



ACCORD
FINANCIAL

Message from the President and CEO and

**Management's Discussion & Analysis of
Results of Operations and Financial Condition**

ACCORD FINANCIAL CORP.

Three and nine months ended September 30, 2020

Message From The President and CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and nine months ended September 30, 2020 together with comparative figures for the same period of 2019. These financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Net earnings attributable to the Company's shareholders declined by \$2,671,000 or 83% to \$566,000 in the third quarter of 2020 compared with \$3,237,000 in last year's third quarter. Earnings per share ("EPS") were 7 cents this quarter compared to 38 cents in the third quarter of 2019. Third quarter earnings decreased mainly as a result of lower revenue and a higher provision for losses.

Adjusted net earnings, which comprises net earnings attributable to shareholders before non-operating stock-based compensation, restructuring expenses and business acquisition expenses, were \$621,000 in the third quarter of 2020 compared to \$2,862,000 last year in the third quarter of 2019. Adjusted EPS, were 7 cents versus 34 cents last year.

Revenue totalled \$12,312,000 in the third quarter this year compared to \$15,299,000 last year. Revenue declined on 15% lower average funds employed and a 6% decrease in average loan yields, as well as reduced other income. Average yields decreased somewhat due to lower Canadian and U.S. prime rates of interest.

The Company's total funds employed (finance receivables and loans) were \$348 million at September 30, 2020 compared to \$385 million a year earlier. Average funds employed in the third quarter totalled \$327 million compared with \$383 million last year. Shareholders' equity was \$90 million at September 30, 2020 compared to \$93 million at September 30, 2019. Book value per share was \$10.56 versus \$11.07 a year ago.

Net loss attributable to the Company's shareholders for the first nine months of 2020 was \$968,000 compared to net earnings of \$7,102,000 in the first nine months of 2019. Loss per share ("LPS") was 11 cents this year versus EPS of 84 cents in 2019. Net loss resulted mainly from a \$8.9 million provision for credit and loan losses, lower revenue, restructuring charges of \$996,000 and an impairment of assets held for sale of \$897,000. The provision for losses, which comprised net write-offs of \$4.9 million and a \$4.0 million increase in the Company's allowances for losses, and the impairment charge in large part resulted from the current and forecasted economic impact of COVID-19 on the Company's portfolio of loans and managed receivables.

Adjusted net loss was \$63,000 in the first nine months of 2020 compared to adjusted net earnings of \$7,075,000 in the first nine months of 2019. Adjusted LPS was 1 cent compared to EPS of 84 cents last year.

Revenue decreased to \$35,598,000 compared to \$41,878,000 in the first nine months of 2019 on 8% lower average funds employed and a similar decrease in average loan yields, as well as reduced other income. Average funds employed in the first nine months were \$343 million compared with \$373 million last year.

We're now clearly on the road back to portfolio growth and earnings recovery. After several years of consistent growth, Accord entered 2020 with \$373 million in total funds employed, which shrank in the first half to \$317 million. As previously reported, from March through to June we took a cautious approach to signing new business, and at the same time, many of our factoring and ABL clients reduced their borrowings owing to reduced business activity combined with generous government subsidies. Economic activity in the United States and Canada plunged more than 30% in the second quarter, while Company's funds employed shrank by 14%.

While the economic backdrop and forecast remains uncertain, I'm pleased to report that we're seeing "green shoots" of renewed growth taking root all around Accord. Every office is now driving increased new business activity, and the portfolios are beginning to grow again. Accord's total funds employed notched a 10% increase in the third quarter, during this quarter, reaching \$348 million by the end of September 2020.

In the early days of Covid-19 we combed through the portfolio and placed a number of hard-hit companies on our watch list. As expected, during the second and third quarters several of these accounts were wound down, and we recorded appropriate credit and loan losses. While we've now exited many of the weaker accounts, given the lingering economic uncertainty, we continue to carry a larger than usual general allowance for loan losses on the balance sheet. The allowance on our funds employed now stands at \$6.7 million, roughly the same as it was on June 30, and up 81% from \$3.7 million at the same time last year (even with a slightly smaller portfolio now).

Credit and loan charge-offs, combined with the increase in loss allowances, have been the main driver of weak financial performance year-to-date. As portfolio growth has resumed, however, the trend in earnings has also taken a positive turn. Third quarter earnings of 7 cents per share brought the year-to-date loss down to 11 cents per share. Accord has been profitable thirty-eight years in a row; we have a good shot at keeping that streak alive. And as we seize the opportunities we're now beginning to see, we also have a chance to finish the year with our total portfolio back to where it was before Covid hit. This momentum sets us up for a strong 2021.

Throughout the period we've taken the opportunity to accelerate our strategic plan, which brings us together as a unified organization, stronger together, and armed with a singular vision. Almost every functional area of Accord is included in the plan, with a commitment to improve the way we operate, aiming to integrate seamlessly with clients, referral networks and financial partners.

With an eye to the next generation of technology, we've enhanced the way we communicate and collaborate internally, and are now focused on streamlining all of our key client-related processes, from first point of contact, through credit approval and ongoing servicing. The goal is to turn individual expertise into organizational excellence, streamline processes, and ensure we have the right technology to embrace the next phase of growth.

Shortly after quarter end, we wrapped our mission, vision, values and culture in an outstanding new brand design, prominently featured on Accord's new website. Accord's very first logo was designed by Don Watt, who was part of the team that designed the current Canadian flag. The original logo perfectly captured the innovative and ambitious spirit of the Company when it was founded. The new design reignites that same spirit, and signals to all our stakeholders that we remain dynamic, ready to embrace change for another forty-two years.

At the Board of Directors meeting held today, a quarterly dividend of 5 cents per common share was declared, payable December 1, 2020 to shareholders of record November 13, 2020.

Simon Hitzig
President and Chief Executive Officer
October 28, 2020

ACCORD FINANCIAL CORP.

