000 at September 30, 2019 compared to $9,072,000 at December 31, 2018 and $6,673,000 at September 30, 2018. Please refer to note 17 to the Statements and the consolidated statements of changes in equity on page 22 of the Company's 2019 Third Quarter Report, which details movements in the AOCI account during the first nine months of 2019 and 2018. The $1,560,000 decrease in AOCI balance in the first nine months of 2019 resulted from a decline in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.3637 at December 31, 2018 to $1.3241 at September 30, 2019. This reduced the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$33 million by $1,560,000.

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 allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

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

(as a percentage)	Sept. 30 2019	Dec. 31, 2018	Sept. 30, 2018
Total equity / Assets	24%	25%	26%
Tangible equity / Assets	20%	20%	21%
Debt* / Total equity	299%	276%	259%

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

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

Contractual Obligations and Commitments at September 30, 2019

	Payments due in				
(in thousands)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	**Total**
Debt obligations	$ 257,760	$ 12,174	$ 23,171	$ —	**$ 293,105**
Operating lease obligations	498	1,036	261	230	**2,025**
Purchase obligations	36	—	—	—	**36**
	$ 258,294	$ 13,210	$ 23,432	$ 230	**$ 295,166**

other forms of debt, such as convertible debentures, or equity.

The Company had credit lines totalling approximately $380 million at September 30, 2019 and had borrowed $251 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt or equity decrease the usage of, and dependence on, these lines. Note 21(b) details the Company's financial assets and liabilities at September 30, 2019 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of $4,717,000 at September 30, 2019 compared to $16,346,000 at December 31, 2018. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flow for the nine months ended September 30, 2019 compared with the nine months ended September 30, 2018

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $10,276,000 in the first nine months of 2019 compared to $9,869,000 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 $44,015,000 in the first nine months of 2019 compared to $71,779,000 last year. The net cash outflow in the current nine months largely resulted from financing gross loans of $51,612,000. In the first nine months of 2018, the net cash outflow largely resulted from financing gross loans of $80,034,000. 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 23 of the Company's 2019 Third Quarter Report.

Cash outflows from investing activities totalled $159,000 (2018 – $444,000) in the first nine months and comprised capital assets additions.

Net cash inflow from financing activities totalled $32,928,000 in the first nine months of 2019 compared to $64,887,000 last year. The net cash inflow in the current nine months resulted from an increase in bank indebtedness of $23,497,000, a rise in loan payable of $3,979,000, notes payable issued, net, of $796,000, and the issue of convertible debentures of $7,227,000 and common shares of $160,000. Partially offsetting this inflow were dividend payments totalling $2,279,000, lease liabilities payments of $271,000 and a distribution paid to non-controlling interests of $181,000. In the first nine months of 2018, the net cash inflow resulted from an increase in bank indebtedness of $55,231,000, notes payable issued, net, of $6,163,000, an increase in loan payable of $5,718,000 and common shares issued of $18,000, which inflows were partly offset by dividend payments totalling $2,243,000.

The effect of exchange rate changes on cash comprised a loss of $382,000 in the first nine months of 2019 compared to $76,000 in the first nine months of 2018.

Overall, there was a net cash outflow of $11,629,000 in the first nine months of 2019 compared to $7,412,000 in first nine months of 2018.

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise short-term notes (due within one year) and long-term notes due on July 31, 2021. The short-term notes comprise: (i) notes due on, or within a week of, demand ($3,617,000) which bear interest at rates that vary with bank prime rate or Libor; and (ii) numerous BondIt notes ($2,979,000) which are repayable on various dates, the latest of which is December 31, 2019, and bear interest at rates between 7% and 12%. The long-term notes, which total $12,174,000 and mature on July 31, 2021, were entered into for a three-year term commencing August 1, 2018. They carry a fixed interest rate of 7%.

Notes payable totalled $18,770,000 at September 30, 2019 compared with $18,079,000 at December 31, 2018 and $22,061,000 at September 30, 2018. Of these notes payable, $15,977,000 (December 31, 2018 – $15,536,000, September 30, 2018 – $19,662,000) was owing to related parties and $2,793,000 (December 31, 2018 – $2,543,000, September 30, 2018 – $2,399,000) to third parties. Interest expense on these notes in the current quarter and first nine months of 2019 totalled $330,000 (2018 – $309,000) and $962,000 (2018 – $655,000), respectively. Please refer to note 10 to the Statements.

