



ACCORD
FINANCIAL

Condensed Interim Unaudited Consolidated Financial Statements of

ACCORD FINANCIAL CORP.

Three and nine months ended September 30, 2020 and 2019

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

ACCORD FINANCIAL CORP.
Consolidated Statements of Financial Position (unaudited)

	September 30, 2020	December 31, 2019	September 30, 2019
Assets			
Cash	\$ 11,335,231	\$ 6,776,422	\$ 4,717,257
Finance receivables and loans, net (note 4)	341,250,848	368,637,083	380,908,627
Income tax receivable	3,358,531	996,039	860,827
Other assets	1,938,145	2,426,949	2,301,585
Assets held for sale (note 5)	1,110,984	6,970,369	—
Deferred tax assets, net	2,966,692	975,714	1,156,348
Property and equipment (note 6)	1,871,162	2,337,365	2,524,772
Intangible assets (note 8)	3,504,393	3,639,468	3,780,483
Goodwill (note 7)	13,748,021	13,454,926	13,678,534
	\$ 381,084,007	\$ 406,214,335	\$ 409,928,433
Liabilities			
Due to clients	\$ 1,241,632	\$ 2,403,717	\$ 2,773,763
Bank indebtedness (note 9)	208,345,811	242,781,300	241,668,297
Loan payable (note 10)	16,552,784	11,226,897	9,495,272
Accounts payable and other liabilities	11,784,195	6,170,491	9,302,945
Income tax payable	1,323,995	337,764	2,528,383
Notes payable (note 11(a))	17,305,451	18,938,887	18,770,295
Convertible debentures (note 12)	23,809,388	22,927,941	23,171,480
Lease liabilities (note 13)	1,338,692	1,597,664	1,725,193
Deferred income	1,045,235	1,210,471	1,519,077
Deferred tax liabilities, net	3,868,482	2,251,060	906,867
	286,615,665	309,846,192	311,861,572
Equity			
Capital stock (note 14)	9,448,264	9,481,382	8,275,074
Contributed surplus (note 14(d))	1,201,785	1,322,575	1,322,575
Retained earnings	72,168,359	74,994,381	76,381,673
Accumulated other comprehensive income (note 18)	7,541,854	6,716,581	7,512,000
Shareholders' equity	90,360,262	92,514,919	93,491,322
Non-controlling interest in subsidiaries (note 19)	4,108,080	3,853,224	4,575,539
Total equity	94,468,342	96,368,143	98,066,861
	\$ 381,084,007	\$ 406,214,335	\$ 409,928,433

ACCORD FINANCIAL CORP.

Consolidated Statements of Earnings (unaudited)

Three and nine months ended September 30, 2020 and 2019

	Three months		Nine months	
	2020	2019	2020	2019
Revenue				
Interest (note 4)	\$ 10,638,285	\$ 13,462,545	\$ 31,679,826	\$ 36,819,685
Other income (note 4)	1,674,149	1,836,639	3,917,908	5,058,725
	12,312,434	15,299,184	35,597,734	41,878,410
Operating expenses				
Interest	3,378,807	4,385,557	10,958,823	12,696,949
General and administrative	5,760,247	6,501,610	19,276,842	18,924,021
Provision for credit and loan losses (note 4)	3,039,945	718,893	8,907,192	1,011,065
Impairment of assets held for sale	—	—	897,277	—
Depreciation	179,591	183,662	542,093	543,587
Business acquisition expenses:				
Transaction costs	—	(627,757)	—	(434,331)
Amortization of intangible assets	74,266	73,986	224,498	226,146
	12,432,856	11,235,951	40,806,725	32,967,437
(Loss) earnings before income tax	(120,422)	4,063,233	(5,208,991)	8,910,973
Income tax (recovery) expense	(687,000)	1,079,000	(4,448,000)	2,267,000
Net earnings (loss)	566,578	2,984,233	(760,991)	6,643,973
Net earnings (loss) attributable to non-controlling interests in subsidiaries	427	(253,030)	206,629	(457,958)
Net earnings (loss) attributable to shareholders	\$ 566,151	\$ 3,237,263	\$ (967,620)	\$ 7,101,931
Basic and diluted earnings (loss) per common share (note 15)	\$ 0.07	\$ 0.34	\$ (0.11)	\$ 0.84

Consolidated Statements of Comprehensive Income (unaudited)

Three and nine months ended September 30, 2020 and 2019

	Three months		Nine months	
	2020	2019	2020	2019
Net earnings (loss) attributable to shareholders	\$ 566,151	\$ 3,237,263	\$ (967,620)	\$ 7,101,931
Other comprehensive (loss) income:				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange (loss) income on translation of self-sustaining foreign operations (note 18)	(567,607)	404,130	825,273	(1,559,661)
Comprehensive (loss) income	\$ (1,456)	\$ 3,641,393	\$ (142,347)	\$ 5,542,270

ACCORD FINANCIAL CORP.
Consolidated Statements of Changes in Equity (unaudited)

	Capital stock		Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries (note 20)	Total
	Number of common shares outstanding	Amount					
Balance at January 1, 2019	8,428,542	\$ 8,114,733	\$ 1,072,753	\$ 71,558,552	\$ 9,071,661	\$ 5,367,272	\$ 95,184,971
Comprehensive income	—	—	—	7,101,931	(1,559,661)	—	5,542,270
Common shares issued under long-term incentive plan	17,241	160,341	—	—	—	—	160,341
Equity component of convertible debentures issued, net of tax	—	—	249,822	—	—	—	249,822
Net (loss) attributable to non-controlling interests in subsidiaries	—	—	—	—	—	(457,958)	(457,958)
Dividends paid	—	—	—	(2,278,810)	—	—	(2,278,810)
Distribution to non-controlling interests	—	—	—	—	—	(181,213)	(181,213)
Translation adjustment on non-controlling interests	—	—	—	—	—	(152,562)	(152,562)
Balance at September 30, 2019	8,445,783	\$ 8,275,074	\$ 1,322,575	\$ 76,381,673	\$ 7,512,000	\$ 4,575,539	\$ 98,066,861
Balance at January 1, 2020	8,588,913	\$ 9,481,382	\$ 1,322,575	\$ 74,994,381	\$ 6,716,581	\$ 3,853,224	\$ 96,368,143
Comprehensive income (loss)	—	—	—	(967,620)	825,273	—	(142,347)
Dividends paid	—	—	—	(1,627,471)	—	—	(1,627,471)
Shares repurchased for cancellation	(30,000)	(33,118)	—	(230,931)	—	—	(264,049)
Purchase of additional 2% of Accord CapX LLC from non-controlling interest	—	—	(120,790)	—	—	—	(120,790)
Net earnings attributable to non-controlling interests in subsidiaries	—	—	—	—	—	206,629	206,629
Translation adjustment on non-controlling interests	—	—	—	—	—	48,227	48,227
Balance at September 30, 2020	8,558,913	\$ 9,448,264	\$ 1,201,785	\$ 72,168,359	\$ 7,541,854	\$ 4,108,080	\$ 94,468,342