Management's Discussion & Analysis of Results of Operations and Financial Condition ("MD&A") for the Three and Nine Months ended September 30, 2020

FINANCIAL HIGHLIGHTS

(unaudited, in thousands except average funds employed, earnings per share and book value per share)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2020	2019	2020	2019
Average funds employed (millions)	\$ 327	\$ 383	\$ 343	\$ 373
Revenue	12,312	15,299	35,598	41,878
Earnings (loss) before income tax	(120)	4,063	(5,209)	8,911
Net earnings (loss) attributable to shareholders	566	3,237	(968)	7,102
Adjusted net earnings (loss)	621	2,862	(63)	7,075
Earnings (loss) per common share (basic and diluted)	0.07	0.38	(0.11)	0.84
Adjusted earnings (loss) per common share (basic and diluted)	0.07	0.34	(0.01)	0.84
Book value per common share (September 30)			10.56	11.07

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 three and nine months ended September 30, 2020 compared with the three and nine months ended September 30, 2019 and, where presented, the three and nine months ended September 30, 2018. 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 28, 2020, 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, 2020 and 2019 and as an update in conjunction with the discussion and analysis and fiscal 2019 audited consolidated financial statements and notes thereto included in the Company's 2019 Annual Report.

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

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

NON-IFRS FINANCIAL MEASURES

In addition to the IFRS prepared results and balances presented in the Statements and notes thereto, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore,

considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. The non-IFRS measures presented in this MD&A and in the 2020 Third Quarter President's letter 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 restructuring expenses. The Company considers these items to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of ongoing operating performance than shareholders' net earnings as it excludes items which do not directly relate to ongoing operating activities. Adjusted (basic and diluted) earnings per common share is adjusted net earnings divided by the (basic and diluted) weighted average number of common shares outstanding in the period, while adjusted ROE is adjusted net earnings for the period expressed as an annualized percentage of average shareholders' equity employed in the period;
- iii) **Book value per share** – book value is defined as shareholders' equity and is the same as the net asset value of the Company (calculated as total assets minus total liabilities) less non-controlling interests in subsidiaries. Book value per share is the book value divided by the number of common shares outstanding as of a particular date;
- iv) **Average funds employed** – Funds employed is another name that the Company uses for its finance receivables and loans (also referred to as "Loans" in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period; and
- v) **Financial condition and leverage ratios** – The table on page 15 presents the following percentages: (i) total equity expressed as a percentage of total assets; (ii) tangible equity (total equity less goodwill, intangible assets and deferred taxes) expressed as a percentage of total assets; and (iii) debt (bank indebtedness, loan payable, notes payable and convertible debentures) expressed as a percentage of total equity. These percentages, provide information on trends in the Company's financial condition and leverage.

ACCORD'S BUSINESS

Accord is one of North America's leading independent commercial 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 2019 Annual Report. Its clients operate in a wide variety of industries, as are set out in note 22(a) to the Statements.

The Company, founded in 1978, operates six finance companies in North America, namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Accord Small Business Finance ("ASBF") in Canada, and Accord Financial, Inc. ("AFIU"), BondIt Media Capital ("BondIt") and Accord CapX LLC ("CapX") (doing business as Accord Equipment Finance) 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*
2020	September 30	\$ 12,312	\$ 566	\$ 0.07
	June 30	11,270	4,343	0.51
	March 31	12,015	(5,876)	(0.69)
2019	December 31	\$ 14,297	\$ (658)	\$ (0.08)
	September 30	15,299	3,237	0.38
	June 30	13,991	2,222	0.26
	March 31	12,588	1,643	0.19
Fiscal 2019		\$ 56,175	\$ 6,444	\$ 0.76**
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

* 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, 2020 compared with quarter ended September 30, 2019

Shareholders' net earnings for the quarter ended September 30, 2020 decreased by \$2,671,000 to \$566,000 compared to the \$3,237,000 earned in the third quarter of 2019 and were \$2,050,000 lower than the \$2,616,000 earned in third quarter of 2018. Shareholders' net earnings decreased compared to 2019 and 2018 mainly as a result of lower revenue and a higher provision for losses. Basic and diluted earnings per common share ("EPS") were 7 cents compared to 38 cents in the third quarter of 2019 and 31 cents in the third quarter of 2018.

Adjusted net earnings decreased by \$2,241,000 or 78% to \$621,000 in 2020 compared to \$2,862,000 in the third quarter of 2019 and were \$2,221,000 or 78% lower than the

\$2,842,000 earned in the third quarter of 2018. Adjusted EPS (basic and diluted) was 7 cents compared to 34 cents in the third quarter of 2019 and 2018. The following table provides a reconciliation of shareholders' net earnings to adjusted net earnings:

Quarter ended September 30 (in thousands)	2020	2019	2018
Shareholders' net earnings	\$ 566	\$ 3,237	\$ 2,616
Adjustments, net of tax:			
Stock-based compensation expense	—	48	34
Business acquisition expenses	55	(423)	192
Adjusted net earnings	\$ 621	\$ 2,862	\$ 2,842

Revenue declined by 20% or \$2,987,000 to \$12,312,000 in the third quarter of 2020 compared to \$15,299,000 last year and was \$808,000 or 6% lower than the \$13,120,000 in the third quarter of 2018. Interest income declined by \$2,824,000 or 21% to \$10,638,000 compared to \$13,462,000 in the third quarter of 2019 on a 15% decline in average funds employed and a 4% decrease in average loan yields. Yields declined compared to 2019 mainly as a result of lower Canadian and U.S. prime rates of interest, which impact interest income from our floating rate loans to clients. Other income declined by \$163,000 to \$1,674,000 in the current quarter compared to \$1,837,000 in 2019 as management fees earned by CapX from managing a legacy equipment finance fund ceased at the end of February 2020 and receivables management fees declined. Interest income in the current quarter increased by \$385,000 or 4% compared to the third quarter of 2018 on a 15% rise in average funds employed, which was partly offset by a 10% decrease in average loan yields. Other income in the current quarter was \$1,193,000 lower compared to the third quarter of 2018 for reasons noted above. Average funds employed in the third quarter of 2020 decreased to \$327 million compared to \$383 million in 2019 but were 16% higher than the \$283 million in 2018.

