ACCORD FINANCIAL
We're worth it.

Investing in Opportunities for Growth

Second Quarter Report • June 30, 2018

We love helping companies reach their potential.

In fact it's our core purpose — our very reason for being. Accord's transparency as a public company gives our referral partners and clients complete visibility into the financial strength we bring to our relationships. Our people are passionate in their support of each client's vision. And our team is equally energetic in their approach to finding solutions to help businesses grow.

We are dynamic, delivering solutions with the speed needed to keep our clients moving forward. But we are also meticulous, which means the opportunities we finance for our clients are viable and sustainable.

Unrivalled experience is the cornerstone of our culture. It allows us to continually adapt to the marketplace, enhance our range of solutions, and uncover opportunities for growth. And when we find a mutual opportunity, we bring all of our resources to bear to help our clients succeed – you can count on us to deliver.

This unique blend of experience, passion and energy gives us insights into areas often overlooked by our competitors. And our financial strength turns insights into opportunities to invest in growth.

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Just ask them.

"The Accord Team has delivered creative, structured financing solutions to us and our clients. We have utilized a variety of their financing options and have been impressed with their commitment to customer service. Accord has demonstrated an ability to underwrite a wide range of deal sizes and has partnered with us on many successful deal closings. We look forward to many successful business transactions in the future."

~ Dustin White
Partner, Dynamic Capital

"I think very highly of Accord. Their entire team is very responsive and direct, which—when you're an intermediary—is very helpful. They are upfront and follow through. Accord delivers what they promise. I know Tom Henderson, and others, personally, and they all have a high degree of integrity. They shoot straight, treat people fairly and simply do the right thing. My reaction to the CapX tie-up was that's a really great fit. I already had a relationship with CapX; they are similar in their approach to borrowers with the same fair, straightforward approach."

~ Phil Kain
Managing Partner, Rush Street Capital

"We have worked with the team at Accord over the last two years. They have been a pleasure to work with. They are professional, and always responsive to our needs. We have enjoyed the relationship so much we are extending our agreement! I would recommend Accord to any company that is looking for an ABL lender to service their business."

~ Oliver Morante
President, The John Forsyth Shirt Company Inc.

"The team is very professional and straightforward. There is no guesswork involved. They walk you through every step carefully and make sure you understand before entering into the deal. The process is easy, quick and a good experience from start to finish . . . I have used BondIt's services repeatedly."

~ Adrian Fulle
Principal, Poya Pictures

From Our President and CEO

Tom Henderson

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and six months ended June 30, 2018 together with comparative figures for the same period of 2017. These financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Net earnings attributable to the Company's shareholders rose by 540% to $2,363,000 in the second quarter of 2018 compared with $369,000 in last year's second quarter. Earnings per share ("EPS") rose 600% to 28 cents this quarter compared to 4 cents in the second quarter of 2017. Second quarter net earnings increased on higher revenue and a lower provision for losses.

Adjusted net earnings, which comprises net earnings attributable to shareholders before non-operating stock-based compensation, business acquisition expenses (namely business transaction and integration costs and amortization of intangibles) and restructuring expenses, rose to $2,674,000 in the second quarter of 2018 compared to the $573,000 earned in the second quarter of 2017. Adjusted EPS, based on the adjusted net earnings, were up 357% to 32 cents in the second quarter versus 7 cents earned last year.

Revenue increased to a quarterly record $10,823,000 in the second quarter of 2018 compared to $6,603,000 last year mainly as a result of higher finance receivables and loans ("funds employed"), including the funds employed of BondIt Media Capital ("BondIt") and Accord CapX LLC ("CapX") which investments were made in the second half of 2017.

The Company's total funds employed were a record $262 million at June 30, 2018, 50% higher than the $175 million a year earlier and 19% higher than last year-end. Average funds employed in the second quarter increased by 53% to $255 million compared with $167 million last year. Shareholders' equity was a record $80 million at June 30, 2018 compared to $75 million at June 30, 2017. Book value per share was a record $9.68 versus $8.99 a year ago.

Net earnings for the first half of 2018 rose by 125% to $3,580,000 from $1,594,000 earned in the first half of 2017. EPS rose by 126% to 43 cents this year versus 19 cents last year. Net earnings rose for the reasons noted above.

Adjusted net earnings increased by 113% to $4,115,000 in the first half of 2018 compared to the $1,935,000 earned in the first half of 2017. Adjusted EPS rose by 117% to 50 cents, versus 23 cents earned in the first half of 2017.

Revenue increased 59% to a first half year record of $20,856,000 compared to $13,104,000 in the first half of 2017 mainly as a result of higher funds employed. Average funds employed in the first six months were up 56% to $242 million compared with $155 million last year.

The vastly improved earnings in 2018 are beginning to reflect the growth in our business that saw average funds employed increase by over 50% compared to the same period last year. Organic growth, as well as the investments in BondIt and CapX were responsible for the significant rise in funds employed. The CapX transaction was a platform purchase, starting with no financial assets, and BondIt came under the Accord umbrella with a very modest portfolio. Both are now ramping up and have been instrumental in our growth this year. Happily, the rest of Accord is following suit and all five of our lending units have grown this year.

Needless to say, I am pleased with our bottom line results, which provides encouraging affirmation of the investments we've made, and a preview of our earnings potential as we leverage the strong platform we've built. As we grow our assets it remains imperative we focus on their quality. In this business it doesn't take more than a few bad debt hiccups to temporarily throw us off course. We remain watchful as always.

To help finance our asset growth we expect to close on a new bank facility shortly. The total facility is for $367 million, including an accordion, and is with a syndicate of six banks. We are proud that our bankers have seen fit to generously raise their exposure to our company.

Like you, we keep an eye on the economies we serve – Canada and the U.S. In the years since the Credit Crisis, the U.S. economy slowly recovered, finally spurring global growth over the last few years. Canada, always ready to supply resources and materials, has recovered too. Increasingly, however, economic events far from our shores can have very impactful effects on Accord. With ten years of economic growth behind us, it's fair to ask what's ahead. Is the next downturn imminent? What may make it a "this time it's different" scenario is that the recovery was so weak for so long. In most of the years since 2008 it still felt like a recession. So, is it different this time? Accord's growth is different – it comes after several years of strategic evolution. As for the global economy – can I have a little more time to think about it?

At the Board of Directors meeting held today, a regular quarterly dividend of 9 cents per common share was declared, payable September 4, 2018 to shareholders of record August 15, 2018.

Tom Henderson
President and Chief Executive Officer

July 25, 2018

Stuart Adair

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

Quarter and six months ended June 30, 2018 compared with quarter and six months ended June 30, 2017

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 and, where presented, the quarter and six months ended June 30, 2016. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at July 25, 2018, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters and six months ended June 30, 2018 and 2017, which are included as part of this 2018 Second Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2017 audited consolidated financial statements and notes thereto included in the Company's 2017 Annual Report.

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

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

Non-IFRS Financial Measures

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

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

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

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

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

v) **Average funds employed** – funds employed is another name that the Company uses for its finance receivables and loans (also referred to as "Loans" in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period.

Accord's Business

Accord is a leading North American provider of asset-based financial services to businesses, namely, asset-based lending ("ABL") (including factoring, receivables, inventory, lease and equipment financing), working capital financing, film and media financing, credit protection and receivables management, and supply chain financing for importers. The Company's financial services are discussed in more detail in its 2017 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 17(a) to the Statements.

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

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

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Shareholders' Net Earnings	Earnings Per Common Share*
2018	**June 30**	**$ 10,823**	**$ 2,363**	**$ 0.28**
	March 31	**10,033**	**1,216**	**0.15**
2017	December 31	$ 9,935	$ 2,433	$ 0.29
	September 30	8,370	1,983	0.24
	June 30	6,603	369	0.04
	March 31	6,501	1,226	0.15
Fiscal 2017		$ 31,409	$ 6,010**	$ 0.72
2016	December 31	$ 7,722	$ 2,210	$ 0.27
	September 30	7,032	1,265	0.15
	June 30	6,897	1,627	0.20
	March 31	6,871	1,465	0.18
Fiscal 2016		$ 28,522	$ 6,566**	$ 0.79**

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

Results of Operations

Quarter ended June 30, 2018 compared with quarter ended June 30, 2017

Shareholders' net earnings for the quarter ended June 30, 2018 increased by $1,994,000 to $2,363,000 compared to the $369,000 earned in the second quarter of 2017 and were 45% above 2016's second quarter Shareholders' net earnings of $1,627,000. Shareholders' net earnings increased compared to 2017 as a result of higher revenue and a lower provision for losses. Shareholders' net earnings increased compared to 2016 as a result of higher revenue.

Earnings per common share ("EPS") increased by 600% to 28 cents from the 4 cents earned in the second quarter of 2017 and were 40% above the 20 cents earned in the second quarter of 2016.

Adjusted net earnings for the second quarter were $2,674,000, 367% higher than the $573,000 earned in 2017 and 49% above the $1,800,000 earned in 2016. Adjusted EPS were 32 cents, 357% higher than the 7 cents earned in 2017 and 45% above the 22 cents earned in 2016.