The following parties had notes payable with the Company:

Short-term notes payable			
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$	880,000
Hitzig Bros., Hargreaves & Co. LLC*	Directors	US$	700,000
Ken Hitzig	Director	C$	250,000
Tom Henderson	Director	US$	161,612
Term notes payable (due July 31, 2021)			
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C$	3,500,000
Oakwest Corporation Inc.*	Director	C$	2,000,000
Belweather Capital Partners Inc.*	Director	C$	1,000,000
Ken Hitzig	Director	C$	1,500,000

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

Accord pays a rate of interest related to Canadian prime (currently it pays 3.45% or 3.95%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 3.50%). These rates of interest are below the rates that Accord pays on its main syndicated bank facility with The Bank of Nova Scotia (“BNS”), resulting in interest savings to the Company.

Upon renewal of the BNS facility, the Company entered into three-year unsecured notes payable maturing July 31, 2021. These notes are solely with related parties and pay a rate of interest of 7%. The renewed credit facility allows these three-year notes to be treated as “quasi-equity” and be included in the Company’s tangible net worth (TNW) for the purpose of leveraging its bank line (up to 3.5 x TNW). This created additional borrowing capacity that Accord can utilize at lower credit facility rates of interest, which was the main business purpose thereof.

Financial Instruments

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

At September 30, 2019, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between December 31, 2019 and January 31, 2020 and which oblige the Company to sell Canadian dollars and buy US$340,000 at exchange rates between 1.327 and 1.350. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$340,000 to the client. These contracts are discussed further in note 16 to the Statements.

Critical Accounting Policies and Estimates

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

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

The Company's allowance for losses on its Loans and its guarantee of managed receivables are provided for under the three stage criteria set out in IFRS 9, where a Stage 1 allowance is established to reserve against ECL which have not experienced a significant increase in credit risk ("SICR") and which cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. Stage 1 ECL results from default events on the financial instrument that are possible within the twelve-month period after the reporting date. Stage 1 accounts are considered to be in good standing. In establishing its Stage 1 allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis. The Company's Stage 2 allowances are based on a review of the loan or managed receivable and comprises an allowance for those financial instruments which have experienced a SICR since initial recognition. The Company generally considers an account to have a SICR when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watchlist." Lifetime ECL are recognized for all Stage 2 financial instruments. Stage 3 financial instruments are those that the Company has classified as impaired. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Lifetime ECL are recognized for all Stage 3 financial instruments. In Stage 3, financial instruments are written-off, either partially or in full, against the related allowance for losses when the Company judges that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses. 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(e), 4 and 21(a) 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 the aggregate liability from which would materially affect the financial position of the Company.

Adoption of New Accounting Policy

Effective January 1, 2019, the Company adopted a new accounting standard as issued by the International Accounting Standards Board comprising IFRS 16, Leases, which replaced IAS 17, Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 was applied using the modified retrospective method pursuant to which the Company will not have to restate 2018 comparatives.

The adoption of IFRS 16 resulted in a fundamental change to the accounting treatment of leases. IFRS 16 eliminated the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is now a single, on-balance sheet accounting model that is similar to current finance lease accounting. Under IFRS 16, right-of-use assets and lease liabilities have been recognized at the date of implementation resulting in an increase in both assets and liabilities. Lessees also recognize depreciation expense on the right-of-use assets and interest expense on the lease liabilities in the income statement. The Company has elected to use exemptions available under IFRS 16 for lease terms which end within twelve months of January 1, 2019, and also for lease contracts of certain office equipment that are considered low value. On adoption of IFRS 16, the Company recognized right-of-use assets in respect of four of its office leases totalling $2,027,000 and related lease liabilities in the same amount. There was no impact on the Company's retained earnings. Adoption of IFRS 16 did not have a material impact on the Company's net earnings. For further details, please refer to note 3(a) to the Statements.

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, 2019, 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 21 to the Statements, which discuss the Company's principal financial risk management practices.

Competition from alternative sources of financing

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

Credit risk, inability to underwrite finance receivables and loan applications

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financings, designed to serve small- and medium-sized businesses, which are often owner-operated and have limited access to traditional financing. There is a high degree of risk associated with providing financing to such parties as a result of their lower creditworthiness. Even with an appropriately diversified lending business, operating results can be adversely affected by large bankruptcies and/or insolvencies. Losses from client loans in excess of the Company's expectations could have a material adverse impact on the Company's business, financial condition and results of operations.