ACCORD FINANCIAL CORP.
Consolidated Statements of Cash Flows (unaudited)
Nine months ended September 30

	2020	2019
Cash provided by (used in):		
Operating activities:		
Net (loss) earnings	\$ (760,991)	\$ 6,643,973
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	4,000,205	291,579
Deferred income	45,756	(11,062)
Amortization of intangible assets	224,498	226,146
Depreciation of property and equipment	542,093	543,587
Gain on disposal of assets held for sale	—	(39,793)
Impairment of assets held for sale	897,277	—
Accretion of convertible debentures	432,572	355,009
Deferred tax (recovery) expense	(343,702)	254,809
Current income tax (recovery) expense	(4,104,298)	2,012,191
	933,410	10,276,439
Change in operating assets and liabilities:		
Finance receivables and loans, gross	31,058,383	(51,611,540)
Due to clients	(1,190,745)	(366,101)
Other assets	498,394	(1,191,316)
Accounts payable and other liabilities	3,984,635	(1,147,596)
Proceeds on disposal of assets held for sale	6,619,472	86,675
Income tax refund (paid), net	2,699,254	(61,545)
	44,602,803	(44,014,984)
Investing activities:		
Additions to capital assets, net	(43,192)	(159,045)
Financing activities:		
Bank indebtedness	(38,694,631)	23,496,311
Loan payable	5,240,074	3,978,876
Notes payable (redeemed) issued, net	(1,753,296)	796,158
Issuance of shares	—	160,341
Dividends paid	(1,627,471)	(2,278,810)
Repurchase and cancellation of shares	(264,049)	—
Purchase of 2% of Accord CapX LLC from a non-controlling interest	(181,389)	—
Convertible debentures issued	—	7,226,800
Distribution to non-controlling interests in subsidiaries	—	(181,213)
Lease liabilities	(282,432)	(270,795)
	(37,563,194)	32,927,668
Effect of exchange rate changes on cash	(2,437,608)	(382,230)
Increase (decrease) in cash	4,558,809	(11,628,591)
Cash at January 1	6,776,422	16,345,848
Cash at September 30	\$ 11,335,231	\$ 4,717,257
Supplemental cash flow information:		
Net cash used in operating activities includes:		
Interest paid	\$ 7,623,541	\$ 10,600,698

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

1. Description of the business

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

2. Basis of presentation and statement of compliance

These condensed interim unaudited consolidated financial statements ("Statements") are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2020, the more significant of which are detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2019.

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

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The rapid evolution of this pandemic combined with the restrictions on the movement of people and goods has led to a significant contraction in economic activity. While some of these restrictions are being lifted in stages, significant economic uncertainties persist the expected impact of which require increased judgment for many of the Company's estimates and

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

assumptions and carry a higher degree of measurement uncertainty, variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future. Examples of significant estimates include the allowances for losses, the determination of triggering events for impairment for non-financial assets, such as goodwill and intangible assets, and fair value measurements, including those related to financial instruments. Management believes that its estimates are reasonable, supportable and appropriate.

The condensed interim unaudited consolidated financial statements of the Company have been prepared on an historical cost basis except for the following items which are recorded at fair value:

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

* a component of accounts payable and other liabilities.

These condensed interim unaudited consolidated financial statements for the three and nine months ended September 30, 2020 were approved for issue by the Company's Board of Directors ("Board") on October 28, 2020.

3. Significant accounting policies

a) Basis of consolidation

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

b) Revenue recognition

Revenue principally comprises interest, including discount fees, factoring commissions and other fees from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. Interest charged on finance receivables and loans is recognized as revenue using the effective interest rate method. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. For managed receivables, factoring commissions are charged

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

upfront and a certain portion is deferred and recognized over the period that costs are incurred collecting the receivables. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of ASBF and Accord CapX LLC ("CapX"), a subsidiary of AFIU, are considered an integral part of the yield earned on the debtor balance and are accounted for using the effective interest rate method. Other revenue, such as management fees, due diligence fees, documentation fees, commitment fees and service fees, is recognized as revenue when earned.

c) Finance receivables and loans

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

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

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

d) Allowance for losses

The Company maintains allowances for losses on its finance receivables and loans and its guarantee of managed receivables pursuant to the provisions of IFRS 9, Financial Instruments, under which allowances for expected credit losses ("ECL") are

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

The Company's ECL allowances are measured at amounts equal to either: (i) 12-month ECL (also referred to as Stage 1 ECL) which comprises an allowance for all non-impaired financial instruments which have not experienced a significant increase in credit risk ("SICR") since initial recognition. Stage 1 ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the twelve-month period after the reporting date; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises allowances for those financial instruments which have experienced a SICR since initial recognition. Significant judgment is required in the application of SICR. The Company recognizes lifetime ECL for Stage 2 financial instruments compared to twelve months of ECL for Stage 1 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then the Company will revert back to recognizing twelve months of ECL as the financial instrument has migrated back to Stage 1.

The calculation of ECL is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Company expects to receive. The key inputs in the measurement of ECL allowances are as follows: (i) the probability of default (PD) which is an estimate of the likelihood of default over a given time horizon; (ii) the loss given default (LGD) which is an estimate of the loss arising in the case where a default occurs at a given time; and (iii) the exposure at default (EAD) which is an estimate of the exposure at a future default date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Stage 3 financial instruments are those that the Company has classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. For Stage 3 finance receivables and loans, either an allowance for ECL is provided thereon or, where the Company intends to or has actively taken possession of its collateral with a view to realizing on same as a means of recovering some or all of the outstanding account balance, the financial instrument is written down to its estimated net recoverable value, or in respect of the Company's managed receivables, an amount is accrued for the expected payment to client(s) under its guarantee. The Company classifies a financial instrument as impaired when

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

the future cash flows of the financial instrument could be adversely impacted by events after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. The Company also refers to these accounts as "workout" accounts. Accounts are in "workout" as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated and could include significant financial difficulty of the borrower, default or delinquency in interest or principal payments, a high probability of the borrower entering a phase of bankruptcy or a financial reorganization, or a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan. A financial instrument is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied. Financial instruments are written-off, either partially or in full, against the related allowance for losses when we judge that there is no realistic prospect of future recovery in respect of those amounts after the collateral has been realized or transferred at net realizable value. Any subsequent recoveries of amounts previously written-off are credited to the respective allowance for losses.

e) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash generating unit ("CGU"). Goodwill is also tested for impairment between annual assessments when facts and other circumstances indicate that impairment may have occurred. If the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

f) Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be reliably determined. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets, with the exception of the acquired brand name which is considered to have an indefinite life and is not amortized, have a finite life and are amortized over their useful economic life. Intangible assets are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer relationships, broker relationships and brand name in its leasing operations. With the exception of the brand name, these are amortized over a period of five to fifteen years.

g) Foreign subsidiaries

The Company's foreign subsidiaries report in U.S. dollars and their assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at the period end. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive income or loss and presented in the accumulated other comprehensive income or loss component of equity.

h) Stock-based compensation

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

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

i) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, and the guarantee of managed receivables which are all recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date. The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the consolidated statements of

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

j) Convertible debentures

Convertible debentures include both a debt and equity component due to the embedded financial derivative associated with the conversion option. The debt component of the debenture is initially recognized at fair value determined by discounting the future principal and interest payments at the rate of interest prevailing on the issue date for similar non-convertible debt instruments. The equity component of the convertible debenture is initially determined as the difference between the gross proceeds of the debenture issue and the debt component, net of any deferred tax liability that arises from the temporary difference between the carrying value of the debt and its tax basis. The equity component is included in contributed surplus within total equity. Directly attributable transaction costs related to the issuance of convertible debentures are allocated to the debt and equity components on a pro-rata basis, reducing their fair value at the time of initial recognition.

k) Assets held for sale

Assets acquired or repossessed on realizing security on defaulted finance receivables and loans are held for sale and are stated at the lower of cost or recoverable amount (also referred to as "net realizable value").