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

Quarter ended June 30 (in thousands)	**2018**	**2017**	**2016**
Shareholders' net earnings	**$ 2,363**	$ 369	$ 1,627
Adjustments, net of tax:			
Stock-based compensation	**113**	27	79
Business acquisition expenses	**198**	67	94
Restructuring expenses	**—**	110	—
Adjusted net earnings	**$ 2,674**	$ 573	$ 1,800

Revenue in the current quarter increased by 64% or $4,220,000 to a quarterly record $10,823,000 compared to $6,603,000 last year and was 41% higher than the $7,657,000 in 2016's second quarter. Revenue increased compared to 2017 and 2016 mainly as a result of higher average funds employed, including the funds employed of BondIt and CapX, in which the Company invested in the second half of 2017. Revenue from BondIt and CapX totalled $2,363,000, in the current quarter. Average funds employed in the second quarter of 2018 totalled $255 million, 53% higher than the $167 million in the second quarter of 2017 and 68% higher than the $152 million in the second quarter of 2016. Funds employed at June 30, 2018 were a record high $262 million compared to $175 million and $147 million at June 30, 2017 and 2016, respectively.

Total expenses for the second quarter of 2018 increased by 22% or $1,498,000 to $8,231,000 compared to $6,733,000 last year. General and administrative expenses ("G&A"), interest expense, business acquisition expenses (transaction and integration costs and amortization of intangibles), impairment of assets held for sale and depreciation increased by $1,827,000, $1,238,000, $171,000, $25,000 and $10,000, respectively, while the provision for credit and loan losses declined by $1,773,000.

Interest expense rose by 164% to $1,991,000 in the second quarter of 2018 compared to $753,000 last year on an 87% rise in average borrowings and increased interest rates.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A increased by $1,827,000 or 47% to $5,714,000 in the current quarter compared to $3,887,000 last year mainly as a result of BondIt and CapX G&A, which totalled $1,567,000 in the current quarter. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses decreased by $1,773,000 to $186,000 in the second quarter of 2018 compared to $1,959,000 last year. The provision for the second quarter of 2018 and 2017 comprised:

Quarter ended June 30 (in thousands)	**2018**	**2017**
Net (recovery) charge-offs of accounts	**$ (272)**	$ 1,710
Reserves expense related to increase in total allowances for losses	**458**	249
	$ 186	$ 1,959

There was a recovery of $272,000 against previously charged-off accounts in the current quarter compared to net charge-offs of $1,710,000 last year, while the reserves expense rose $209,000 to $458,000 compared to last year's reserves expense of $249,000. Net charge-offs in 2017 included $1,576,000 taken against one impaired account. The Company's allowances for losses, which reflect the adoption of the expected credit loss ("ECL") modelling required under IFRS 9, Financial Instruments, on January 1, 2018, are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant impairments.

Business acquisition expenses consist of transaction and integration costs relating to the BondIt and CapX acquisitions and amortization of intangibles. For the quarter ended June 30, 2018, these expenses totalled $263,000 (2017 – $92,000). Transaction and integration costs related to CapX totalled $160,000 (2017 – nil), while the amortization of intangible assets totalled $103,000 (2017 – $92,000). Transaction costs pertained to the accretion expense, or interest, on the contingent consideration that is payable on the CapX purchase (see below). Please refer to note 6 to the Statements for details of the Company's intangibles assets and amortization thereof.

An impairment charge of $25,000 (2017 – nil) was taken during the second quarter against certain assets held for sale where the estimated net realizable value had declined below book value (see note 5 to the statements).

Income tax expense increased to $109,000 in the current quarter compared to a recovery of $499,000 in the second quarter of 2017.

Canadian operations reported a $54,000 decrease in shareholders' net earnings in the second quarter of 2018 on higher interest expense and G&A. Revenue rose by 18% or $849,000 to $5,459,000. Expenses increased by $912,000 to $4,490,000. Interest expense, G&A, impairment of assets held for sale and depreciation increased by $1,053,000, $441,000, $25,000 and $1,000, respectively. The provision for credit and loan losses and business acquisition expenses declined by $586,000 and $22,000, respectively. Income tax expense decreased by $9,000 to $272,000 on a lower pre-tax earnings.

U.S. operations reported a five-fold increase in shareholders' net earnings in the second quarter of 2018 compared to 2017. Shareholders' net earnings increased by $2,048,000 to $1,666,000 as a result of higher revenue. Revenue rose by $3,371,000 or 169% to $5,364,000 mainly on higher funds employed, including that of BondIt and CapX. Expenses increased by $586,000 to $3,741,000. G&A, business acquisition expenses, interest and depreciation rose by $1,386,000, $193,000, $184,000 and $10,000, respectively. The provision for credit and loan losses declined by $1,187,000. Income tax rose by $617,000 to an income tax recovery of $163,000.

Six months ended June 30, 2018 compared with six months ended June 30, 2017

Shareholders' net earnings in the first half of 2018 increased by 125% or $1,985,000 to $3,580,000 compared to $1,595,000 last year. Shareholders' net earnings increased compared to 2017 as a result of higher revenue and to a lesser extent, a lower provision for losses. EPS for the current six months more than doubled to 43 cents compared to the 19 cents earned last year. ROE in the first half of 2018 was 9.2% compared to 4.2% last year.

Adjusted net earnings increased by $2,180,000 or 113% to $4,115,000 in the first half of 2018 compared to last year's $1,935,000 and were 21% above the $3,390,000 earned in 2016. Adjusted EPS rose by 117% to 50 cents compared to 23 cents in the first half of 2017 and was 22% higher than the 41 cents in 2016. Adjusted ROE for the first half of 2018 was 10.2% compared to 5.2% in 2017.

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

Six months ended June 30 (in thousands)	**2018**	**2017**	**2016**
Shareholders' net earnings	**$ 3,580**	$ 1,594	$ 3,091
Adjustments, net of tax:			
Stock-based compensation	**134**	96	112
Business acquisition expenses	**401**	135	187
Restructuring expenses	**—**	110	—
Adjusted net earnings	**$ 4,115**	$ 1,935	$ 3,390

Revenue for the first half of 2018 increased by $7,752,000 or 59% to $20,856,000 compared with $13,104,000 last year. Revenue increased compared to 2017 mainly as a result of higher average funds employed, including the funds employed of BondIt and CapX, which the Company, as noted above, had invested in in the second half of 2017. Revenue from BondIt and CapX totalled $4,726,000 in the first half of 2018. Average funds employed in the first half of 2018 totalled $242 million, 56% above last year's $155 million.

Total expenses for the current six months increased by $5,037,000 or 43% to $16,857,000 compared to $11,820,000 last year. G&A, interest, interest expense, the amortization of intangible assets, impairment of assets held for sale and depreciation increased by $3,242,000, $2,085,000, $346,000, $25,000 and $20,000, respectively. The provision for credit and loan losses declined by $681,000.

Interest expense rose by 152% to $3,458,000 compared to $1,373,000 in the first half of 2017 on 96% higher average borrowings and increased interest rates.

G&A increased by 41% to $11,120,000 in the first half of 2018 compared to $7,878,000 last year mainly as a result of BondIt and CapX G&A, which totalled $2,955,000 in the first six months of 2018.

The provision for credit and loan losses decreased by $681,000 to $1,625,000 in the first half of 2018 compared to $2,306,000 last year. The provision for the first half of 2018 and 2017 comprised:

Six months ended June 30 (in thousands)	**2018**	2017
Net charge-offs of accounts	**$ 614**	$ 2,098
Reserves expense related to increase in total allowances for losses	**1,011**	208
	$ 1,625	$ 2,306

Net charge-offs declined by $1,484,000 to $614,000 in the first half of 2018 compared to last year, while the reserves expense increased by $803,000 to $1,011,000 mainly as a result of a $42 million increase in funds employed in 2018. 2017's net charge-offs included $1,576,000 in respect of one account.

Business acquisition expenses consist of transaction and integration costs relating to the BondIt and CapX acquisitions and amortization of intangibles. For the first half ended June 30, 2018, these expenses totalled $530,000 (2017 – $184,000). Transaction and integration costs related to CapX totalled $326,000 (2017 – nil), while the amortization of intangible assets totalled $204,000 (2017 – $184,000). Transaction costs pertained to the accretion expense, or interest, on the contingent consideration that is payable on the CapX purchase. Please refer to note 6 to the Statements for details of the Company's intangibles assets and amortization thereof.

Income tax increased by $243,000 to an income tax recovery of $67,000 compared to an income tax recovery of $310,000 in the first half of 2017.

Canadian operations reported a 63% decrease in shareholders' net earnings in the first six months of 2018 compared to 2017 (see note 16 to the Statements). Net earnings declined by $854,000 to $505,000 compared to $1,359,000 last year on higher expenses. Revenue increased by $1,225,000 or 13% to $10,371,000. Expenses increased by $2,424,000 to $9,668,000. Interest expense, G&A, impairment of assets held for sale and depreciation rose by $1,888,000, $564,000, $25,000 and $7,000, respectively. Business acquisition expenses and the provision for credit and loan losses were lower by $45,000 and $15,000, respectively. Income tax expense decreased by 64% or $345,000 to $198,000 on a 63% decrease in pre-tax earnings.

U.S. operations reported a $2,839,000 increase in shareholders' net earnings in the first half of 2018 compared to 2017. Shareholders' net earnings increased to $3,075,000 compared to $236,000 last year. Revenue increased by $6,527,000 or 165% to $10,485,000. Expenses increased by $2,613,000 or 57% to $7,188,000. G&A increased by $2,678,000 to $5,647,000, business acquisition expenses rose by $391,000, interest expense rose by $196,000 and depreciation expense rose by $14,000. The provision for loan losses declined by $666,000 to $827,000. Income tax increased by $588,000 to a recovery of $265,000.