In addition, since defaulted loans as well as certain delinquent loans cannot be used as collateral under the Company's credit facilities, higher than anticipated defaults and delinquencies could adversely affect the Company's liquidity by reducing the amount of funding available to the Company under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could cause the Company to be in breach of its financial covenants under its credit facilities, and could also result in adverse changes to the terms of future financing arrangements available to the Company, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Interest rate risk

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

Foreign currency risk

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

External financing

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

Deterioration in economic or business conditions; impact of significant events and circumstances

The Company operates mainly in Canada and the United States. The Company's operating results may be negatively affected by various economic factors and business conditions, including the level of economic activity in the markets in which it operates. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase.

As the Company extends credit primarily to small- and medium-sized businesses, many of its customers are particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavorable economic conditions may also make it more difficult for the Company to maintain new origination volumes and the credit quality of new loans at levels previously attained. Unfavorable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities and other capital markets funding sources or result in a decision by the Company's lenders not to extend further credit. Any of these events could have a material adverse impact on the Company's business, financial condition and results of operations.

Dependence on key personnel

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

Income tax matters

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

Recent and future acquisitions and investments

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

Fraud by lessees, borrowers, vendors or brokers

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

Risk of future legal proceedings

The Company is threatened from time to time with, or is named as a defendant in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting its businesses. A significant judgment or the imposition of a significant fine or penalty on the Company could have a material adverse impact on the Company's business, financial condition and results of operation. Significant obligations may also be imposed on the Company by reason of a settlement or judgment involving the Company, as well as risks pertinent to financing facilities, including acceleration and/or loss of funding availability. Publicity regarding involvement in matters of this type, especially if there is an adverse settlement or finding in the litigation, could result in adverse consequences to the Company's reputation that could, among other things, impair its ability to retain existing or attract further business. The continuing expansion of class action litigation in U.S. and Canadian court actions has the effect of increasing the scale of potential judgments. Defending such a class action or other major litigation could be costly, divert management's attention and resources and have a material adverse impact on the Company's business, financial condition and results of operations.

Outlook

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

The Company, which had a record year in 2018, is benefitting from the continued substantial growth in its funds employed, which have grown 175% from the $140 million at the end to 2016 to finish the first nine months of 2019 at $385 million. Growth in funds employed, a key indicator of where the Company is heading, has been achieved organically through the introduction of new lending products and through the investments in ASBF in 2014, and BondIt and CapX in the second half of 2017.

Revenue in the first nine months of 2019 is up 23% from 2018 and will continue to grow as more funds are deployed. Funds employed at September 30, 2019 were 42% higher than 2018's average. Growth in funds employed is expected to continue and will result in improved revenues in the future which 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 in recent years. It is anticipated that the Company's asset-based financing units, AFIC and AFIU, will be able to continue to build on their growth, particularly in the U.S. where synergies with CapX are being realized, despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business, ASBF, is forecasting growth to continue in future years. That unit continues to expand its product offerings, including working capital loans and the equipment revolving line of credit product it introduced in 2017, as well as carefully increasing its average equipment finance deal size.

Our newest group companies are also expected to grow their funds employed. BondIt's funds employed are seeing growth, while CapX, which started from scratch in the fourth quarter of 2017, had grown funds employed to $102 million at the end of September 2019. Our credit protection and receivables management business faces intense competition from multinational credit insurers which is expected to continue.

To support this growth, in July 2019 the Company's banking syndicate approved a $75 million increase in its bank facility bringing the Company's bank facility limit to $367 million. This should provide it with the majority of funding needed to support further growth in the next twelve months. In addition, since December 2018, the Company has raised $25.6 million through convertible debenture offerings, including $6.2 million raised in the third quarter of 2019. We will continue to review alternative sources of financing to augment our balance sheet if and when necessary.

U.S. tax regulations released in December 2018 have impacted tax planning such that the Company will see an increase in its effective tax rate and income tax expense in 2019 and potentially for years thereafter. This has impacted net earnings in the first nine months of 2019. The Company is currently reviewing alternative tax planning opportunities in order to lower its effective tax rate in future years.

With its substantial capital and borrowing capacity, Accord is well positioned to capitalize on market conditions. That, coupled with experienced management and employees, 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
October 30, 2019

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