4. Finance receivables and loans and managed receivables

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

a) Finance receivables and loans

	September 30, 2020	December 31, 2019	September 30, 2019
Receivables loans	\$ 89,224,109	\$ 103,841,877	\$ 118,200,428
Other loans*	144,658,092	167,978,086	179,354,552
Lease receivables	114,056,647	101,337,120	87,029,647
Finance receivables and loans, gross	347,938,848	337,157,083	384,584,627
Less allowance for losses	6,688,000	4,520,000	3,676,000
Finance receivables and loans, net	\$ 341,250,848	\$ 368,637,083	\$ 380,908,627

* other loans primarily comprise inventory and equipment loans.

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

The Company's finance receivables and loans are generally collateralized by a first charge on substantially all of the borrowers' assets or are leased assets or factored receivables which the Company owns. Collateral securing the Company's finance receivables and loans primarily comprises receivables, inventory and equipment, as well as, from time to time, other assets such as real estate and guarantees.

Lease receivables comprise the net investment in leases by ASBF and CapX as described in note 3(c). Lease receivables at September 30, 2020 are expected to be collected over a period of up to five years.

In certain cases where a borrower has experienced financial difficulty due to the economic impact of COVID-19, the Company has granted certain modifications to the terms and conditions of a lease or loan. Such modifications may include temporary over advances, payment deferrals, minor extensions of amortization periods, and other modifications intended to minimize credit and loan losses where it is expected the lifetime risk of default of a client is not significant. Finance receivables and loans that were modified as a direct result of COVID-19 at September 30, 2020 totalled \$25.6 million.

Interest income earned on finance receivables and loans during the quarter ended September 30, 2020 totalled \$10,638,285 (2019 – \$13,462,545), while interest income earned on finance receivables and loans during the nine months ended September 30, 2020 totalled \$31,679,826 (2019 – \$36,819,685).

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Less than 1 year	\$ 196,512	\$ 201,259	\$ 249,798
1 to 2 years	87,314	54,357	66,953
2 to 3 years	48,188	44,838	42,795
3 to 4 years	12,457	57,631	21,792
4 to 5 years	3,468	15,071	3,243
Thereafter	—	1	4
	\$ 347,939	\$ 373,157	\$ 384,585

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Current	\$ 333,977	\$ 358,592	\$ 365,588
Past due but not impaired:			
Past due less than 90 days	3,354	1,162	4,832
Past due 90 to 180 days	1,154	3,949	2,166
Past due 180 days or more	3,015	2,684	3,071
Impaired loans	6,439	6,770	8,928
	\$ 347,939	\$ 373,157	\$ 384,585

The past due finance receivables and loans, especially those past due over 90 days, do not necessarily represent a SICR, which is based on the lifetime risk of default of an account, or an impairment, which may be rebutted where payments are

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

delayed for non-credit related reasons, such as specific industry related reasons or practices as we often see across certain of the Company's lines of business.

At September 30, 2020, the estimated net realizable value of the collateral securing the Company's impaired loans totalled \$6,845,000.

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

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

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

High risk: finance receivables and loans within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average expected credit loss. Typically, these finance receivables and loans are expected to represent a small percentage of the Company's total finance receivables and loans. However, due to the severe adverse economic impact of COVID-19, high risk loans are higher than normally anticipated at September 30, 2020.

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

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Low risk	\$ 92,610	\$ 139,684	\$ 115,539
Medium risk	193,953	180,670	237,313
High risk	54,937	46,033	22,805
Impaired	6,439	6,770	8,928
	\$ 347,939	\$ 373,157	\$ 384,585

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Stage 1	\$ 326,047	\$ 341,093	\$ 372,565
Stage 2 (SICR)	15,453	25,294	3,092
Stage 3 (Impaired)	6,439	6,770	8,928
	\$ 347,939	\$ 373,157	\$ 384,585

Stage 1 finance receivables and loans comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 finance receivables and loans comprise those accounts that have experienced a SICR since initial recognition, while Stage 3 finance receivables and loans comprise those accounts which are impaired.

The activity in the allowance for losses on finance receivables and loans account during the first nine months of 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	\$ 4,520,000	\$ 3,450,000
Provision for loan losses	5,038,947	944,956
Write-offs	(6,388,926)	(1,070,942)
Recoveries	3,544,185	415,563
Foreign exchange adjustment	(26,206)	(63,577)
Allowance for losses at September 30	\$ 6,688,000	\$ 3,676,000

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

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	\$ 2,911,016	\$ 1,608,984	\$ —	\$ 4,520,000
Transfer between stages	(188,582)	(955,119)	1,143,701	—
Reserves expense (recovery)* related to change in allowance for losses	2,482,848	855,059	(1,143,701)	2,194,206
Foreign exchange adjustment	(18,370)	(7,836)	—	(26,206)
Allowance for losses at September 30, 2020	\$ 5,186,912	\$ 1,501,088	\$ —	\$ 6,688,000

* a component of the provision for loan losses

The activity in the allowance for losses on finance receivables and loans during the first nine months of 2019 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2019	\$ 2,669,024	\$ 780,976	\$ —	\$ 3,450,000
Transfer between stages	(5,514)	5,514	—	—
Reserves expense (recovery)* related to change in allowance for losses	489,302	(199,725)	—	289,577
Foreign exchange adjustment	(44,694)	(18,883)	—	(63,577)
Allowance for losses at September 30, 2019	\$ 3,108,118	\$ 567,882	\$ —	\$ 3,676,000

* a component of the provision for loan losses

There was no Stage 3 allowance for losses at September 30, 2020 and 2019 as the majority of the impaired finance receivables and loans were in respect of accounts where the Company intends to or has actively taken possession of its collateral and

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

is currently or will be liquidating same as a means of recovering some or all of the outstanding account balance. In such cases, the value of the loans have been written down to the present value of their estimated net recoverable amounts and any allowance for losses thereon reversed. There was one account in Stage 3 at September 30, 2020 (2019 – none) where the Company was not currently contemplating realizing on its collateral, however, no allowance for losses was required thereon as its net recoverable amount exceeded the loan balance.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted on terms that are usual and customary to the Company's asset-based lending activities. The Company controls the credit risk associated with its finance receivables and loans, and managed receivables as discussed below, in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 22(a).