Review of Financial Position

Shareholders' equity at June 30, 2018 was a record $80,412,000, $3,964,000 higher than the $76,448,000 at December 31, 2017 and $5,758,000 higher than the $74,654,000 at June 30, 2017. Book value per common share was a record $9.68 at June 30, 2018 compared to $9.20 at December 31, 2017 and $8.99 a year earlier. The rise in equity since December 31, 2017 resulted from increased retained earnings and accumulated other comprehensive income. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 17 of this report.

Total assets were a record high $288,255,000 at June 30, 2018 compared to $251,020,000 at December 31, 2017 and $189,512,000 at June 30, 2017. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located in the United States were 53% of total assets at June 30, 2018 compared to 47% at December 31, 2017 and 36% at June 30, 2017.

Loans, before the allowance for losses thereon, totalled a record high $262,278,000 at June 30, 2018, 19% above the $220,104,000 at December 31, 2017 and 50% higher than the $174,989,000 at June 30, 2017. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	June 30, 2018	Dec. 31, 2017	June 30, 2017
Factored receivables	$ 105,782	$ 96,852	$ 86,280
Loans to clients	117,738	105,950	80,232
Lease receivables	38,758	17,302	8,477
Finance receivables and loans	262,278	220,104	174,989
Less allowance for losses	3,105	2,129	1,684
Finance receivables and loans	$ 259,173	$ 217,975	$ 173,305

The Company's factored receivables increased by 9% to $105,782,000 at June 30, 2018 compared to $96,852,000 at December 31, 2017 and were 23% higher than the $86,280,000 at June 30, 2017. Loans to clients, which mainly comprise advances against non-receivable assets such as inventory and equipment, as well as BondIt's media finance loans, rose by 11% to $117,738,000 at June 30, 2018 compared to $105,950,000 at December 31, 2017 and were 47% above the $80,232,000 last June 30. On the back of growth in CapX's portfolio, lease receivables, representing the Company's net investment in equipment leases, rose 124% to $38,758,000 at June 30, 2018 compared to $17,302,000 at December 31, 2017 and were 357% higher than the $8,477,000 at June 30, 2017. Net of the allowance for losses thereon, Loans increased by 19% to $259,173,000 at June 30, 2018 compared to $217,975,000 at December 31, 2017 and were 50% higher than the $173,305,000 at June 30, 2017. The Company's Loans principally represent advances made by its asset-based lending subsidiaries, AFIC and AFIU, to approximately 65 clients in a wide variety of industries at June 30, 2018, as well as ASBF's and CapX's equipment leases and loans to approximately 300 clients and BondIt's media finance loans. Two clients each comprised over 5% of total Loans at June 30, 2018, of which the largest client comprised 7%.

In its credit protection and receivables management business, the Company contracts with clients to assume the credit risk associated with respect to their receivables usually without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These managed receivables totalled $38 million at June 30, 2018 compared to $53 million at December 31, 2017 and $44 million at June 30, 2017. Managed receivables comprise the receivables of approximately 80 clients at June 30, 2018. The 25 largest clients comprised 84% of non-recourse volume in the first half of 2018. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At June 30, 2018, the 25 largest customers accounted for 64% of the total managed receivables, of which the largest five comprised 32%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

The Company's total portfolio, which comprises both Loans and managed receivables, increased by 9% to $300 million at June 30, 2018 compared to $274 million at December 31, 2017 and were 37% higher than the $219 million at June 30, 2017.

As described in note 17(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing other assets such as inventory and equipment. Credit in the Company's asset-based lending businesses, media finance business, Canadian equipment finance business (ASBF), and credit protection business is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1,000,000 (US$500,000 for BondIt credit), the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX) credit is approved by its Investment Committee, with amounts in excess of US$2,500,000 also being approved by the Company's President. CapX credit in excess of US$4,000,000 is then approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers.

In its asset-based lending operations, a primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. ASBF's and CapX's lease receivables and equipment and working capital loans are 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, 4.0% were past due more than 60 days at June 30, 2018. In the Company's asset-based lending business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that the collateral value of any inventory, equipment or other assets securing loans is appropriately appraised. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. The financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

The Company also minimizes credit risk by limiting the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables and applying concentration limits, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases. In its asset-based lending operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's Canadian equipment financing operations, security deposits are usually obtained in respect of each equipment lease or loan. In its credit protection business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all client and customer credit in excess of $2.5 million (US$4 million in the case of CapX) is approved by the Company's Credit Committee on a case-by-case basis. Note 17(a) to the Statements provides details of the Company's credit exposure by industrial sector.

After the customary detailed quarter-end review of the Company's portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for where necessary. The Company maintains separate allowances for losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon.

The Company adopted IFRS 9 effective January 1, 2018, which replaced IAS 39, Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities. Under IFRS 9 the Company initially recognizes its financial assets at fair value plus or minus direct and incremental transaction costs, and subsequently measures them at amortized cost using the effective interest rate method, net of any allowances for ECLs. Upon adoption of IFRS 9 on January 1, 2018 the allowances for losses were remeasured. The allowance for losses on finance receivables and loans was reduced by $132,000 to $1,997,000 (IAS 39 – $2,129,000), while the allowance for losses on the guarantee of managed receivables was increased by $10,000 to $140,000 (IAS 39 – $130,000). These remeasurements, net of taxes, totalled approximately $81,000, of which $87,000 was credited to retained earnings and $6,000 was debited to non-controlling interests. See detailed discussion in note 3(a) to the statements.

The allowance for losses on Loans, calculated under the ECL model of IFRS 9, increased by 55% to $3,105,000 at June 30, 2018 compared to $1,997,000 (remeasured under IFRS 9) at December 31, 2017. The allowance was 84% higher than the $1,684,000 at June 30, 2017. The allowance for losses on the guarantee of managed receivables decreased to $135,000 at June 30, 2018 compared to the $140,000 (remeasured under IFRS 9) at December 31, 2017 and was 15% lower than the $158,000 at June 30, 2017. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first half of 2018 and 2017 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash declined to $7,270,000 at June 30, 2018 compared with $12,457,000 at December 31, 2017 but was higher than the $6,911,000 at June 30, 2017. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Intangible assets, net of accumulated amortization, totalled $4,182,000 at June 30, 2018 compared to $4,227,000 at December 31, 2017 and $803,000 at June 30, 2017. Intangible assets totalling US$2,885,000 were acquired on the acquisition of CapX on October 27, 2017 and comprised customer and referral relationships and brand name. These assets are carried in the Company's U.S. subsidiary and are translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Customer and referral relationships are being amortized over a period of 15 years, while the acquired brand name is considered to have an indefinite life and is not amortized. No intangible assets were acquired on the acquisition of BondIt. Intangible assets comprising existing customer contracts and broker relationships were also acquired as part of the Varion acquisition on January 31, 2014. These are being amortized over a period of 5 to 7 years. Please refer to note 6 to the Statements.

Goodwill totalled $13,582,000 at June 30, 2018 compared to $13,082,000 at December 31, 2017 and $3,130,000 at June 30, 2017. Goodwill of US$2,409,000 and US$5,538,000, respectively, was acquired on the acquisitions of BondIt and CapX. The BondIt and CapX goodwill is carried in the Company's U.S. subsidiary. Goodwill of $1,883,000 was also acquired as part of the Varion acquisition in 2014, while goodwill of US$962,000 is also carried in the Company's U.S. subsidiary from an earlier acquisition. All goodwill carried in the Company's U.S. subsidiary is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments usually arise on retranslation. Please refer to note 7 to the Statements.

Other assets, income taxes receivable, deferred tax assets, assets held for sale and capital assets at June 30, 2018 and 2017 and December 31, 2017 were not material.

Total liabilities increased by $32,608,000 to $203,495,000 at June 30, 2018 compared to $170,887,000 at December 31, 2017 and was $88,637,000 higher than the $114,858,000 at June 30, 2017. The increase since December 31 and June 30, 2017 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by $2,866,000 to $1,764,000 at June 30, 2018 compared to $4,630,000 at December 31, 2017 and were $4,884,000 lower than the $6,648,000 at June 30, 2017. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a few days of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness increased by $21,960,000 to $160,100,000 at June 30, 2018 compared with $138,140,000 at December 31, 2017 and was $67,316,000 higher than the $92,784,000 at June 30, 2017. Bank indebtedness mainly increased compared to last December 31 to fund the rise in Loans. The Company had approved credit lines with a number of banks totalling $207 million at June 30, 2018 and was in compliance with all loan covenants thereunder during the six months ended June 30, 2018 and 2017. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Loan payable totalled $5,633,000 at June 30, 2018 (December 31 and June 30, 2017 – nil). A revolving line of credit totalling approximately $13,000,000 (US$10,000,000) was established during the current quarter with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit was established to finance BondIt's business and is collateralized by all of its assets. The Company has been in compliance with all loan covenants under this line of credit since it was entered into.

Accounts payable and other liabilities increased by $379,000 to $11,379,000 at June 30, 2018 compared to $11,000,000 at December 31, 2017 and was $8,867,000 higher than the $2,512,000 at June 30, 2017. The increase since last June 30 mainly comprised the estimated fair value of the contingent consideration payable on the acquisition of CapX, which totalled $8,100,000 at June 30, 2018.

Notes payable increased to $22,920,000 at June 30, 2018 compared to $15,862,000 at December 31, 2017 and $11,654,000 at June 30, 2017. The increase in notes payable resulted from new notes issued as well as accrued interest. Please see Related Party Transactions section below and note 10 to the Statements.

Income taxes payable, deferred income and deferred tax liabilities at June 30, 2018 and 2017 and December 31, 2017 were not material.