Total expenses for the third quarter of 2020 increased by \$1,196,000 to \$12,432,000 compared to \$11,236,000 last year. The provision for credit and loan losses and business acquisition expenses increased by \$2,321,000 and \$628,000, respectively, while interest expense, general and administrative expenses ("G&A"), and depreciation decreased by \$1,007,000, \$741,000 and \$5,000, respectively.

Interest expense declined by 23% to \$3,379,000 in the third quarter of 2020 from \$4,386,000 last year on an 18% decline in average borrowings and reduced interest rates. As noted above, interest rates declined in 2020 on lower prime rates of interest in Canada and the U.S.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A decreased by 11% to \$5,760,000 on lower personnel costs, which declined by \$982,000 in the third quarter. Personnel costs decreased in part due to the \$415,000 received under the Canadian Emergency Wage Subsidy ("CEWS") program in the third quarter. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses increased by \$2,321,000 to \$3,040,000 in the third quarter of 2020 compared to \$719,000 last year. The provision comprised:

Quarter ended September 30 (in thousands)	2020	2019
Net write-offs	\$ 2,785	\$ 705
Reserves expense related to increase in total allowances for losses	255	14
	\$ 3,040	\$ 719

There were net write-offs of \$2,785,000 in the current quarter compared to \$705,000 last year, while the non-cash reserves expense rose by \$241,000 to \$255,000. The Company incurred net write-offs of \$2,785,000 in the third quarter of 2020 mainly due to the adverse economic impact of COVID-19 on the Company's Loans and managed receivables. The non-cash reserves expense mainly resulted from an increase in the Company's total portfolio of loans and managed receivables, which rose by \$40 million to \$377 million in the third quarter.

The Company's allowances for losses and portfolios are discussed in detail below and 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, as well as severe adverse economic conditions which require that substantially higher allowances for losses be established, as has been the case since March 2020 due to the adverse economic impact of COVID-19.

Depreciation expense decreased by \$5,000 to \$179,000 in the third quarter of 2020. Depreciation of \$109,000 (2019 – \$109,000) was charged on the Company's right-of-use assets in the current quarter, with the balance charged on capital assets.

Business acquisition expenses consist of transaction and integration costs and the amortization of intangibles relating to ASBF and CapX. For the quarter ended September 30, 2020, these expenses increased to \$74,000 (2019 – recovery \$554,000). There were no transaction and integration costs in the third quarter of 2020 (2019 – recovery \$628,000), while the amortization of intangible assets totalled \$74,000 (2019 – \$74,000).

Income tax decreased by \$1,766,000 to a recovery of \$687,000 (2019 – expense \$1,079,000) on the \$4.2 million decline in pre-tax earnings, as well as the benefits from the Company's newly implemented tax structure.

Canadian operations reported a shareholders' net loss of \$874,000 in the third quarter of 2020 compared to a shareholders' net loss of \$342,000 last year (see note 21 to the Statements). Shareholders' net loss increased mainly as a result of a higher provision for losses and lower revenue. Revenue declined by \$1,133,000 to \$5,379,000. Expenses decreased by \$288,000 to \$6,557,000. Interest expense declined by \$1,257,000 to \$2,626,000, while G&A decreased by \$365,000 mainly due to the receipt of the CEWS of \$415,000. Depreciation declined by \$5,000. The provision for credit and loan losses increased by \$1,339,000 to \$1,504,000. Business acquisition expenses remained unchanged at \$40,000. Income tax decreased by \$313,000 to a recovery of \$304,000.

U.S. operations reported shareholders' net earnings in the third quarter of 2020 of \$1,440,000 compared to \$3,579,000 last year (see note 21 to the Statements). Revenue decreased by \$2,143,000 to \$7,081,000. Expenses increased by \$1,195,000 to \$6,023,000. The provision for credit and loan losses rose by \$982,000 to \$1,536,000, while business acquisition expenses increased by \$628,000 to \$34,000. G&A decreased by \$377,000 to \$3,453,000, while interest expense declined by \$38,000 to \$901,000. Depreciation was unchanged at \$99,000. Income tax decreased by \$1,453,000 to a recovery of \$383,000. Net earnings attributable to non-controlling interests in subsidiaries totalled \$nil compared to a net loss of \$253,000 in the third quarter of 2019.

Nine months ended September 30, 2020 compared with nine months ended September 30, 2019

Shareholders' net loss for the first nine months of 2020 totalled \$968,000 compared to the \$7,102,000 earned in the first nine months of 2019 and the \$6,195,000 earned in first nine months of 2018. The shareholders' net loss compared to shareholders' net earnings in 2019 and 2018 mainly resulted from a higher provision for credit and loan losses and lower revenue resulting from the severe deterioration in economic activity and its impact on the Company's portfolios as a consequence of COVID-19 prevention measures since March 2020. An impairment of assets held for sale and certain restructuring expenses also contributed to the deterioration in financial results. Basic and diluted loss per common share ("LPS") was 11 cents compared to earnings per common share of 84 cents in the first nine months of 2019 and 75 cents in the first nine months of 2018.

Adjusted net loss was \$63,000 in the first nine months of 2020 compared to adjusted net earnings of \$7,075,000 in the first nine months of 2019 and \$6,957,000 in the first nine months of 2018. Adjusted LPS was 1 cent compared to adjusted EPS of 84 cents in the first nine months of 2019 and 2018. The following table provides a reconciliation of shareholders' net (loss) earnings to adjusted net (loss) earnings:

Nine months ended September 30 (in thousands)	2020	2019	2018
Shareholders' net (loss) earnings	\$ (967)	\$ 7,102	\$ 6,195
Adjustments, net of tax:			
Restructuring expenses	738	—	—
Stock-based compensation expense	—	132	169
Business acquisition expenses	166	(159)	593
Adjusted net (loss) earnings	\$ (63)	\$ 7,075	\$ 6,957

Revenue for the first nine months of 2020 declined by \$6,280,000 or 15% to \$35,598,000 compared to \$41,878,000 last year. Interest income declined by \$5,139,000 or 14% to \$31,680,000 in first nine months of 2020 compared to \$36,819,000 in 2019 on an 8% decrease in average funds employed and a 6% decline in average loan yields. Yields mainly declined due to lower Canadian and U.S. prime rates of interest this year compared to 2019 and, to a lesser extent, a number of non-earning accounts. Other income declined by \$1,141,000 to \$3,918,000 in the first nine months of 2020 compared to \$5,059,000 in 2019 as management fees earned by CapX from managing a legacy equipment finance fund ceased at the end of February 2020 and receivables management fees declined. Average funds employed in the first nine months of 2020 decreased to \$343 million compared to \$373 million in 2019.