At September 30, 2020, the Company held cash collateral of \$5,080,796 (2019 – \$2,736,397) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

b) Managed receivables

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At September 30, 2020, the gross amount of these managed receivables was \$28,950,750 (December 31, 2019 – \$27,338,317, September 30, 2019 – \$49,405,364). Fees from the Company's receivables management and credit protection business during the three and nine months ended September 30, 2020 totalled \$409,893 (2019 – \$746,323) and \$1,064,672 (2019 – \$1,770,712), respectively. This is included in other income.

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Current	\$ 22,504	\$ 19,537	\$ 36,809
Past due but not impaired:			
Past due less than 90 days	4,450	7,387	12,160
Past due more than 90 days	599	414	436
Impaired	1,398	—	—
	<u>\$ 28,951</u>	<u>\$ 27,338</u>	<u>\$ 49,405</u>

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

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Low risk	\$ 6,355	\$ 4,059	\$ 6,437
Medium risk	14,368	21,910	42,113
High risk	6,830	1,369	855
Impaired	1,398	—	—
	\$ 28,951	\$ 27,338	\$ 49,405

As noted above, the increase in high risk rated managed receivables directly results from the adverse economic impact of COVID-19 and the Company's exposure to the retail industry which has been significantly impacted by COVID-19 prevention measures.

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

(in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Stage 1	\$ 20,723	\$ 27,162	\$ 48,912
Stage 2 (SICR)	6,830	176	493
Stage 3 (Impaired)	1,398	—	—
	\$ 28,951	\$ 27,338	\$ 49,405

Stage 1 managed receivables comprise those accounts in good standing where there has been no SICR since initial recognition. Stage 2 managed receivables comprise those accounts that have experienced a SICR since initial recognition. Stage 3 (impaired) managed receivables at the above dates comprise those accounts where a client's customer is insolvent and it has a claim for payment under the Company's guarantees. In such cases, an actual liability is accrued in respect of the claim and is included in accounts payable and other liabilities.

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

The activity in the allowance for losses on the guarantee of managed receivables account during the nine months ended September 30, 2020 and 2019 was as follows:

	2020	2019
Allowance for losses at January 1	\$ 44,000	\$ 74,000
Provision for loan losses	3,868,245	66,109
Write-offs	(2,071,535)	(77,444)
Recoveries	9,290	13,335
Allowance for losses at September 30	\$ 1,850,000	\$ 76,000

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

The substantial increase in allowance for losses on the guarantee of managed receivables is reflective of the increase in Stage 2 (SICR) managed receivables at September 30, 2020.

The activity in the allowance for losses on the guarantee of managed receivables during the nine months ended September 30, 2020 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2020	\$ 40,480	\$ 3,520	\$ —	\$ 44,000
Transfer between stages	(10,949)	9,922	1,027	—
Reserves expense (recovery)* related to change in allowance for losses	114,469	1,692,558	(1,027)	1,806,000
Allowance for losses at September 30, 2020	\$ 144,000	\$ 1,706,000	\$ —	\$ 1,850,000

* a component of the provision for loan losses

The activity in the allowance for losses on the guarantee of managed receivables during the nine months ended September 30, 2019 by stage of allowance was as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for losses at January 1, 2019	\$ 31,943	\$ 42,057	\$ —	\$ 74,000
Transfer between stages	—	—	—	—
Reserves expense (recovery)* related to change in allowance for losses	11,862	(9,862)	—	2,000
Allowance for losses at September 30, 2019	\$ 43,805	\$ 32,195	\$ —	\$ 76,000

* a component of the provision for loan losses

There were no transfers between the three stages of the allowance for losses on the guarantee of managed receivables during the first nine months of 2019.

There is no Stage 3 allowance for impaired managed receivables as an actual liability is accrued in respect of the guarantees given to clients on the impaired accounts which is included in accounts payable and other liabilities.

5. Assets held for sale

Assets held for sale and movements therein during the first nine months of 2020 and 2019 were as follows:

	2020	2019
Assets held for sale at January 1	\$ 6,970,369	\$ 46,882
Additions	1,195,299	—
Disposals	(6,619,472)	—
Impairment charge	(897,277)	(46,882)
Foreign exchange adjustment	462,065	—
Assets held for sale at September 30	\$ 1,110,984	\$ —

During 2019 and 2020, the Company obtained title to or repossessed certain long-lived assets securing defaulted finance receivables and loans from a number of clients. The majority of these assets have now been disposed of by auction, while the remainder will be disposed of as market conditions permit. The estimated net

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

realizable value (being fair value less costs to sell) of the assets at September 30, 2020 was based upon appraisals of the assets and totalled \$1,217,000. During the nine months ended September 30, 2020, assets were disposed of for net proceeds of \$6,619,472 and an impairment charge of \$897,277 was booked against these assets.

6. Property and equipment

Property and equipment includes the Company's right-of-use assets, comprising four office leases. The Company's right-of-use assets and movements therein during the first nine months of 2020 and 2019 were as follows:

(in thousands)	2020	2019
Right-of-use assets at January 1	\$ 1,544	\$ 2,027
Depreciation expense	(331)	(328)
Foreign exchange adjustment	23	(31)
Right-of-use assets at September 30	\$ 1,236	\$ 1,668

Property and equipment at September 30, 2020 also includes capital assets, net of accumulated depreciation, totalling \$634,947 (December 31, 2019 - \$793,026, September 30, 2019 - \$856,284).

7. Goodwill

	2020	2019
Goodwill at January 1	\$ 13,454,926	\$ 14,031,320
Foreign exchange adjustment	293,095	(352,786)
Goodwill at September 30	\$ 13,748,021	\$ 13,678,534

At September 30, 2020 and 2019, goodwill of US\$8,908,713 was carried in AFIU, the Company's U.S. subsidiary. A foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at a different prevailing period end exchange rate.

Goodwill was allocated to the following cash generating units ("CGUs") at September 30, 2020 and 2019:

	2020	2019
U.S. operations	\$ 11,865,514	\$ 11,796,027
Canadian operations	1,882,507	1,882,507
Balance at September 30	\$ 13,748,021	\$ 13,678,534

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2019, the Company conducted annual impairment reviews on each CGU and determined that there was no impairment to the carrying value of goodwill. As a result of the adverse economic impact of COVID-19, the Company also conducted impairment reviews on its CGUs at March 31, 2020 and determined that the Company's goodwill was not impaired.