Capital stock totalled $6,914,000 at June 30, 2018 compared to $6,896,000 at December 31, 2017 and June 30, 2017. There were 8,309,642 common shares outstanding at June 30, 2018 compared to 8,307,713 common shares outstanding on December 31, 2017 and June 30, 2017. Please see note 11 to the Statements and the consolidated statements of changes in equity on page 17 of this report for details of changes in capital stock in the first half of 2018 and 2017. At the date of this MD&A, July 25, 2018, 8,309,642 common shares remained outstanding.

Retained earnings totalled $65,832,000 at June 30, 2018 compared to $63,661,000 at December 31, 2017 and $60,741,000 at June 30, 2017. In the first half of 2018 retained earnings increased by $2,171,000. The increase comprised net earnings of $3,580,000 less dividends paid of $1,496,000 (18 cents per common share) plus the $87,000 increase relating to the change in allowances for losses on adoption of IFRS 9 on January 1, 2018. Please see the consolidated statements of changes in equity on page 17 of this report for details of changes in retained earnings in the first half of 2018 and 2017.

The Company's accumulated other comprehensive income ("AOCI") account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's U.S. dollar reporting foreign subsidiaries. The AOCI balance totalled $7,350,000 at June 30, 2018 compared to $5,593,000 at December 31, 2017 and $6,753,000 at June 30, 2017. Please refer to note 14 to the Statements and the consolidated statements of changes in equity on page 17 of this report, which details movements in the AOCI account during the first half of 2018 and 2017. The $1,757,000 rise in AOCI in the first half of 2018 resulted from an increase in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar strengthened to $1.3133 from $1.2571 at December 31, 2017. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$32 million by $1,757,000 in the first half of 2018.

Non-controlling interests in subsidiaries ("NCIS") represents ownerships in CapX and BondIt by their executives and original founders. NCIS increased to $4,348,000 at June 30, 2018 (December 31, 2017 – $3,684,000; June 30, 2017 – nil).

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

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

(as a percentage)	June 30, 2018	Dec. 31, 2017	June 30, 2017
Debt* / Equity	**223%**	193%	140%
Equity / Assets	**29%**	32%	39%

* bank indebtedness, loan payable and notes payable

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

The Company had credit lines totalling approximately $220 million at June 30, 2018 and had borrowed approximately $166 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $7,270,000 at June 30, 2018 compared to $12,457,000 at December 31, 2017. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

Management believes that current cash balances, the new enlarged bank facility that the Company expects to close shortly and the facility with a non-bank lender, together with cash flow from operations, will be sufficient to meet the cash requirements of working capital, capital expenditures, operating expenditures, dividend payments and share repurchases and will provide sufficient liquidity and capital resources for future growth for the balance of 2018. The new bank facility is for $367 million, including accordion, and is with a syndication of six banks.

Cash flow for the six months ended June 30, 2018 compared with the six months ended June 30, 2017

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $5,404,000 in the first half of 2018 compared to $1,812,000 last year. After changes in operating assets and liabilities and income tax refunds/payments are taken into account, there was a net cash outflow from operating activities of $34,177,000 in the first half of 2018 compared to $35,707,000 last year. The net cash outflow in the current six months largely resulted from financing Loans of $35,875,000. In the first half of 2017, the net cash outflow principally resulted from financing Loans of $37,393,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 18 of this report.

Cash outflows from investing activities totalled $345,000 (2017 – $213,000) in the first half of 2018 and comprised capital asset additions.

Net cash inflow from financing activities totalled $29,601,000 in the first six months compared to $32,787,000 last year. The net cash inflow in the current six months resulted from an increase in bank indebtedness of $18,449,000, notes payables issued, net, of $6,996,000, loan payable received of $5,633,000 and capital stock issued of $18,000. Partially offsetting these inflows were dividend payments of $1,495,000. The net cash inflow in the first half of 2017 resulted from an increase in bank indebtedness of $33,997,000 and notes payable issued, net, of $285,000. Partially offsetting these inflows were dividend payments of $1,495,000.

The effect of exchange rate changes on cash comprised a reduction of $266,000 in the first half of 2018 compared to a gain of $968,000 in the first half of 2017.

Overall, there was a net cash outflow of $5,187,000 in the first six months of 2018 compared to $2,165,000 in the first half of 2017.

Contractual Obligations and Commitments at June 30, 2018

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter	Total
Operating lease obligations	$ 609	$ 1,015	$ 790	$ 344	**$ 2,758**
Purchase obligations	134	33	—	—	**167**
	$ 743	$ 1,048	$ 790	$ 344	**$ 2,925**

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand or a week after demand and bear interest at rates that vary with bank Prime or Libor. Notes payable at June 30, 2018 totalled $22,920,000 compared with $15,862,000 at December 31, 2017 and $11,654,000 at June 30, 2017. Of these notes payable, $20,878,000 (December 31, 2017 – $14,038,000; June 30, 2017 – $10,495,000) was owing to related parties and $2,042,000 (December 31, 2017 – $1,824,000; June 30, 2017 – $1,159,000) to third parties. Interest expense on these notes in the current quarter and first half of 2018 totalled $209,000 (2017 – $75,000) and $346,000 (2017 – $148,000), respectively. Please refer to note 10 to the Statements.

Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables, the Company's share appreciation rights and long-term incentive plan liabilities, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets or liabilities, other than the lease receivables and equipment loans in our equipment financing businesses, are short term in nature and, therefore, their carrying values approximate fair values.

At June 30, 2018, there were no outstanding forward foreign exchange contracts entered into by the Company.

Critical Accounting Policies and Estimates

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

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, typical industry loss experience, macro-economic factors and forward-looking information. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency. The Company's allowances on its Loans and its guarantee of managed receivables may comprise specific and general components. A specific allowance may be established against Loans that the Company identifies as impaired, or non-performing, which it determines, based on its review, identification and evaluation, and concludes that a timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where the Company concludes that a clients' customer could become insolvent and its guarantee be called upon. In such cases, the Company will estimate the fair value of the required payments to clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate. These allowances are categorized as Stage 3 allowances and are credited against the loan balance, or in the case of customer guarantees, an accrual made for the fair value of estimated payments to clients.

A general or collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against expected credit losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its Stage 1 collective allowances, the Company applies percentage formulae to its Loans and managed receivables based on its credit risk analysis, while its Stage 2 general allowances are based on a review of the loan or managed receivable. As stated above the allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios, typical industry loss experience, macro-economic factors and forward-looking information. 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; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises an allowance for those financial instruments which have experienced a SICR since initial recognition; or where there is objective evidence of impairment. We recognize lifetime ECL for Stage 2 financial instruments compared to 12 months ECL for Stage 1 financial instruments. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(a) and 4 to the Statements.

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

Adoption of New Accounting Policies

Effective January 1, 2018, the Company adopted two new accounting standards as issued by the IASB comprising IFRS 9 and IFRS 15, Revenue from Contracts with Customers. As discussed above, IFRS 9 replaced IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 was applied on a retrospective basis. Accord did not restate prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented for 2018.

The adoption of IFRS 9 resulted in changes in accounting policy in two principal areas: classification and measurement, and impairment. Please refer to note 3(a) to the Statements for a detailed discussion on the adoption of IFRS 9.

Under IFRS 15, there was no material change to the way that the Company accounts for revenue. Please refer to the Company's revenue recognition policy in note 3(c) to the statements.

Future Changes in Accounting Policies

IFRS 16, Leases, will replace existing guidance on accounting for leases. The accounting treatment of leases by lessees will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for fiscal years beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 is being determined.

Control Environment

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at June 30, 2018, management evaluated and concluded on the effective design of the Company's DC&P and ICFR and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's ICFR.

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

Risks And Uncertainties That Could Affect Future Results

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 17 to the Statements, which discusses the Company's principal financial risk management practices.

Competition

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, operating results and financial condition. The Company will not, however, compromise its credit standards.

Economic slowdown

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

Credit risk

The Company is in the business of financing its clients' receivables and making asset-based loans, including inventory and equipment financing. The Company's portfolio totalled $300 million at June 30, 2018. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 17(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans currently exceed its floating and short-term fixed rate borrowings, the Company is exposed to some degree to interest rate fluctuations. This gap has been declining recently as a result of the Company's equipment financing businesses, where lease receivables and equipment loans are typically at fixed effective interest rates, while related bank borrowings tend to be at floating rates. It is expected the Company will have to deploy interest rate hedges in the near future to manage this risk. Please refer to note 17(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources is held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. It has also impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had, in the past, reduced the AOCI component of equity to a loss position, although this has now recovered to a sizable gain position at June 30, 2018. Please see notes 14 and 17(c)(i) to the Statements.

Potential acquisitions and investments

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

Business combinations also require management to exercise judgment in measuring the fair value of assets acquired, liabilities and contingent liabilities assumed and equity instruments issued.

Personnel significance

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

Outlook

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

The Company is starting to benefit from the substantial growth in its funds employed, which rose 58% in 2017 to finish the year at $220 million. In the first half of 2018, funds employed rose a further 19% to close at a record high $262 million on June 30, 2018. Growth in funds employed, a key indicator of where the Company is heading, has been achieved organically and through the investments in BondIt and CapX in the second half of 2017. Revenue in the first half of 2018 exceeded $20 million for the first time. Growth in funds employed is expected to continue, and will result in improved revenues in the future which bodes well for future results, although the Company continues to face intense competition, particularly in the U.S. which has resulted in lower loan yields there. It is anticipated that the Company's asset-based financing units, AFIC and AFIU, will be able to continue to build on their growth, particularly in the U.S. where synergies with CapX are being realized, despite operating in very competitive markets. The Company's Canadian equipment financing and leasing business, ASBF, is forecasting growth to continue in 2018 and beyond. That unit continues to expand its product offerings, including working capital loans and the equipment revolving line of credit product it introduced in 2017, as well as carefully increasing its average equipment finance deal size.