Total expenses for the first nine months of 2020 increased by \$7,840,000 or 24% to \$40,807,000 compared to \$32,967,000 last year. The provision for credit and loan losses, impairment of assets held for sale, business acquisition expenses and G&A increased by \$7,896,000, \$897,000, \$433,000 and \$353,000, respectively. Interest expense and depreciation declined by \$1,738,000 and \$1,000, respectively.

Interest expense declined by 14% to \$10,959,000 compared to \$12,697,000 in the first nine months of 2019 on decreased interest rates and 7% lower average borrowings. Interest rates declined on the Company's borrowings as a result of reduced prime rates of interest in Canada and the U.S.

G&A increased by \$353,000 or 2% to \$19,277,000 in the current nine months compared to \$18,924,000 last year. G&A rose mainly as a result of restructuring or severance costs

totalling \$997,000 and, to a lesser extent, the impact of the stronger U.S. dollar on our U.S. G&A. These increases were largely offset by the receipt of CEWS totalling \$902,000 in the current nine months. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by \$7,896,000 to \$8,907,000 in the first nine months of 2020 compared to \$1,011,000 last year. The provision comprised:

Nine months ended September 30 (in thousands)	2020	2019
Net write-offs	\$ 4,907	\$ 719
Reserves expense related to increase in total allowances for losses	4,000	292
	\$ 8,907	\$ 1,011

The provision for credit and loan losses as a percentage of revenue rose to 25.0% in the first nine months of 2020 from 2.4% in 2019. Net write-offs increased by \$4,188,000 to \$4,907,000 compared to \$719,000 last year. Net write-offs are net of a recovery of \$3,523,000 from one account which was written-off last December. Excluding this, net write-offs would have been \$8,430,000 in the first nine months of 2020, of which \$6,368,000 related to the Company's Loans and \$2,062,000 related to its managed receivables. Net write-offs in the first nine months of 2020 were in large part due to the adverse economic impact of COVID-19 on the Company's Loans and managed receivables.

The non-cash reserves expense increased by \$3,708,000 to \$4,000,000 from \$292,000 last year. The increase in the non-cash reserve expense mainly resulted from the deterioration in the economic environment in both Canada and U.S. and its expected impact on our clients as a result of COVID-19, as the Company incorporated forward looking indicators of expected adverse economic conditions into its expected credit loss models.

An impairment charge of \$897,000 (2019 – nil) was taken against certain assets held for sale in the first nine months of 2020 to write them down to their estimated net recoverable value, which was based on actual realizations from the sale of the assets. Realizations were likely adversely impacted by the severe economic conditions resulting from COVID-19. See note 5 to the Statements.

Depreciation expense decreased by \$1,000 to \$542,000 in the first nine months of 2020. Depreciation of \$331,000 (2019 – \$328,000) was charged on the right-of use assets in the first nine months of 2020, with the balance of the expense relating to capital assets.

Business acquisition expenses totalled \$224,000 in the first nine months of 2020 (2019 – recovery \$208,000) and solely comprised the amortization of intangible assets relating to ASBF and CapX (2019 – \$226,000). There were no transaction and integration costs in the first nine months of 2020 (2019 – recovery \$434,000).

Income tax declined by \$6,715,000 to a recovery of \$4,448,000 in the first nine months of 2020 compared to an expense of \$2,267,000 last year. Income tax declined on the pre-tax loss of \$5.2 million, a one-time tax recovery of \$881,000 in the second quarter relating to a refund in respect of tax losses carried back by AFIU pursuant to temporary COVID-19 related tax relief changes, and the benefits from the newly implemented tax structure.

Canadian operations reported a shareholders' net loss of \$5,504,000 in the first nine months of 2020 compared to a shareholders' net loss of \$1,151,000 in 2019. Revenue decreased by \$3,176,000 or 17% to \$15,509,000. Expenses increased by \$3,029,000 to \$22,979,000. The provision for credit and loan losses rose by \$6,745,000 to \$6,927,000.

Interest expense, G&A, business acquisition expenses, impairment of assets held for sale and depreciation declined by \$2,674,000, \$1,032,000, \$6,000 and \$4,000, respectively. Income tax decreased by \$1,852,000 to a recovery of \$1,966,000 on a \$7,470,000 decrease in pre-tax earnings.

U.S. operations reported shareholders' net earnings of \$4,536,000 in the first nine months of 2020 compared to \$8,253,000 last year. Revenue declined by \$3,557,000 to \$20,447,000. Expenses rose by \$4,358,000 to \$18,186,000. G&A increased by \$1,385,000 to \$12,260,000, the provision for credit and loan losses rose by \$1,151,000 to \$1,980,000, impairment of assets held for sale increased by \$897,000, interest expense was \$483,000 higher at \$2,646,000, business acquisition expenses increased by \$437,000 to \$104,000, while depreciation was \$5,000 higher. Income tax decreased by \$4,863,000 to a recovery of \$2,482,000. Net earnings attributable to non-controlling interests in subsidiaries totalled \$207,000 compared to a net loss of \$458,000 in the first nine months of 2019.

REVIEW OF FINANCIAL POSITION

Shareholders' equity at September 30, 2020 was \$90,360,000, 2% below the \$92,515,000 at December 31, 2019 and 3% below the \$93,491,000 at September 30, 2019. The decrease in shareholders' equity since December 31, 2019 mainly resulted from a decrease in retained earnings which was partly offset by a rise in accumulated other comprehensive income. Book value per common share was \$10.56 at September 30, 2020 compared to \$10.77 at December 31, 2019 and \$11.07 at September 30, 2019. Please also see the consolidated statements of changes in equity on page 3 of the Statements.