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

8. Intangible assets

Intangible assets and movements therein during the first nine months of 2020 were as follows:

2020	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost					
January 1, 2020	\$ 1,179,097	\$ 1,978,377	\$ 1,343,938	\$ 1,769,238	\$ 6,270,650
Foreign exchange adjustment	—	50,107	—	44,810	94,917
September 30, 2020	\$ 1,179,097	\$ 2,028,484	\$ 1,343,938	\$ 1,814,048	\$ 6,365,567
Accumulated amortization					
January 1, 2020	\$ (1,179,097)	\$ (283,239)	\$ (1,168,846)	\$ —	\$ (2,631,182)
Amortization expense	—	(103,271)	(121,227)	—	(224,498)
Foreign exchange adjustment	—	(5,494)	—	—	(5,494)
September 30, 2020	\$ (1,179,097)	\$ (392,004)	\$ (1,290,073)	\$ —	\$ (2,861,174)
Book value					
January 1, 2020	\$ —	\$ 1,695,138	\$ 175,092	\$ 1,769,238	\$ 3,639,468
September 30, 2020	\$ —	\$ 1,636,480	\$ 53,865	\$ 1,814,048	\$ 3,504,393

Intangible asset movements during the first nine months of 2019 were as follows:

2019	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost					
January 1, 2019	\$ 1,179,097	\$ 2,076,915	\$ 1,343,938	\$ 1,857,359	\$ 6,457,309
Foreign exchange adjustment	—	(60,311)	—	(53,935)	(114,246)
September 30, 2019	\$ 1,179,097	\$ 2,016,604	\$ 1,343,938	\$ 1,803,424	\$ 6,343,063
Accumulated amortization					
January 1, 2019	\$ (1,179,097)	\$ (158,658)	\$ (1,003,668)	\$ —	(2,341,423)
Amortization expense	—	(101,377)	(124,769)	—	(226,146)
Foreign exchange adjustment	—	4,989	—	—	4,989
September 30, 2019	\$ (1,179,097)	\$ (255,046)	\$ (1,128,437)	\$ —	\$ (2,562,580)
Book value					
January 1, 2019	\$ —	\$ 1,918,257	\$ 340,270	\$ 1,857,359	\$ 4,115,886
September 30, 2019	\$ —	\$ 1,761,558	\$ 215,501	\$ 1,803,424	\$ 3,780,483

9. Bank indebtedness

A revolving line of credit totalling approximately \$367 million has been established with a syndicate of six banks, bearing interest varying with the bank prime rate or Libor. The line is collateralized primarily by the Company's finance receivables and loans. At September 30, 2020, the amount outstanding under the line of credit totalled \$208,345,811 (December 31, 2019 – \$242,781,300, September 30, 2019 – \$241,668,297). The Company was in compliance with all loan covenants under its bank line of credit during the first nine months of 2020 and 2019.

10. Loan payable

A revolving line of credit totalling US\$10,000,000 (C\$13,319,000) was established by BondIt Media Capital ("BondIt"), a subsidiary of AFIU, in April 2018 with a non-bank

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

lender, bearing interest varying with the U.S. base rate. This line, which is collateralized by all of BondIt's assets, was renewed in 2019 and expires on May 31, 2022. On March 31, 2020, this line was increased to US\$13,000,000 (\$17,314,700). At September 30, 2020, the amount outstanding under this line of credit totalled \$16,552,784 (December 31, 2019 – \$11,226,897, September 30, 2019 – \$9,495,272). BondIt was in compliance with all loan covenants under this facility at September 30, 2020, while at September 30, 2019 BondIt failed a specific covenant test, which the lender subsequently waived. On October 6, 2020, this line was further increased to US\$20,000,000.

11. Related parties

a) Notes payable

Notes payable comprise: (i) unsecured demand notes (due on, or within a week of, demand (\$1,518,062); (ii) numerous BondIt notes (\$2,530,610), which are repayable on various dates the latest of which is January 31, 2021; and (iii) term notes which mature on July 31, 2021 (\$13,256,799). Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties.

Notes payable were as follows:

	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2019
Short-term notes (due within one year):			
Related parties	\$ 14,859,679	\$ 3,326,849	\$ 3,803,211
Third parties	2,445,772	3,463,038	2,792,984
	17,305,451	6,789,887	6,596,195
Long-term notes (due after one year):			
Related parties	—	12,149,000	12,174,100
	\$ 17,305,451	\$ 18,938,887	\$ 18,770,295

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

Interest expense on the notes payable for the three and nine months ending September 30, 2020 and 2019 was as follows:

	Three months		Nine months	
	2020	2019	2020	2019
Related parties	\$ 256,331	\$ 278,581	\$ 769,530	\$ 813,025
Third parties	44,098	51,454	151,943	148,698
	\$ 300,429	\$ 330,035	\$ 921,473	\$ 961,723

b) BondIt participations

BondIt utilizes loan participations to provide capital for and reduce the risk of loss on certain client loans, as well as reduce its overall cost of capital. A number of related parties have participated in the BondIt client loans. At September 30, 2020, participations in BondIt client loans totalled US\$9,444,000 (December 31, 2019 –

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

US\$6,101,000, September 30, 2019 – US\$5,095,000), of which US\$1,970,000 (December 31, 2019 – US\$990,000, September 30, 2019 – US\$1,837,000) was provided by related parties. These participations are not included in the consolidated statements of financial position.

12. Convertible debentures

In December 2018, the Company issued 18,400 7.0% convertible unsecured debentures with a face value of \$1,000 each for proceeds of \$18,400,000. On January 17, 2019, the underwriters of the debenture issue exercised their overallotment option and a further 1,090 convertible debentures were issued for proceeds 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 debentures issued to \$20,650,000, which is the maximum issuable under the debenture trust indenture. The debentures issued on July 23, 2019 were issued at a \$23,200 discount to face value. These 20,650 debentures are listed on the Toronto Stock Exchange. On September 13, 2019, the Company issued 5,000 7.0% unlisted convertible unsecured debentures with a face value of \$1,000 each for proceeds of \$5,000,000. Interest on all the convertible debentures is payable semi-annually on June 30 and December 31 each year. The debentures mature on December 31, 2023 and are convertible at the option of the holder into common shares of the Company at a conversion price of \$13.50 per common share.

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

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

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

The allocation of the gross proceeds from the convertible debentures issuances and the balances outstanding on the debt and equity components at September 30, 2020 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	\$ 24,152,897	\$ 1,473,903	\$ 25,626,800
Transaction costs	(1,739,323)	(106,414)	(1,845,737)
Net proceeds	22,413,574	1,367,489	23,781,063
Deferred taxes	—	(362,384)	(362,384)
Accretion in carrying value of debenture liability	946,939	—	946,939
Accrued interest	448,875	—	448,875
	\$ 23,809,388	\$ 1,005,105	\$ 24,814,493

The allocation of the gross proceeds from the convertible debentures issuances and the balances outstanding on the debt and equity components at September 30, 2019 were as follows:

	Liability component of debentures	Equity component of debentures	Total
Debentures issued	\$ 24,152,897	\$ 1,473,903	\$ 25,626,800
Transaction costs	(1,739,324)	(106,414)	(1,845,738)
Net proceeds	22,413,573	1,367,489	23,781,062
Deferred taxes	—	(362,384)	(362,384)
Accretion in carrying value of debenture liability	379,031	—	379,031
Accrued interest	378,875	—	378,875
	\$ 23,171,479	\$ 1,005,105	\$ 24,176,584

At September 30, 2020 all debentures remained outstanding.