Our new group companies are also expected to strongly grow their funds employed. BondIt has just closed on a new credit facility, which will help in this regard, while CapX, which started from scratch, is growing nicely. Our credit protection and receivables management business continues to face intense competition from multinational credit insurers which is expected to continue.

To support this growth the Company is expected to finalize an increased bank line, as discussed above, with a syndicate of six banks shortly which should provide Accord with the majority of funding that it will need to keep it growing over the next few years.

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

Stuart Adair
Senior Vice President, Chief Financial Officer

July 25, 2018

Consolidated Statements of Financial Position (unaudited)

	June 30, 2018	December 31, 2017	June 30, 2017
Assets			
Cash	$ 7,269,596	$ 12,457,000	$ 6,910,926
Finance receivables and loans, net (note 4)	259,173,063	217,975,156	173,304,607
Income taxes receivable	390,397	1,023,144	450,393
Other assets	1,856,156	863,886	2,016,658
Assets held for sale (note 5)	46,882	71,882	1,215,656
Deferred tax assets, net	818,706	640,249	1,203,294
Capital assets	935,282	679,828	477,260
Intangible assets (note 6)	4,182,333	4,227,011	802,702
Goodwill (note 7)	13,582,319	13,081,651	3,130,501
	$ 288,254,734	$ 251,019,807	$ 189,511,997
Liabilities			
Due to clients	$ 1,764,424	$ 4,629,555	$ 6,647,681
Bank indebtedness (note 8)	160,100,140	138,140,342	92,784,093
Loan payable (note 9)	5,633,469	—	—
Accounts payable and other liabilities	11,378,577	10,999,747	2,512,051
Income taxes payable	236,794	408,854	465,930
Notes payable (note 10)	22,919,796	15,862,033	11,654,219
Deferred income	1,367,089	682,813	431,197
Deferred tax liabilities	95,064	163,954	362,718
	203,495,353	170,887,298	114,857,889
Equity			
Capital stock (note 11)	$ 6,914,153	$ 6,896,153	$ 6,896,153
Contributed surplus (note 11(c))	314,667	297,825	263,714
Retained earnings	65,832,511	63,661,034	60,740,941
Accumulated other comprehensive income (note 14)	7,350,392	5,593,426	6,753,300
Shareholders' equity	80,411,723	76,448,438	74,654,108
Non-controlling interests in subsidiaries	4,347,658	3,684,071	—
Total equity	84,759,381	80,132,509	74,654,108
	$ 288,254,734	$ 251,019,807	$ 189,511,997

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

Consolidated Statements of Earnings (unaudited)

	Three months		Six months	
Three and six months ended June 30	**2018**	**2017**	**2018**	**2017**
Revenue				
Interest and other income (note 4)	**$ 10,823,344**	$ 6,602,908	**$ 20,856,314**	$ 13,103,861
Operating expenses				
Interest	**1,991,399**	753,763	**3,457,530**	1,372,568
General and administrative	**5,713,973**	3,886,607	**11,119,969**	7,877,804
Provision for credit and loan losses (note 4)	**185,819**	1,959,145	**1,625,060**	2,306,340
Impairment of assets held for sale	**25,000**	—	**25,000**	—
Depreciation	**52,052**	41,649	**98,584**	78,611
Business acquisition expenses				
Transaction and integration costs	**160,374**	—	**326,191**	—
Amortization of intangible assets	**102,433**	92,008	**204,197**	184,016
	8,231,050	6,733,172	**16,856,531**	11,819,339
Earnings before income tax	**2,592,294**	(130,264)	**3,999,783**	1,284,522
Income tax expense (recovery)	**109,000**	(499,000)	**(67,000)**	(310,000)
Net earnings	**2,483,294**	368,736	**4,066,783**	1,594,522
Net earnings attributable to non-controlling interests in subsidiaries	**119,887**	—	**487,081**	—
Net earnings attributable to shareholders	**$ 2,363,407**	$ 368,736	**3,579,702**	$ 1,594,522
Basic and diluted earnings per common share (note 12)	**$ 0.28**	$ 0.04	**$ 0.43**	$ 0.19

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

	Three months		Six months	
Three and six months ended June 30	**2018**	**2017**	**2018**	**2017**
Net earnings attributable to shareholders	**$ 2,363,407**	$ 368,736	**$ 3,579,702**	$ 1,594,522
Other comprehensive income (loss):				
Items that are or may be reclassified to profit or loss:				
Unrealized foreign exchange income (loss) on translation of self-sustaining foreign operations (note 14)	**805,864**	(860,106)	**1,756,966**	(1,195,095)
Comprehensive income (loss)	**$ 3,169,271**	$ (491,370)	**$ 5,336,668**	$ 399,427

Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock						
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interests in subsidiaries	Total equity
Balance at January 1, 2017	8,307,713	$ 6,896,153	$ 195,704	$ 60,641,807	$ 7,948,395	$ —	$ 75,682,059
Comprehensive Income	—	—	—	1,594,522	(1,195,095)	—	399,427
Stock-based compensation expense related to stock option grants	—	—	68,010	—	—	—	68,010
Dividends paid	—	—	—	(1,495,388)	—	—	(1,495,388)
Balance at June 30, 2017	8,307,713	$ 6,896,153	$ 263,714	$ 60,740,941	$ 6,753,500	$ —	$ 74,654,108
Balance at January 1, 2018	**8,307,713**	**$ 6,896,153**	**$ 297,825**	**$ 63,661,034**	**$ 5,593,426**	**$ 3,684,071**	**$ 80,132,509**
Common shares issued under long-term incentive plan	**1,929**	**18,000**	**—**	**—**	**—**	**—**	**18,000**
Comprehensive Income			**—**	**3,579,702**	**1,756,966**	**—**	**5,336,668**
Net earnings attributable to non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**487,081**	**487,081**
Stock-based compensation expense related to stock option grants	**—**	**—**	**16,842**	**—**	**—**	**—**	**16,842**
Dividends paid	**—**	**—**	**—**	**(1,495,389)**	**—**	**—**	**(1,495,389)**
Translation adjustments on non-controlling interests	**—**	**—**	**—**	**—**	**—**	**182,666**	**182,666**
Impact of IFRS 9 remeasurement on January 1, 2018	**—**	**—**	**—**	**87,164**	**—**	**(6,160)**	**81,004**
Balance at June 30, 2018	**8,309,642**	**$ 6,914,153**	**$ 314,667**	**$ 65,832,511**	**$ 7,350,392**	**$ 4,347,658**	**$ 84,759,381**

Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30	2018	2017
Cash provided by (used in)		
Operating activities		
Net earnings	**$ 4,066,783**	$ 1,594,522
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	**1,010,551**	208,121
Deferred income	**46,971**	(25,251)
Amortization of intangible assets	**204,197**	184,016
Depreciation	**98,584**	78,611
Loss on disposal of capital assets	**2,235**	14,383
Loss on disposal of assets held for sale	**25,000**	—
Stock-based compensation expense related to stock option grants	**16,842**	68,010
Deferred tax recovery	**(174,929)**	(876,888)
Current income tax expense	**107,929**	566,888
	5,404,163	1,812,412
Changes in operating assets and liabilities		
Finance receivables and loans, gross	**(35,874,703)**	(37,392,717)
Due to clients	**(2,886,598)**	2,576,044
Other assets	**(304,482)**	(943,786)
Accounts payable and other liabilities	**(799,549)**	(821,517)
Income tax refund (paid), net	**284,634**	(937,933)
	(34,176,535)	(35,707,497)
Investing activities		
Additions to capital assets, net	**(345,402)**	(213,120)
Financing activities		
Bank indebtedness	**18,448,711**	33,997,545
Loan payable	**5,633,469**	—
Notes payable issued, net	**6,995,911**	285,233
Issuance of shares	**18,000**	—
Dividends paid	**(1,495,389)**	(1,495,388)
	29,600,702	32,787,390
Effect of exchange rate changes on cash	**(266,169)**	968,160
Decrease in cash	**(5,187,404)**	(2,165,067)
Cash at January 1	**12,457,000**	12,772,906
Cash at June 30	**$ 7,269,596**	$ 10,607,839
Supplemental cash flow information Net cash used in operating activities includes:		
Interest paid	**$ 3,139,808**	$ 1,324,805

Notes to the Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2018 and 2017

1. Description of the business

Accord Financial Corp. (the "Company") is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing asset-based financial services, including factoring, financing, leasing, credit investigation, credit protection and receivables management, to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 40 Eglinton Avenue 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, 2018, 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, 2017.

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(a) and 4), the determination of the value of intangible assets and goodwill on acquisition (notes 6 and 7), as well as the net realizable value of assets held for sale (notes 3(j) and 5) and deferred tax assets and liabilities. Management believes that these estimates are reasonable and appropriate. The condensed interim unaudited consolidated financial statements of the Company have been prepared on an historical cost basis except for the following items which are recorded at fair value:

- Cash
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Share appreciation rights ("SARs") and senior executive long-term incentive plan ('LTIP") liabilities*
- Guarantee of managed receivables*

*a component(s) of accounts payable and other liabilities

These condensed interim unaudited consolidated financial statements for the three and six months ended June 30, 2018 were approved for issue by the Company's Board of Directors ("Board") on July 25, 2018.