Total assets declined by 6% to \$381,084,000 at September 30, 2020 compared to \$406,214,000 at December 31, 2019 and were 7% below the \$409,928,000 at September 30, 2019. Total assets largely comprised Loans (funds employed). Excluding inter-company loans, identifiable assets located in the United States were 62% of total assets at September 30, 2020 compared to 63% at December 31, 2019 and 61% at September 30, 2019 (see note 21 to the Statements).

Gross finance receivables and loans (also referred to as Loans or funds employed), before the allowance for losses thereon, declined by 7% to \$347,939,000 at September 30, 2020 compared to \$373,157,000 at December 31, 2019 and were 10% lower than the \$384,585,000 at September 30, 2019.

As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2019
Receivable loans	\$ 89,224	\$ 103,842	\$ 118,200
Other loans*	144,658	167,978	179,355
Lease receivables	114,057	101,337	87,030
Finance receivables and loans	347,939	373,157	384,585
Less allowance for losses	6,688	4,520	3,676
Finance receivables and loans, net	\$ 341,251	\$ 368,637	\$ 380,909

* other loans primarily comprise inventory and equipment loans.

The Company's receivable loans decreased by 14% to \$89,224,000 at September 30, 2020 compared to \$103,842,000 at December 31, 2019 and were 25% below the \$118,200,000 at September 30, 2019. Other loans, which primarily comprise advances against non-receivable assets such as inventory and equipment, declined by 14% to \$144,658,000 at September 30, 2020 compared to \$167,978,000 at December 31, 2019 and were 19% below the \$179,355,000 at September 30, 2019. Lease receivables,

representing ASBF's and CapX's net investment in equipment leases, rose by 13% to \$114,057,000 at September 30, 2020 compared to \$101,337,000 at December 31, 2019 and were 31% higher than the \$87,030,000 at September 30, 2019. Net of the allowance for losses thereon, Loans decreased by 7% to \$341,251,000 at September 30, 2020 compared to \$368,637,000 at December 31, 2019 and were 10% below the \$380,909,000 at September 30, 2019. 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 approximately 140 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 \$29 million at September 30, 2020 compared to \$27 million at December 31, 2019 and \$49 million at September 30, 2019. Managed receivables comprise the receivables of approximately 65 clients at September 30, 2020. The 25 largest clients comprised 90% of total volume in the first nine months of 2020. 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, 2020, the 25 largest customers accounted for 66% of total managed receivables, of which the largest five comprised 44%. The Company reviews and monitors the retail industry and the credit risk related to its managed receivables very closely.

The Company's total portfolio, which comprises both gross Loans and managed receivables, as detailed above, decreased by 6% to \$377 million at September 30, 2020 compared to \$400 million at December 31, 2019 and was 13% below the \$434 million at September 30, 2019.

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

In its asset-based lending operations, 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 any time. Of the total managed

receivables that the Company guarantees payment, 8.6% were past due more than 60 days at September 30, 2020. 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 good quality and any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an on-going basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

As detailed in note 4, the Company had past due finance receivables and loans of \$7,523,000 at September 30, 2020, of which \$5,168,000 related to BondIt, the Company's media finance subsidiary, while the balance of \$2,355,000 related to ASBF. Repayment of BondIt's loans are often delayed for non-credit related reasons such as production delays. BondIt's operations have not been particularly impacted by COVID-19. Of the ASBF loans past due, \$531,000 are considered to be a SICR. A number of ASBF accounts have been granted temporary COVID-19 related payment relief and are not considered to be a SICR. While it is usual at ASBF to have balances past due less than 30 days, amounts totaling \$70,000 were past due over 30 days at September 30, 2020 for which a SICR has been rebutted.

At September 30, 2020, the Company had impaired finance receivables and loans of \$6,439,000. The impaired loans are mainly collateralized by receivables, inventory and equipment, the estimated net realizable value of which was \$6,845,000 at September 30, 2020. As the vast majority of the Company's finance receivables and loans are collateralized, past due or impaired accounts do not necessarily lead to a significant expected credit loss ("ECL") depending on the net realizable value of the collateral security, which often results in a low or no loss given default ("LGD") in respect of these accounts.

In the Company's credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of \$2.5 million (US\$2.5 million for U.S. group companies) is approved by the Credit Committee of the Board on a case-by-case basis. Note 22(a) to the Statements provides details of the Company's credit exposure by industrial sector.

The Company's allowance for losses on Loans, calculated under the ECL criteria of IFRS 9, totalled \$6,688,000 at September 30, 2020 compared to \$4,520,000 at December 31, 2019 and \$3,676,000 at September 30, 2019. The significant increase in the allowance for loan losses resulted from the incorporation of expected severe adverse economic conditions on the Company's clients as a result of COVID-19 prevention measures into the forward-looking indicators used in the Company's expected credit loss models. This involved the significant use of reasonable and supportable judgment in the face of heightened economic uncertainty and represents management's best estimate of its allowance for loan losses based on information available at that date. Depending on how long the economic impacts of COVID-19 last and the timing and nature of any economic recovery, the measurement of the allowance could fluctuate substantially in future periods. See also the discussion on loan modifications in note 4. The modifications principally related to temporary over advances or payment deferrals to accounts totalling \$25.6 million that were otherwise in good standing at September 30, 2020. Of these, \$16.7 million are guaranteed by Export Development Corporation under their Business Credit Availability Program, which guarantees up to 80% of the principal amount of a loan. The allowance for losses on the guarantee of managed receivables totalled \$1,850,000 at September 30, 2020 compared to \$44,000 at December 31, 2019 and \$76,000 at September 30, 2019. The significant increase in the allowance for losses on the guarantee of managed receivables at September 30, 2020 also resulted from the expected severe adverse economic impact of COVID-19 on the managed receivables, which are primarily due from retailers, a sector badly impacted by COVID-19. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first nine months of 2020 and 2019 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and supportable.