13. Lease liabilities

The following table presents the contractual undiscounted cash flows for office lease obligations at September 30:

(in thousands)	2020	2019
Less than one year	\$ 513	\$ 498
One to five years	880	1,297
Thereafter	138	230
Total undiscounted lease obligations	1,531	2,025
Less: short-term lease commitments elected for exemption under IFRS 16	(15)	(33)
Less: future interest	(177)	(267)
Lease liabilities at September 30	\$ 1,339	\$ 1,725

For the three months ended September 30, 2020, principal and interest payments for the four leases recognized as right-of-use assets under IFRS 16 totalled \$93,645 and \$21,715, respectively, for total lease payments of \$115,360. For the nine months ended September 30, 2020, principal and interest payments for the four leases totalled \$282,432 and \$85,028, respectively, for total lease payments of \$367,460. No variable lease payments are included in the measurement of the Company's lease liabilities.

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At September 30, 2020 and 2019, there were no first preferred shares outstanding.

b) Issued and outstanding

The Company's issued and outstanding common shares during the first nine months of 2020 and 2019 are set out in the consolidated statements of changes in equity.

c) Share repurchase program

On December 4, 2019, the Company received approval from the TSX to commence a normal course issuer bid (the "2019 Bid") for up to 429,445 of its common shares at prevailing market prices on the TSX. The 2019 Bid commenced on December 9, 2019 and will terminate on December 8, 2020 or the date on which a total of 429,445 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2019 Bid will be cancelled. During the nine months ended September 30, 2020, the Company had repurchased and cancelled 30,000 common shares acquired under the 2019 Bid at an average price of \$8.80 per common share for a total consideration of \$264,049. This amount was applied to reduce share capital by \$33,118 and retained earnings by \$230,931. The Company did not have a normal course issuer bid in process during the nine months ended September 30, 2019.

d) Contributed surplus

The Company's contributed surplus and movements therein during the first nine months of 2020 and 2019 are set out in the consolidated statements of changes in equity.

e) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three and nine months ended September 30, 2020, dividends totalling \$427,945 (2019 – \$760,120) and \$1,627,471 (2019 – \$2,278,810) or \$0.05 (2019 – \$0.09) and \$0.19 (2019 – \$0.27), respectively, per common share were declared and paid.

On October 28, 2020, the Company declared a quarterly dividend of \$0.05 per common share, payable December 1, 2020 to shareholders of record at the close of business on November 13, 2020.

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

f) Stock option plans

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

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

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

The outstanding number of options granted under the NEDSOP were as follows:

Exercise price	Grant date	Expiry date	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2019
\$9.56	Oct. 28, 2015	Oct. 27, 2020	60,000	80,000	80,000
\$9.28	July 27, 2016	July 26, 2021	60,000	80,000	80,000
Outstanding, earned and exercisable			120,000	160,000	160,000

A director who did not stand for re-election on May 6, 2020, did not exercise his options within the required sixty-day period after he ceased to be director. Accordingly, his 40,000 options expired on July 5, 2020.

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

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

g) Senior executive long-term incentive plan

Under the LTIP, which was introduced in 2015, grants may be made annually to the Company's senior executive management group and are measured and assessed over a three-year performance period. Grants are determined as a percentage of the participants' short-term annual bonus subject to an annual LTIP pool maximum of 5% of adjusted net earnings. Vesting of the LTIP is subject to achievement over a three-year period of a cumulative adjusted return on average equity and may be

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

adjusted up or down subject to achievement of certain minimum and maximum return thresholds. The Compensation Committee of the Board has the discretion to determine whether payments are settled through the issuance of shares and/or paid in cash.

h) Stock-based compensation

During the three and nine months ended September 30, 2020, the Company had no stock-based compensation expense. During the three and nine months ended September 30, 2019, the Company recorded a stock-based compensation expense of \$64,000 and \$178,000, respectively, all of which related to LTIP awards.

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

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

The following table provides a reconciliation of common shares used in the calculation of basic and diluted earnings per share for the three and nine months ended September 30:

	Three months		Nine months	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Basic weighted average number of common shares outstanding	8,558,913	8,445,783	8,563,013	8,438,120
Effect of dilutive stock options	—	—	—	4,339
Diluted weighted average number of common shares outstanding	8,558,913	8,445,783	8,563,013	8,442,459

All outstanding stock options were excluded from the calculation of the diluted weighted number of shares outstanding for the three and nine months ended September 30, 2020 and the three months ended September 30, 2019 because they were considered to be anti-dilutive for earnings per common share purposes. Details of stock options outstanding are set out in note 14(f). All convertible debentures were similarly excluded from the calculation for the three and nine months ended September 30, 2020 and 2019 because they were anti-dilutive for earnings per common share purposes.

16. Contingent liabilities

a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters, represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At September 30, 2020 and 2019, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company, and thus had not accrued a loss.

- b) At September 30, 2020, there were no letters of credit issued on behalf of clients for which the Company was contingently liable (December 31, 2019 – \$220,830; September 30, 2019 – \$225,097). The Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of \$679,269 at September 30, 2020 (December 31, 2019 – \$1,026,210; September 30, 2019 – \$1,046,039). These amounts were considered in determining the allowance for losses on finance receivables and loans.

17. Derivative financial instruments

At September 30, 2020, the Company had entered into forward 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. At December 31, 2019, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 31, 2020 and July 31, 2020 and obliged the Company to sell Canadian dollars and buy US\$650,000 at exchange rates ranging from 1.30900 to 1.3288, while at September 30, 2019, the Company had entered into forward foreign exchange contracts with a financial institution that matured between December 31, 2019 and January 31, 2020 and obliged the Company to sell Canadian dollars and buy US\$340,000 at exchange rates ranging from 1.32674 to 1.34993. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company bought Canadian dollars from and sold US\$650,000 and US\$340,000, respectively, to the client.

The favorable and unfavorable fair values of these contracts were recorded on the Company's consolidated statements of financial position in other assets and accounts payable and other liabilities, respectively. The fair value of the contracts was classified as Level 2 under IFRS 7. During the nine months ended September 30, 2020 and 2019, there was no movement between the three-level fair value hierarchy.

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

18. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the nine months ended September 30, 2020 and 2019 are set out in the consolidated statements of changes in equity.

19. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries at September 30, 2020 comprised an effective 49% (December 31, 2019 and September 30, 2019 – 49%) interest in BondIt's common member units and an 8% (December 31, 2019 and September 30, 2019 – 10%) interest in CapX's common units. During the first quarter of 2020, the Company acquired an additional 2% of the common units in CapX from a non-controlling interest at a cost of \$181,389 (US\$130,000). Please see the consolidated statements of changes in equity for movements in non-controlling interests during the nine months ended September 30, 2020 and 2019.

20. Fair value of financial assets and liabilities

Financial assets or liabilities, other than lease receivables and loans to clients in our equipment finance business, lease liabilities, convertible debentures and term notes payable, are short term in nature and, therefore, their carrying values approximate fair values. Changes in interest rates, credit spreads and liquidity costs are the main cause of changes in the fair value of the Company's financial instruments resulting in a favorable or unfavorable variance compared to carrying value. For the Company's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. Under the fair value hierarchy, finance receivables and loans would be classified as level 3.