3. Significant accounting policies

(a) Adoption of new accounting policies

Effective January 1, 2018, the Company adopted two new accounting standards as issued by the IASB comprising IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 was applied on a retrospective basis. Accord did not restate prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented for 2018. The adoption of IFRS 9 resulted in changes in accounting policy in two principal areas, classification and measurement, and impairment.

Classification and measurement – IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

When an entity first recognizes a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics.

A financial asset is measured at amortized cost if both of the following conditions are met: (i) the asset is held within a business model whose objective is to hold assets in order 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 on the principal amount outstanding.

These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of any allowance for expected credit losses (ECL). Consistent with IAS 39, loans measured at amortized cost under IFRS 9 include factored receivables, loans to clients and lease receivables. In addition, and also consistent with IAS 39, bank indebtedness, notes payable and due to clients are accounted for at amortized cost under IFRS 9.

Financial assets are classified and measured at fair value through other comprehensive income ("FVOCI") if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Any other financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss ("FVTPL").

Impairment – under IFRS 9 allowances for ECL are recognized on all financial assets that are classified either at amortized cost or FVOCI and for all loan commitments and financial guarantees that are not measured at FVTPL. 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. 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; or (ii) lifetime ECL (also referred to as Stage 2 ECL) which comprises an allowance for those financial instruments which have experienced a SICR since initial recognition; or where there is objective evidence of impairment. We recognize lifetime ECL for Stage 2 financial instruments compared to 12 months 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 12 months of ECL as the financial instrument has migrated back to Stage 1. The calculation of ECL allowances for losses 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 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 12 month period after the reporting date. Due to the inclusion of relative credit deterioration criteria and consideration of forward-looking information, lifetime credit losses are generally recognized earlier under IFRS 9 than IAS 39.

Changes in the required ECL allowances, including the impact of financial instruments migrating between Stage 1 and Stage 2, are recorded in the provision for credit and loan losses in the consolidated statements of income. Significant judgment is required in the application of SICR. The Company generally considers a SICR to be when there is a change in internal risk rating since initial recognition which prompts the Company to place the account on its "watch list." Stage 3 financial instruments are those that we have classified as impaired. Lifetime ECL are recognized for all Stage 3 financial instruments. The Company classifies a financial instrument as impaired when the future cash flows of the financial instrument could be 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.

Under IFRS 9, financial instruments on which repayment of principal or payment of interest is contractually 30 days in arrears are generally presumed as having a SICR, while financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears are generally presumed in default or impaired, unless the presumptions can be rebutted when reasonable and supportable information demonstrates that a more lagging default criterion is appropriate, such as reasons based on industry norms, seasonal fluctuations and non-credit related delays. 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.

Reconciliation of allowances for losses under IAS 39 and IFRS 9

Specific allowances for impaired instruments recognized under IAS 39 have generally been replaced by Stage 3 allowances for ECL under IFRS 9, while the collective allowances for non-impaired financial instruments have generally been replaced by Stage 1 and Stage 2 allowances for ECL under IFRS 9.

The following table reconciles the closing allowances for credit and loan losses in accordance with IAS 39 at December 31, 2017 to the opening ECL allowances determined in accordance with IFRS 9 upon adoption on January 1, 2018:

Allowance on:	Dec. 31, 2017 under IAS 39	Remeasurement	Jan. 1, 2018 under IFRS 9
Finance receivables and loans	$ 2,129,000	$ (132,034)	**$ 1,996,966**
Guarantee of managed receivables	$ 130,000	$ 10,000	**$ 140,000**

The allowance for losses on finance receivables and loans of $1,996,966 under IFRS 9 at January 1, 2018 comprised a Stage 1 allowance of $1,965,824 and a Stage 2 allowance of $31,142, while the allowance for losses on the guarantee of managed receivables of $140,000 comprised a Stage 1 allowance of $88,600 and Stage 2 allowance of $51,400.

The overall reduction in allowances for losses of $122,034 upon adoption of IFRS 9 incorporated the re-estimate of allowance rates which are typically reviewed each reporting period based upon updated historic loss experience, macro-economic factors and other forward-looking information. Changes in the carrying amounts of financial instruments that resulted from the adoption of IFRS 9 were recognized in the opening January 1, 2018 retained earnings. In the Company's case, however, there were no differences between the classification and carrying amounts of the financial instruments under IAS 39 and IFRS 9. The remeasurement of the allowances for ECL, net of tax, resulted in a credit to retained earnings and a debit to non-controlling interests in subsidiaries upon adoption of IFRS 9. Please refer to the consolidated statements of changes in equity on page 17 for details of these amounts.

Under IFRS 15, there was no material change in the way that the Company accounts for revenue. Please refer to the Company's revenue recognition policy in note 3(c) below.

(b) Basis of consolidation

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

(c) Revenue recognition

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's asset-based financial services, including factoring and leasing, and is measured at the fair value of the consideration received. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. For managed receivables, factoring commissions are charged upfront and a certain portion is deferred and recognized over the period that costs are incurred collecting the receivables. Interest charged on finance receivables and loans to clients is recognized as revenue using the effective interest rate method. In the Company's leasing business, interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate which exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of Varion 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 due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(d) Finance receivables and loans

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

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

(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. 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 determined reliably. 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 recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts, customer and referral 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 SARs and stock options issued to directors and/or employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

The Company's LTIP (note 11(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 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, the SARs and LTIP liabilities, 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 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 estimated reliably.

(j) 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").

(k) Future accounting policies

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

4. Finance receivables and loans

	June 30, 2018	December 31, 2017	June 30, 2017
Factored receivables	**$ 105,782,200**	$ 96,852,291	$ 86,280,373
Loans to clients	**117,737,765**	105,950,408	80,231,636
Lease receivables	**38,758,098**	17,301,457	8,476,598
Finance receivables and loans, gross	**262,278,063**	220,104,156	174,988,607
Less allowance for losses	**3,105,000**	2,129,000	1,684,000
Finance receivables and loans, net	**$ 259,173,063**	$ 217,975,156	$ 173,304,607

Lease receivables comprise the net investment in leases by Varion and CapX as described in note 3(d). Lease receivables at June 30, 2018 are expected to be collected over a period of up to five years.

Interest income earned on finance receivables and loans during the three and six months ended June 30, 2018 totalled $8,763,335 (2017 – $5,466,931) and $16,732,290 (2017 – $10,590,082), respectively.

The activity in the allowance for losses on finance receivables and loans account during the six months ended June 30, 2018 and 2017 was as follows:

	2018	2017
Allowance for losses at January 1 under IAS 39	**$ 2,129,000**	$ 1,516,000
Remeasurement on adoption of IFRS 9	**(132,034)**	—
Allowance for losses at January 1 under IFRS 9	**1,996,966**	1,516,000
Specific charge-off reclassified to allowance for losses	**35,000**	—
Provision for credit losses	**1,050,064**	2,180,923
Charge-offs	**(61,814)**	(2,012,214)
Recoveries	**27,298**	12,412
Foreign exchange adjustment	**57,486**	(13,121)
Allowance for losses at June 30	**$ 3,105,000**	$ 1,684,000

The allowance for losses on finance receivables and loans at June 30, 2018 comprised a Stage 1 allowance and a Stage 2 allowance as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018 under IFRS 9	$1,965,824	$ 31,142	$1,996,966
Transfer from Stage 1 to Stage 2	(206,890)	206,890	—
Reserves expense* related to increase in allowance	588,611	426,937	1,015,548
Specific charge-off reclassified reclassified to allowance for losses	35,000	—	35,000
Foreign exchange adjustment	57,486	—	57,486
Allowance for losses at June 30, 2018	$2,440,031	$ 664,969	$3,105,000

*- a component of the provision for losses

There was no Stage 3 allowance for impaired finance receivables and loans at June 30, 2018 as such accounts are written down to the discounted present value of their estimated net recoverable amounts.

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 June 30, 2018, the gross amount of these managed receivables was $37,921,223 (December 31, 2017 – $53,477,791; June 30, 2017 – $43,990,618).

Fees from receivables management and credit protection services during the three and six months ended June 30, 2018 totalled $536,360 (2017 – $619,342) and $1,256,875 (2017 – $1,620,857), respectively. At June 30, 2018, management provided an amount of $135,000 (December 31, 2017 – $130,000; June 30, 2017 – $158,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in its consolidated statement of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the six months ended June 30, 2018 and 2017 was as follows:

	2018	2017
Allowance for losses at January 1 under IAS 39	**$ 130,000**	$ 131,000
Remeasurement on adoption of IFRS 9	**10,000**	—
Allowance for losses at January 1 under IFRS 9	**140,000**	131,000
Provision for credit losses	**574,996**	125,417
Charge-offs	**(579,996)**	(121,563)
Recoveries	**—**	23,146
Allowance for losses at June 30	**$ 135,000**	$ 158,000

The allowance for losses on the guarantee of managed receivables at June 30, 2018 comprised a Stage 1 allowance and a Stage 2 allowance as follows:

	Stage 1	Stage 2	Total
Allowance for losses at Jan. 1, 2018 under IFRS 9	$ 88,600	$ 51,400	$ 140,000
Reserves expense* (recovery) related to increase (decrease) in allowance	7,700	(12,700)	(5,000)
Allowance for losses at June 30, 2018	$ 96,300	$ 38,700	$ 135,000

*- a component of the provision for losses

There were no transfers between the three stages of the allowance for losses on the guarantee of managed receivables as described under note 3(a) in the first half of 2018. There are no Stage 3 allowances as any claims for payment under the Company's guarantees on such accounts are accrued and included in accounts payable and other liabilities.