Assets held for sale totalled \$1,111,000 at September 30, 2020 compared to \$6,970,000 at December 31, 2019 and comprised certain assets securing defaulted equipment leases or loans that the Company repossessed or obtained title to. There were no assets held for sale at September 30, 2019. The decrease compared to December 31, 2019 resulted from asset disposals totalling \$6,619,000 and an impairment charge of \$897,000, discussed above, taken against certain of the assets disposed of as the net proceeds realized therefrom was below their carrying value by such an amount. Assets totalling \$1,195,000 were added to assets held for sale during the first nine months of 2020. There were also foreign exchange gains totalling \$462,000 on U.S. dollar denominated assets held for sale due to the stronger U.S. dollar at the time the majority of the assets were disposed of. Assets held for sale at September 30, 2020 are currently being actively marketed for sale and will be disposed of as market conditions permit. For further information see note 5 to the Statements.

Cash increased to \$11,335,000 at September 30, 2020 compared to \$6,766,000 at December 31, 2019 and \$4,717,000 at September 30, 2019. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. The increase in cash at September 30, 2020 was a temporary timing issue and excess cash was used to repay bank indebtedness in the first week of October 2020. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled \$3,504,000 at September 30, 2020 compared to \$3,639,000 at December 31, 2019 and \$3,780,000 at September 30, 2019. 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 8 to the Statements.

Goodwill totalled \$13,748,000 at September 30, 2020 compared to \$13,455,000 at December 31, 2019 and \$13,679,000 at September 30, 2019. 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 7 to the Statements for information regarding the Company's goodwill impairment reviews. As a result of the adverse economic impact of COVID-19 the Company conducted an impairment test at the end of the first quarter of 2020 and determined that the Company's goodwill was not impaired.

Other assets, income taxes receivable, net deferred tax assets, and property and equipment at September 30, 2020 and 2019 were not material.

Total liabilities decreased by \$23,230,000 to \$286,616,000 at September 30, 2020 compared to \$309,846,000 at December 31, 2019 and were \$25,246,000 lower than the \$311,862,000 at September 30, 2019. The decrease mainly resulted from lower bank indebtedness.

Amounts due to clients decreased by \$1,162,000 to \$1,242,000 at September 30, 2020 compared to \$2,404,000 at December 31, 2019 and were \$1,532,000 lower than the \$2,774,000 at September 30, 2019. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness decreased by \$34,435,000 to \$208,346,000 at September 30, 2020 compared to \$242,781,000 at December 31, 2019 and was \$33,322,000 lower than the \$241,668,000 at September 30, 2019. Bank indebtedness mainly decreased on lower funds employed. In July 2019, the Company's banking syndicate approved a \$75 million

increase in its bank credit facility raising the Company's credit limit to \$367 million. The Company was in compliance with all of its banking covenants at September 30, 2020 and 2019. Bank indebtedness principally fluctuates with the quantum of funds employed.

Loan payable increased by \$5,326,000 to \$16,553,000 at September 30, 2020 compared to \$11,227,000 at December 31, 2019 and was \$7,058,000 higher than the \$9,495,000 at September 30, 2019. A revolving line of credit totaling 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 was increased to US\$13,000,000 on March 31, 2020 and to US\$20,000,000 on October 6, 2020. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. The line was renewed in October 2020 and expires on May 31, 2022. BondIt was in compliance with all loan covenants at September 30, 2020. At September 30, 2019, BondIt failed a specific covenant test which the lender subsequently waived. See note 10 to the Statements.

Accounts payable and other liabilities increased by \$5,614,000 to \$11,784,000 at September 30, 2020 compared to \$6,170,000 at December 31, 2019 and were \$2,481,000 higher than the \$9,303,000 at September 30, 2019. The increase since December 31, 2019 mainly resulted from a \$2,344,000 rise in security deposits held as collateral for loans and a \$1,774,000 increase in the allowance for losses on the guarantee of managed receivables, a component of other liabilities, as discussed above.

Notes payable decreased by \$1,634,000 to \$17,305,000 at September 30, 2020 compared to \$18,939,000 at December 31, 2019 and were \$1,465,000 below the \$18,770,000 at September 30, 2019. The decrease in notes payable resulted from redemptions thereof. Please see Related Party Transactions section below and note 11 to the Statements.

Convertible debentures with a face value of \$18,400,000 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 the TSX 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. All 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 and the above noted discount, a total of \$23,781,000 was raised. Please see note 12 to the Statements, which details how the debt and equity components of the convertible debentures were allocated. At September 30, 2020, the debt component totalled \$23,809,000 (December 31, 2019 – \$22,928,000, September 30, 2019 – \$23,171,000), while the equity component, net of deferred taxes, totalled \$1,005,000 (being the same as at December 31, 2019 and September 30, 2019).

Income taxes payable, lease liabilities, deferred income and deferred tax liabilities at September 30, 2020 and 2019 and December 31, 2019 were not material.

Capital stock totalled \$9,448,000 at September 30, 2020 compared to \$9,481,000 at December 31, 2019 and \$8,275,000 at September 30, 2019. There were 8,558,913 common shares outstanding at September 30, 2020 (December 31, 2019 – 8,588,913, September 30, 2019 – 8,445,783). Please see the consolidated statements of changes in equity on page 3 of the Statements for details of changes in capital stock during the first nine months of 2020 and 2019. See also note 14 to the Statements. During the nine months ended September 30, 2020, the Company repurchased and cancelled 30,000 common shares acquired under its issuer bid at a cost of \$264,000, for an average price of \$8.80 per common share, which is below the Company's book value per common share of \$10.56 at September 30, 2020. There were no purchases under the issuer bid during 2019. See note 14(c) to the Statements. At the date of this MD&A, October 28, 2020, 8,558,913 common shares remained outstanding.

Contributed surplus totalled \$1,202,000 at September 30, 2020 compared to \$1,323,000 at December 31, 2019 and at September 30, 2019. The reduction of \$121,000 in contributed surplus in 2020 resulted from the purchase of 2% of the common units in CapX from a non-controlling interest therein bringing the Company's interest in CapX up to 92%. As noted above, included in contributed surplus at September 30, 2020 and 2019 and December 31, 2019 is the equity component of the convertible debentures issued which totalled \$1,005,000, net of deferred tax. Please see the consolidated statements of changes in equity on page 3 of the Statements for details of changes in contributed surplus during the first nine months of 2020 and 2019.