21. Segmented information

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

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

(in thousands)	2020				2019			
	Canada	United States	Inter-Company	Total	Canada	United States	Inter-Company	Total
Identifiable assets	\$146,105	\$235,041	\$ (62)	\$381,084	\$181,460	\$249,126	\$ (20,658)	\$ 409,928
Revenue								
Interest income	\$ 4,174	\$ 6,612	\$ (148)	\$ 10,638	\$ 5,485	\$ 8,414	\$ (437)	\$ 13,462
Other income	1,205	469	—	1,674	1,027	810	—	1,837
	5,379	7,081	(148)	12,312	6,512	9,224	(437)	15,299
Expenses								
Interest	2,626	901	(148)	3,379	3,883	939	(437)	4,385
General and administrative	2,307	3,453	—	5,760	2,672	3,830	—	6,502
Provision for credit and loan losses	1,504	1,536	—	3,040	165	554	—	719
Depreciation	80	99	—	179	85	99	—	184
Business acquisition expenses	40	34	—	74	40	(594)	—	(554)
	6,557	6,023	(148)	12,432	6,845	4,828	(437)	11,236
Earnings (loss) before income taxes	(1,178)	1,058	—	(120)	(333)	4,396	—	4,063
Income tax (recovery) expense	(304)	(383)	—	(687)	9	1,070	—	1,079
Net earnings (loss)	(874)	1,441	—	567	(342)	3,226	—	2,984
Net earnings (loss) attributable to non-controlling interests in subsidiaries	—	—	—	—	—	(253)	—	(253)
Net earnings (loss) attributable to shareholders	\$ (874)	\$ 1,441	\$ —	\$ 567	\$ (342)	\$ 3,579	\$ —	\$ 3,237

(in thousands)	2020				2019			
	Canada	United States	Inter-Company	Total	Canada	United States	Inter-Company	Total
Identifiable assets	\$146,105	\$235,041	\$ (62)	\$381,084	\$181,460	\$249,126	\$ (20,658)	\$409,928
Revenue								
Interest income	\$ 12,868	\$ 19,170	\$ (358)	\$ 31,680	\$ 15,710	\$ 21,920	\$ (811)	\$ 36,819
Other income	2,641	1,277	—	3,918	2,975	2,084	—	5,059
	15,509	20,447	(358)	35,598	18,685	24,004	(811)	41,878
Expenses								
Interest	8,671	2,646	(358)	10,959	11,345	2,163	—	12,697
General and administrative	7,017	12,260	—	19,277	8,049	10,875	—	18,924
Provision for credit and loan losses	6,927	1,980	—	8,907	182	829	—	1,011
Impairment of assets held for sale	—	897	—	897	—	—	—	—
Depreciation	243	299	—	542	249	294	—	543
Business acquisition expenses	121	104	—	225	125	(333)	—	(208)
	22,979	18,186	(358)	40,807	19,950	13,828	(811)	32,967
Earnings (loss) before income taxes	(7,470)	2,261	—	(5,209)	(1,265)	10,176	—	8,911
Income tax (recovery) expense	(1,966)	(2,482)	—	(4,448)	(114)	2,381	—	2,267
Net earnings (loss)	(5,504)	4,743	—	(761)	(1,151)	7,795	—	6,644
Net earnings (loss) attributable to non-controlling interests in subsidiaries	—	207	—	207	—	(458)	—	(458)
Net earnings (loss) attributable to shareholders	\$ (5,504)	\$ 4,536	\$ —	\$ (968)	\$ (1,151)	\$ 8,253	\$ —	\$ 7,102

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

22. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. In this respect, the Audit Committee meets with management and the Company's Risk Management Committee at least quarterly. The Company's risk management policies are established to identify, analyze, limit, control and monitor the risks faced by the Company. Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company's case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these loans (\$348 million) and managed receivables (\$29 million) represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. The Company will usually either: (i) own the factored receivables or leased assets that it finances; or (ii) take collateral security over the other assets that it lends against. The Company also makes unsecured small business loans; these totalled \$404,680 at September 30, 2020.

In its asset-based lending business, the Company makes loans that are, in most cases, secured against various forms of collateral. The collateral is generally first ranking security on the client's assets which typically comprise receivables, inventory, equipment and real estate. The Company provides a loss allowance on all of its finance receivables and loans based on the assessed credit risk. There were no significant changes in the quality of collateral or changes to the Company's collateral policy during the three and nine months ended September 30, 2020 and 2019.

The credit risk to the Company has significantly increased in the three and nine months ended September 30, 2020 due to the sharp contraction in economic activity in both Canada and U.S.A. as a result of COVID-19. This has resulted in a substantial increase in the provision for credit and loan losses and related allowances for losses for the nine months ended September 30, 2020, as well as certain payment modifications granted as a means of avoiding credit and loan losses. As COVID-19 events continue to evolve and additional information becomes available, our estimates of ECL may change materially in future periods as

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

appropriate. This may add significant volatility to the Company's provision for losses and allowances for losses.

At September 30, 2020, the Company had impaired loans of \$6,439,000 (December 31, 2019 – \$6,770,000, September 30, 2019 – \$8,928,000), while, at that date, it held collateral for these loans with an estimated net realizable value of \$6,845,000 (December 31, 2019 – \$8,034,000, September 30, 2019 – \$9,850,000). These impaired loans were mainly secured by receivables, inventory and/or equipment. At September 30, 2020, the Company also had impaired managed receivables of \$1,398,000 (December 31, 2019 and September 30, 2019 – nil). The Company has accrued for the payment of these accounts in its accounts payable and other liabilities.

In its asset-based lending and equipment finance businesses, and credit protection and receivables management operations (AFL), credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel and management. In the case of credit in excess of \$1.0 million (US\$1.0 million in the case of AFIU and 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, a primary focus continues to be on the credit-worthiness and collectability of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. The Company's lease receivables and equipment loans are mainly term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 21.8% were past due more than 60 days at September 30, 2020 (December 31, 2019 – 3.5%, September 30, 2019 – 5.3%). In the Company's asset-based lending business, trade receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from the invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs an internal client credit risk rating system to assess the credit risk in its asset-based lending and equipment finance businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Please see note 4

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

which presents the Company's finance receivables and loans and managed receivables by their internal credit risk rating (low risk, medium risk, high risk) and by the three stage credit criteria of IFRS 9, as well as an aged analysis thereof. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. Collateral is monitored and managed on an ongoing basis to mitigate credit risk. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis.

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

In the Company's credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of \$2.5 million is approved by the Credit Committee of the Board on a case-by-case basis. At September 30, 2020, the Company had not guaranteed accounts receivable in excess of \$5 million for any customer.