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

At June 30, 2018, the Company held cash collateral of $1,420,438 (December 31, 2017 – $1,645,691; June 30, 2017 – $1,524,533) to help reduce the risk of loss on certain of the Company's finance receivables and loans and managed receivables.

5. Assets held for sale

Assets held for sale and movements therein during the first six months of 2018 and 2017 were as follows:

	2018	2017
Assets held for sale at January 1	**$ 71,882**	$ 1,215,656
Impairment charge	**(25,000)**	—
Assets held for sale at June 30	**$ 46,882**	$ 1,215,656

From time to time, the Company obtains title to or repossesses certain long-lived assets securing defaulted loans. These assets will be disposed of as market conditions permit. The estimated net realizable value of the assets is based upon appraisals thereof.

6. Intangible assets

Intangible assets and movements therein during the six months ended June 30, 2018 and 2017 were as follows:

2018	Existing customer contracts	Customer and referral relationships	Broker relationships	Brand name	Total
Cost:					
January 1, 2018	**$ 1,179,097**	**$ 1,914,563**	**$ 1,343,938**	**$ 1,712,171**	**$ 6,149,769**
Foreign exchange adjustment	**—**	**85,593**	**—**	**76,544**	**162,137**
June 30, 2018	**$ 1,179,097**	**$ 2,000,156**	**$ 1,343,938**	**$ 1,788,715**	**$ 6,311,906**
Accumulated amortization:					
January 1, 2018	**$ (1,104,817)**	**$ (18,409)**	**$ (799,532)**	**$ —**	**$ (1,922,758)**
Amortization expense	**(37,142)**	**(64,987)**	**(102,068)**	**—**	**(204,197)**
Foreign exchange adjustment	**—**	**(2,618)**	**—**	**—**	**(2,618)**
June 30, 2018	**$ (1,141,959)**	**$ (86,014)**	**$ (901,600)**	**$ —**	**$ (2,129,573)**
Book value:					
January 1, 2018	**$ 74,280**	**$ 1,896,154**	**$ 544,406**	**$ 1,712,171**	**$ 4,227,011**
June 30, 2018	**$ 37,138**	**$ 1,914,142**	**$ 442,338**	**$ 1,788,715**	**$ 4,182,333**

2017	Existing customer contracts	Broker relationships	Total
Cost:			
January 1, 2017 and June 30, 2017	$ 1,179,097	$ 1,343,938	$ 2,523,035
Accumulated amortization:			
January 1, 2017	$ (940,921)	$ (595,396)	$ (1,536,317)
Amortization expense	(81,948)	(102,068)	(184,016)
June 30, 2017	$ (1,022,869)	$ (697,464)	$ (1,720,333)
Book value:			
January 1, 2017	$ 238,176	$ 748,542	$ 986,718
June 30, 2017	$ 156,228	$ 646,474	$ 802,702

7. Goodwill

	2018	2017
Balance at January 1	**$ 13,081,651**	$ 3,173,777
Foreign exchange adjustment	**500,668**	(43,276)
Balance at June 30	**$ 13,582,319**	$ 3,130,501

Goodwill is tested for impairment annually. During 2017, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2018's impairment review will be conducted in the Company's fourth quarter unless impairment indicators arise earlier. At June 30, 2018 and December 31, 2017 goodwill of US$8,908,713 (June 30, 2017 – US$961,697) was carried in the Company's U.S. subsidiary and a foreign exchange adjustment is recognized each period-end when this balance is translated into Canadian dollars at the prevailing period-end exchange rate.

8. Bank Indebtedness

Revolving lines of credit totalling approximately $207 million have been established with a number of banks, bearing interest varying with the bank prime rate or Libor. These lines of credit are collateralized primarily by finance receivables and loans to clients. One bank line totalling $185 million matures in August 2018 and is currently in the process of being renewed, while another totalling $22 million is due on demand. At June 30, 2018, the amounts outstanding under the Company's lines of credit totalled $160,100,140 (December 31, 2017 – $138,140,342; June 30, 2017 – $92,784,093). The Company was in compliance with all loan covenants under its bank lines of credit during the six months ended June 30, 2018 and 2017.

9. Loan payable

A revolving line of credit totalling approximately $13,000,000 (US$10,000,000) was established by BondIt Media Capital ("BondIt") during April 2018 with a non-bank lender, bearing interest varying with the U.S. base rate. This line of credit matures in October 2019 and is collateralized by all its assets. At June 30, 2018, the amounts outstanding under this line of credit totalled $5,633,469 (December 31, 2017 and June 30, 2017 – nil). The Company has been in compliance with all loan covenants under this line of credit since it was entered into.

10. Related party transactions (notes payable)

Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. The notes are unsecured, due on demand, or for some notes, a week after requesting repayment, and bear interest at rates that vary with bank prime rate or Libor.

Notes payable were as follows:

	June 30, 2018	Dec. 31, 2017	June 30, 2017
Related parties	**$ 20,877,978**	$ 14,037,950	$ 10,495,522
Third parties	**2,041,818**	1,824,083	1,158,697
	$ 22,919,796	$ 15,862,033	$ 11,654,219

Interest expense on the notes payable for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three months		Six months	
	2018	2017	2018	2017
Related parties	**$179,887**	$ 68,708	**$295,846**	$ 135,566
Third parties	**28,874**	6,152	**50,464**	11,938
	$208,761	$ 74,860	**$346,310**	$ 147,504

11. Capital stock, contributed surplus, dividends, share appreciation rights, stock option plans, senior executive long-term incentive plan, and stock-based compensation

(a) Authorized capital stock

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At June 30, 2018 and 2017 and December 31, 2017, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during the six months ended June 30, 2018 and 2017 are set out in the consolidated statements of changes in equity.

(c) Contributed surplus

	2018	2017
Balance at January 1	$ 297,825	$ 195,704
Stock-based compensation expense related to stock option grants (note 11(f))	16,842	68,010
Balance at June 30	$ 314,667	$ 263,714

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three and six months ended June 30, 2018, dividends totalling $747,695 (2017– $747,694) and $1,495,389 (2017 – $1,495,388) or $0.09 (2017 – $0.09) and $0.18 (2017 – $0.18), respectively, per common share were declared and paid.

On July 25, 2018, the Company declared a quarterly dividend of $0.09 per common share, payable September 4, 2018 to shareholders of record at the close of business August 15, 2018.

(e) Share appreciation rights

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

No SARs have been granted by the Company to directors or employees since 2011. No SARs were outstanding at June 30, 2018 and December 31, 2017. The Company's vested and outstanding SARs at June 30, 2017 were as follows:

Exercise price	Grant Date	June 30, 2017
$6.03	July 28, 2009	7,500
$5.50	May 7, 2010	15,000
$7.95	May 4, 2011	45,000
		67,500

(f) Stock option plans

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

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

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date. Outstanding options granted under the NEDSOP were as follows:

Exercise price	Grant Date	June 30, 2018	Dec. 31, 2017	June 30, 2017
$9.56	October 28, 2015	100,000	100,000	100,000
$9.28	July 27, 2016	100,000	100,000	100,000
Outstanding		200,000	200,000	200,000
Earned and exercisable		150,000	150,000	50,000

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

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

(g) Senior executive long-term incentive plan

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

(h) Stock-based compensation

During the three months ended June 30, 2018, the Company recorded a stock-based compensation expense of $151,755 (2017 – $25,205), of which $143,334 (2017 – $2,000) was in respect of LTIP awards and $8,421 (2017 – $34,005) was in respect of NEDSOP grants. There was no expense in respect of SARs grants (2017 – recovery $10,800). For the six months ended June 30, 2018, the Company recorded a stock-based compensation expense of $178,550 (2017 – $106,860), of which $161,708 (2017 – $51,000) was in respect of the Company's LTIP awards and $16,842 (2017 – $68,010) was in respect of NEDSOP grants. There was no expense in respect of SARs grants (2017 – recovery $12,150).

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

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

For the three and six months ended June 30, 2018 and 2017, all outstanding options were excluded from the calculation of the diluted weighted average number of common shares outstanding because they were considered to be anti-dilutive for earnings per common share purposes. Details of outstanding options are set out in note 11(f).

13. Contingent liabilities

(a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defense. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. At June 30, 2018 and 2017, the Company was not aware of any litigation the aggregate liability from which would materially affect the financial position of the Company, and thus had not accrued a loss.

(b) At June 30, 2018, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $498,778 (December 31, 2017 – $1,018,475; June 30, 2017 – $694,136). In addition, at June 30, 2018 the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of $13,133 (December 31, 2017 – $12,545; June 30, 2017 – $398,310). These amounts were considered in determining the allowance for losses on finance receivables and loans.

14. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries which report in U.S. dollars. Changes in the AOCI balance during the six months ended June 30, 2018 and 2017 are set out in the consolidated statements of changes in equity.