Retained earnings decreased by \$2,826,000 to \$72,168,000 at September 30, 2020 compared to \$74,994,000 at December 31, 2019 and were \$4,214,000 below the \$76,382,000 at September 30, 2019. The decrease in 2020 comprised the shareholders' net loss of \$968,000, dividends paid of \$1,627,000 (19 cents per common share) and the \$231,000 premium paid on the shares repurchased and cancelled under the Company's issuer bid. Please see the consolidated statements of changes in equity on page 3 of the Statements for changes in retained earnings during the first nine months of 2020 and 2019.

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 \$7,542,000 at September 30, 2020 compared to \$6,717,000 at December 31, 2019 and \$7,512,000 at September 30, 2019. Please refer to the consolidated statements of changes in equity on page 3 of the Statements for details of changes in AOCI during the first nine months of 2020 and 2019. See also note 17 to the Statements. The \$825,000 increase in AOCI balance in the first nine months of 2020 resulted from a rise in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar rose from \$1.2990 at December 31, 2019 to \$1.3319 at September 30, 2020. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries by \$825,000.

Non-controlling interests in subsidiaries totalled \$4,108,000 at September 30, 2020 compared with \$3,853,000 at December 31, 2019 and \$4,576,000 at September 30, 2019. Please see the consolidated statements of changes in equity on page 3 of the Statements, and note 18 thereto, for details thereof.

LIQUIDITY AND CAPITAL RESOURCES

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

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

<i>(as a percentage)</i>	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2019
Total equity / assets	25%	24%	24%
Tangible equity / assets	20%	20%	20%
Debt* / total equity	282%	307%	299%

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

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

The Company had credit lines totalling approximately \$384 million at September 30, 2020 and had borrowed \$225 million against these facilities. Funds generated through operating activities and the issuance of notes payable, convertible debentures or other forms of debt or equity decrease the usage of, and dependence on, these lines. Note 22(b) details the Company's financial assets and liabilities at September 30, 2020 by maturity date.

As noted in the Review of Financial Position section above, the Company had cash balances of \$11,335,000 at September 30, 2020 compared to \$6,776,000 at December 31, 2019. 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, issuer bid purchases, 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, 2020 compared with the nine months ended September 30, 2019

Cash inflow from net (loss) earnings before changes in operating assets and liabilities and income tax payments totalled \$933,000 in the first nine months of 2020 compared to

\$10,276,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash inflow from operating activities of \$44,603,000 in the first nine months of 2020 compared to a net cash outflow of \$44,015,000 last year. The net cash inflow in the current nine months largely resulted from repayment of gross loans of \$31,058,000 and the disposal of assets held for sale for proceeds of \$6,619,000. In the first nine months of 2019, the net cash outflow largely resulted from financing gross loans of \$51,612,000. 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 4 of the Statements.

Cash outflows from investing activities totalled \$43,000 (2019 – \$159,000) in the first nine months of 2020 and comprised capital asset additions.

Net cash outflow from financing activities totalled \$37,563,000 in the first nine months of 2020 compared to an inflow of \$32,928,000 last year. The net cash outflow in the current nine months resulted from a decrease in bank indebtedness of \$38,695,000, notes payable redeemed, net, totalling \$1,753,000, dividends paid of \$1,627,000, repurchase of shares under the normal course issuer bid totalling \$264,000, the purchase of an additional 2% interest in CapX from a non-controlling interest for \$181,000 and payment of lease liabilities of \$283,000. Partially offsetting these outflows was an increase in loan payable totalling \$5,240,000. In the first nine months of 2019, the net cash inflow resulted from an increase in bank indebtedness of \$23,497,000, increase 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 capital stock of \$160,000. Partly offsetting these inflows were dividend payments totalling \$2,279,000, lease liability payments of \$271,000 and a distribution paid to non-controlling interests of \$181,000.

The effect of exchange rate changes on cash comprised a loss of \$2,438,000 in the first nine months of 2020 compared to \$382,000 in the first nine months of 2019.

Overall, there was a net cash inflow of \$4,559,000 in the first nine months of 2020 compared to a net cash outflow of \$11,629,000 last year.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS AT SEPTEMBER 30, 2020

(in thousands)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	
Debt obligations	\$ 228,947	\$ 37,066	\$ —	\$ —	\$ 266,013
Operating lease obligations	513	696	184	138	1,531
Purchase obligations	58	40	—	—	98
	\$ 229,518	\$ 37,802	\$ 184	\$ 138	\$ 267,642

RELATED PARTY TRANSACTIONS

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. Notes payable comprise demand notes and short-term notes (all due on or before July 31, 2021). Notes payable comprise: (i) demand notes due on, or within a week of, demand (\$1,518,000), which bear interest at rates that vary with bank prime rate or Libor; (ii) short-term BondIt notes (\$2,530,000) which are repayable either on December 31, 2020 or January 31, 2021 and bear interest at rates ranging from 8.5% to 11%; and (iii) term notes totalling \$13,257,000 which mature on July 31, 2021 and pay a fixed interest rate of 7%.

Notes payable totalled \$17,305,000 at September 30, 2020 compared to \$18,939,000 at December 31, 2019 and \$18,770,000 at September 30, 2019. Of these notes payable, \$14,860,000 (December 31, 2019 – \$15,476,000, September 30, 2019 – \$15,977,000) was owing to related parties and \$2,445,000 (December 31, 2019 – \$3,463,000, September 30, 2019 – \$2,793,000) to third parties. Interest expense on these notes in the current quarter and first nine months of 2020 totalled \$300,000 (2019 – \$330,000) and \$921,000 (2019 – \$962,000), respectively. Please refer to note 11(a) to the Statements.