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

(in \$000's)	September 30, 2020		September 30, 2019	
	Gross finance receivables and loans	% of total	Gross finance receivables and loans	% of total
Manufacturing	\$ 97,646	28	\$ 80,689	21
Professional services	70,422	20	52,761	14
Financial services	38,166	11	67,668	18
Media	31,697	9	22,813	6
Wholesale and distribution	27,381	8	51,968	13
Construction	20,838	6	16,483	4
Transportation	18,063	5	23,977	6
Retail	15,450	5	38,448	10
Other	28,276	8	29,778	8
	\$ 347,939	100	\$ 384,585	100

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

(in \$000's)	September 30, 2020		September 30, 2019	
	Managed receivables	% of total	Managed receivables	% of total
Retail	\$ 26,355	91	\$ 45,401	92
Wholesale and distribution	263	1	759	2
Other	2,333	8	3,245	6
	\$ 28,951	100	\$ 49,405	100

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

b) Liquidity risk

The Company's financial assets and liabilities at September 30, 2020 by maturity date were as follows:

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	\$ 11,335	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11,335
Finance receivables and loans	163,801	70,818	61,744	31,237	20,339	—	347,939
All other assets	5,295	—	—	—	—	—	5,295
	\$ 180,431	\$ 70,818	\$ 61,744	\$ 31,237	\$ 20,339	\$ —	\$ 364,569
Financial liabilities							
Due to clients	\$ 1,242	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,242
Bank indebtedness	208,346	—	—	—	—	—	208,346
Loan payable	16,553	—	—	—	—	—	16,553
Notes payable	17,305	—	—	—	—	—	17,305
Convertible debentures	—	—	—	23,809	—	—	23,809
All other liabilities	11,691	475	144	75	80	131	12,596
	\$ 255,137	\$ 475	\$ 144	\$ 23,884	\$ 80	\$ 131	\$ 279,851

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

The Company's financial assets and liabilities at September 30, 2019 by maturity date were as follows:

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Thereafter	Total
Financial assets							
Cash	\$ 4,717	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,717
Finance receivables and loans	219,019	41,161	52,160	58,098	14,143	4	384,585
All other assets	3,182	—	—	—	—	—	3,182
	\$ 226,918	\$ 41,161	\$ 52,160	\$ 58,098	\$ 14,143	\$ 4	\$ 392,484
Financial liabilities							
Due to clients	\$ 2,774	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,774
Bank indebtedness:	241,668	—	—	—	—	—	241,668
Loan payable	9,495	—	—	—	—	—	9,495
Notes payable	6,596	—	12,174	—	—	—	18,770
Convertible debentures	—	—	—	—	23,171	—	23,171
All other liabilities	7,671	1,680	—	—	—	—	9,351
	\$ 268,204	\$ 1,680	\$ 12,174	\$ —	\$ 23,171	\$ —	\$ 305,229

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, convertible debentures, due to clients, and accounts payable and other liabilities. At September 30, 2020, revolving credit lines totalling approximately \$384,000,000 have been established with a syndicate of banks, as well as a non-bank lender, bearing interest varying with the bank prime rate or Libor. At September 30, 2020, the Company had borrowed \$224,898,595 (December 31, 2019 – \$254,008,197, September 30, 2019 – \$251,163,569) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under its bank line of credit during the nine months ended September 30, 2020 and 2019. At September 30, 2020, BondIt was compliant with all covenants with its non-bank lender, while it had failed a specific covenant test at September 30, 2019, which the lender subsequently waived. See note 10.

Notes payable of \$1,518,062 are due on, or within a week of demand, while BondIt notes totalling \$2,530,610 are repayable at various dates the latest of which is January 31, 2021. A further \$13,256,779 of term notes payable mature on July 31, 2021 (see note 11(a)). Notes payable are to individuals or entities and consist of advances from shareholders, directors, management, employees, other related individuals and third parties. At September 30, 2020, 86% (December 31, 2019 and September 30, 2019 – 85%) of these notes were due to related parties and 14% (December 31, 2019 and September 30, 2019 – 15%) to third parties. The Company's convertible debenture liability was \$23,809,388 at September 30, 2020. These

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

debentures mature on December 31, 2023. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months. At September 30, 2020, the Company had gross finance receivables and loans totalling \$347,938,848 (December 31, 2019 – \$373,157,083, September 30, 2019 – \$384,584,627) which substantially exceeded its total liabilities of \$286,615,665 at that date (December 31, 2019 – \$309,846,192, September 30, 2019 – \$311,861,572). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The objective of managing market risk is to control market risk exposures within acceptable parameters, while optimizing the return on risk.

i) Currency risk

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, due to clients and notes payable. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At September 30, 2020, the Company's unhedged foreign currency positions in its Canadian operations totalled \$130,000 (December 31, 2019 – \$11,037,000, September 30, 2019 – \$434,000). Of the unhedged position at December 31, 2019, \$10,677,000 resulted from the dissolution of a foreign subsidiary on December 31, 2019. This position was subsequently closed in early January 2020 resulting in a small foreign exchange gain. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of the Company's foreign currency holdings against the Canadian dollar would not have a material impact on the Company's net earnings.

ii) Interest rate risk

Interest rate risk pertains to the risk of loss due to the volatility of interest rates. The Company's lending and borrowing rates are usually based on bank prime rates of interest or Libor and are typically variable. The Company actively manages its interest rate exposure, where possible. The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. As the Company's floating rate finance receivables and loans are currently similar to its floating and short-term fixed rate

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

(usually 30 days) borrowings, the Company's exposure to interest rate risk is not significant. However, as the Company's equipment finance business continues to grow the Company expects it will deploy interest rate hedges in the near future where certain bank borrowings or other debt is matched up with fixed rate term maturities in our equipment finance businesses.

The following table shows the interest rate sensitivity gap at September 30, 2020:

(in \$000's)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets:						
Cash	\$ 10,093	\$ —	\$ —	\$ —	\$ 1,242	\$ 11,335
Finance receivables and loans net	168,772	47,829	107,964	23,374	(6,688)	341,251
All other assets	—	4,469	—	—	24,029	28,498
	178,865	52,298	107,964	23,374	18,583	381,084
Liabilities:						
Due to clients	—	—	—	—	1,242	1,242
Bank indebtedness	6,164	202,819	—	—	(638)	208,345
Loan payable	16,553	—	—	—	—	16,553
Notes payable	1,518	15,787	—	—	—	17,305
Convertible debentures	—	—	—	23,809	—	23,809
All other liabilities	—	1,324	—	—	18,038	19,362
Equity	—	—	—	—	94,468	94,468
	24,235	219,930	—	23,809	113,110	381,084
	\$ 154,630	\$(167,632)	\$107,964	\$ (435)	\$(94,527)	\$ —

Based on the Company's interest rate positions at September 30, 2020, a sustained 100 basis point change in interest rates across all currencies and maturities would change net earnings by approximately \$13,000 over a one year period.

23. Capital disclosure

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares or debt, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total

ACCORD FINANCIAL CORP.

Notes to Condensed Interim Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

equity to total assets. At September 30, 2020, as a percentage, these ratios were 282% (December 31, 2019 – 307%, September 30, 2019 – 299%) and 25% (December 31, 2019 – 24%, September 30, 2019 – 24%), respectively. The Company's debt and leverage will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at September 30, 2020, the Company is required to maintain a debt to TNW ratio of less than 3.5 on its syndicated bank facility. BondIt, which has entered into a loan facility with a non-bank lender, is required to maintain a TNW of at least US\$5,000,000. There were no changes in the Company's approach to capital management from previous periods.

24. Subsequent events

At October 28, 2020, there were no subsequent events occurring after September 30, 2020 that required disclosure or adjustments to the financial statements.