The following related parties had notes payable with the Company:

Short term demand notes payable	Relationship		
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C\$	\$ 150,000
Hitzig Bros., Hargreaves & Co. LLC.*	Directors	US\$	700,000
Ken Hitzig	Director	C\$	450,000
Term notes payable (due July 31, 2021)			
Hitzig Bros., Hargreaves & Co. Inc.*	Directors	C\$	\$ 4,350,000
Oakwest Corporation Inc.*	Director	C\$	3,000,000
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 1.95% or 2.45%) on its Canadian dollar unsecured demand notes payable, while its U.S. dollar unsecured demand notes pay a LIBOR based rate of interest (currently 2.25%). These rates of interest are below the rates that Accord pays on its main banking facility with The Bank of Nova Scotia ("BNS") resulting in interest savings to the Company.

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

FINANCIAL INSTRUMENTS

All financial assets and liabilities, with the exception of cash, lease liability, 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, 2020, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between November 30, 2020 and February 26, 2021 and which oblige the Company to sell Canadian dollars and buy US\$535,000 at exchange rates ranging from 1.3260 to 1.35930. These contracts were entered into by the Company on behalf of a client and similar forward exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US\$535,000 to the client. These contracts are discussed further in note 17 to the Statements.

CRITICAL ACCOUNTINGS POLICIES AND ESTIMATES

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

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

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

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

financial results. Management is not aware of any claims currently outstanding the aggregate liability from which would materially affect the financial position of the Company.

CONTROL ENVIRONMENT

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at September 30, 2020, management evaluated and concluded on the effective design of the Company's DC&P and ICFR and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's ICFR.

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

RISKS AND UNCERTAINTIES THAT COULD AFFECT FUTURE RESULTS

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 22 to the Statements, which discuss the Company's principal financial risk management practices.

Deterioration in economic and business conditions due to COVID-19

The results of the Company may be negatively impacted by various economic factors and business conditions including the level of economic activity in Canada and U.S.A. To the extent that economic activity or business conditions deteriorate, new business may decrease, and loan and credit losses may increase. As the Company's operating subsidiaries extend credit primarily to small businesses, many of our clients or their customers may be particularly susceptible to economic slowdowns and may be unable to make scheduled lease or loan payments during these periods. Deterioration in the economic environment may limit access to credit facilities, and other capital markets or result in a decision by lenders not to extend further credit.

Competition from alternative sources of financing

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects this level of competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current or future competitors. If the Company's competitors engage in aggressive pricing policies with

respect to services that compete with those of the Company's, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, some of the Company's competitors may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share. Further, because there are fewer barriers to entry to the markets in which the Company operates, new competitors could enter these markets at any time. Because of all these competitive factors, the Company may be unable to sustain its operations at its current levels or generate growth in revenues or operating income, either of which could have a material adverse impact on the Company's business, financial condition and results of operations.

Credit risk, inability to underwrite finance receivables and loan applications

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financings, designed to serve small- and medium-sized businesses, which are often owner-operated and have limited access to traditional financing. There is a high degree of risk associated with providing financing to such parties as a result of their lower creditworthiness. Even with an appropriately diversified lending business, operating results can be adversely affected by large bankruptcies and/or insolvencies. Losses from client loans in excess of the Company's expectations could have a material adverse impact on the Company's business, financial condition and results of operations. In addition, since defaulted loans as well as certain delinquent loans cannot be used as collateral under the Company's credit facilities, higher than anticipated defaults and delinquencies could adversely affect the Company's liquidity by reducing the amount of funding available to the Company under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could cause the Company to be in breach of its financial covenants under its credit facilities, and could also result in adverse changes to the terms of future financing arrangements available to the Company, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Interest rate risk

The Company has fixed rate borrowings, as well as floating rate borrowings. The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes. However, as the Company's floating rate funds employed are similar to its floating rate borrowings at September 30, 2020, the Company currently has minimal exposure 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 its business, financial condition and results of operations. Please also see comments regarding business conditions due to COVID-19 on page 19.

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

The Company operates mainly in Canada and the United States. The Company's operating results may be negatively affected by various economic factors and business conditions, including the level of economic activity in the markets in which it operates. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. As the Company extends credit primarily to small- and medium-sized businesses, many of its customers are particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavorable economic conditions may also make it more difficult for the Company to maintain new origination volumes and the credit quality of new loans at levels previously attained. Unfavorable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities and other capital markets funding sources or result in a decision by the Company's lenders not to extend further credit. Any of these events could have a material adverse impact on the Company's business, financial condition and results of operations. Please also see comments regarding business conditions due to COVID-19 on page 19.

Dependence on key personnel

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

Income tax matters

The income of the Company must be computed in accordance with Canadian, U.S. and foreign tax laws, as applicable, and the Company is subject to Canadian, U.S. and

foreign tax laws, all of which may be changed in a manner that could adversely affect the Company's business, financial condition or results of operation.

Recent and future acquisitions and investments

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

Fraud by lessees, borrowers, vendors or brokers

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

Risk of future legal proceedings

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

scale of potential judgments. Defending such a class action or other major litigation could be costly, divert management's attention and resources and have a material adverse impact on the Company's business, financial condition and results of operations.

OUTLOOK

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

The adverse economic conditions resulting from COVID-19 prevention measures in North America severely impacted the Company's funds employed and revenue, which have declined, as well as led to a significantly increased provision for losses, all of which have resulted in a first nine months loss. With this much economic uncertainty stemming from COVID-19, it is difficult to predict the future. All our operating companies were on an upward trajectory in terms of growth in funds employed, with the exception of our credit protection and receivables management business, which is facing intense competition from multinational credit insurers. Once COVID-19 passes, it is expected the Company will see strong growth in funds employed again from its equipment finance businesses, CapX and ASBF, as well as at its media finance business, BondIt, with more moderate growth coming from the Company's asset-based financing units, AFIC and AFIU. The receivables management business, AFL, is not expected to grow, however, its contribution is no longer financially significant to the Accord group overall.

To support this growth, the Company increased its bank facility limit to \$367 million in 2019, which should provide it with the majority of funding needed to support further growth in the next twelve months. Today, in the wake of COVID-19, our banking partners continue to be very supportive.

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

Stuart Adair
Senior Vice President, Chief Financial Officer
October 28, 2020