15. Fair values of financial assets and liabilities

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

16. Segmented information

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

Three months ended June 30	2018				2017			
(in thousands)	Canada	United States	Inter-company	Total	Canada	United States	Inter-company	Total
Identifiable assets	**$ 135,427**	**$ 152,851**	**$ (23)**	**$ 288,255**	$ 121,962	$ 67,550	$ —	$ 189,512
Revenue	**$ 5,459**	**$ 5,364**	**$ —**	**$ 10,823**	$ 4,610	$ 1,993	$ —	$ 6,603
Expenses								
Interest	**1,762**	**229**	**—**	**1,991**	709	45	—	754
General and administrative	**2,744**	**2,970**	**—**	**5,714**	2,303	1,584	—	3,887
Provision for credit and loan losses	**(143)**	**329**	**—**	**186**	443	1,516	—	1,959
Impairment of assets held for sale	**25**	**—**	**—**	**25**	—	—	—	—
Depreciation	**32**	**20**	**—**	**52**	31	10	—	41
Business acquisition expenses	**70**	**193**	**—**	**263**	92	—	—	92
	4,490	**3,741**	**—**	**8,231**	3,578	3,155	—	6,733
Earnings before income tax	**969**	**1,623**	**—**	**2,592**	1,032	(1,162)	—	(130)
Income tax expense (recovery)	**272**	**(163)**	**—**	**109**	281	(780)	—	(499)
Net earnings	**697**	**1,786**	**—**	**2,483**	751	(382)	—	369
Net earnings attributable to non-controlling interest	**—**	**120**	**—**	**120**	—	—	—	—
Net earnings attributable to shareholders	**$ 697**	**$ 1,666**	**$ —**	**$ 2,363**	$ 751	$ (382)	$ —	$ 369

Six months ended June 30	2018				2017			
(in thousands)	Canada	United States	Inter-company	Total	Canada	United States	Inter-company	Total
Identifiable assets	**$ 135,427**	**$ 152,851**	**$ (23)**	**$ 288,255**	$ 121,962	$ 67,550	$ —	$ 189,512
Revenue	**$ 10,371**	**$ 10,485**	**$ —**	**$ 20,856**	$ 9,146	$ 3,958	$ —	$ 13,104
Expenses								
Interest	**3,170**	**287**	**—**	**3,457**	1,282	91	—	1,373
General and administrative	**5,473**	**5,647**	**—**	**11,120**	4,909	2,969	—	7,878
Provision for credit and loan losses	**798**	**827**	**—**	**1,625**	813	1,493	—	2,306
Impairment of assets held for sale	**25**	**—**	**—**	**25**	—	—	—	—
Depreciation	**63**	**36**	**—**	**99**	56	22	—	78
Business acquisition expenses	**139**	**391**	**—**	**530**	184	—	—	184
	9,668	**7,188**	**—**	**16,856**	7,244	4,575	—	11,819
Earnings before income tax	**703**	**3,297**	**—**	**4,000**	1,902	(617)	—	1,285
Income tax expense (recovery)	**198**	**(265)**	**—**	**(67)**	543	(853)	—	(310)
Net earnings	**505**	**3,562**	**—**	**4,067**	1,359	236	—	1,595
Net earnings attributable to non-controlling interest	**—**	**487**	**—**	**487**	—	—	—	—
Net earnings attributable to shareholders	**$ 505**	**$ 3,075**	**$ —**	**$ 3,580**	$ 1,359	$ 236	$ —	$ 1,595

17. Financial risk management

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company’s case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these loans and managed receivables represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's asset-based lending, including factoring and equipment leasing, 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. Typically, the Company takes title to the factored receivables and collateral security over the other assets that it lends against and does not lend on an unsecured basis. It does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

In its asset-based lending businesses, media finance business, Canadian equipment finance business (Varion), and credit protection and receivables management operations, credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1.0 million (US$500,000 for BondIt), the Company's President and the Chairman of its Board. Credit in excess of $2.5 million is approved by the Company's Credit Committee, which comprises three independent members of its Board. In the Company's U.S. equipment finance business (CapX), credit is approved by its Investment Committee, with amounts in excess of US$2,500,000 also being approved by the Company's President. CapX credit in excess of US$4,000,000 is also approved by the Company's Credit Committee. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. In its asset-based lending operations, the Company's primary focus continues to be on the 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 and working capital loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 4.0% were past due more than 60 days at June 30, 2018 (2017 – 6.6%). 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 a client rating system to assess credit risk in its asset-based lending and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, while in its credit protection and receivables management business, it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Credit risk is primarily managed by ensuring that, as far as possible, the receivables financed are of the highest quality and that any inventory, equipment or other assets-securing loans are appropriately appraised. In its asset-based lending operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. The financial strength of its clients' customers is often more important than the financial strength of the clients themselves.

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

In its credit protection and receivables management business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At June 30, 2018, the Company had not guaranteed any 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:

	June 30, 2018		June 30, 2017	
Industrial Sector (in thousands)	**Gross finance receivables and loans**	**% of total**	**Gross finance receivables and loans**	**% of total**
Financial and professional services	**$ 90,381**	**34**	$ 63,347	36
Manufacturing	**44,611**	**17**	24,629	14
Wholesale and distribution	**33,268**	**13**	36,427	21
Retail	**22,353**	**9**	26,086	15
Transportation	**15,108**	**6**	—	—
Construction	**14,262**	**5**	—	—
Media	**13,587**	**5**	—	—
Other	**28,708**	**11**	24,500	14
	$ 262,278	**100**	$ 174,989	100

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

	June 30, 2018		June 30, 2017	
Industrial Sector (in thousands)	**Managed receivables**	**% of total**	**Managed receivables**	**% of total**
Retail	**$ 22,595**	**60**	$ 35,554	81
Wholesale and distribution	**13,052**	**34**	—	—
Other	**2,274**	**6**	8,437	19
	$ 37,921	**100**	$ 43,991	100

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, loan payable, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling approximately $220,000,000 have been established at a number of banking institutions and a non-bank lender bearing interest varying with the bank prime rate or Libor. At June 30, 2018, the Company had borrowed $165,733,609 (December 31, 2017 – $138,140,342; June 30, 2017 – $92,784,093) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit during the six months ended June 30, 2018 and 2017. Notes payable are mostly due on demand, or a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at June 30, 2018, 91% of these notes were due to related parties and 9% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At June 30, 2018, the Company had gross finance receivables and loans totalling $262,278,063 (December 31, 2017 – $220,104,156; June 30, 2017 – $174,988,607) which substantially exceeded its total liabilities of $203,495,353 at that date (December 31, 2017 – $170,887,298; June 30, 2017 – $114,857,889). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

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

(c) Market risk

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

(i) Currency risk

The Company's operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness, loan payable, 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 June 30, 2018, the Company's unhedged foreign currency positions totalled $310,000 (December 31, 2017 – $208,000; June 30, 2017 – $69,000). The Company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a 1% change in the value of its unhedged foreign currency positions against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

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

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's finance receivables and loans currently exceed its floating and short-term fixed rate (usually 30 days) borrowings, the Company is exposed to some degree to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity. This gap has been declining recently as a result of the Company's equipment finance businesses, where Varion and CapX's lease receivables and equipment loans to clients are usually at fixed effective interest rates for up to five years, while related bank borrowings are currently at floating rates. It is expected the Company will have to deploy interest rate hedges in the not too distant future where certain bank borrowings are matched up with the lease receivables and term loan maturities in our equipment finance businesses.

The following table shows the interest rate sensitivity gap at June 30, 2018:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets:						
Cash	$ 5,981	$ —	$ —	$ —	$ 1,289	**$ 7,270**
Finance receivables and loans, net	173,566	38,951	28,285	21,311	(2,940)	**259,173**
All other assets	—	1,166	—	—	20,646	**21,812**
	179,547	40,117	28,285	21,311	18,995	**288,255**
Liabilities:						
Bank indebtedness	68,827	91,274	—	—	—	**160,101**
Loan payable	5,633	—	—	—	—	**5,633**
Notes payable	22,920	—	—	—	—	**22,920**
All other liabilities	—	218	—	—	14,624	**14,842**
Equity	—	—	—	—	84,759	**84,759**
	97,380	91,492	—	—	99,383	**288,255**
	$ 82,167	$(51,375)	$ 28,285	$ 21,311	$ (80,388)	**$ —**

Based on the Company's interest rate positions as at June 30, 2018, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $310,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

18. Capital disclosure

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to total equity and its total equity to total assets. As a percentage, these ratios were 223% (December 31, 2017 – 193%; June 30, 2017 – 140%) and 29% (December 31, 2017 – 32%; June 30, 2017 – 39%), respectively, at June 30, 2018 indicating the Company's continued financial strength and relatively low degree of leverage. The Company's debt, and leverage, will usually rise with an increase in finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at June 30, 2018, AFIC and AFIU are required to maintain a debt to TNW ratio of less than 3.0 on a combined basis. Varion is also required to maintain a debt to TNW ratio of less than 3.0. BondIt, which entered into a loan facility this quarter with a non-bank lender, needs to maintain a TNW of US$5,000,000. The Company was fully compliant with its banking and non-banking covenants during the six months ended June 30, 2018 and 2017. There were no changes in the Company's approach to capital management from previous periods.

19. Subsequent events

At July 25, 2018, there were no subsequent events occurring after June 30, 2018 that required disclosure or adjustments to the financial statements.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2]
David Beutel, Toronto, Ontario [1, 3]
Tom Henderson, Greenville, South Carolina
Gary Prager, Atlanta, Georgia [1, 3]
Robert S. Sandler, White Plains, New York [2, 3]
Stephen D. Warden, Oakville, Ontario [1, 2]

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Credit Committee

Officers

Ken Hitzig, Chairman of the Board
Tom Henderson, President & CEO
Stuart Adair, Senior Vice President, Chief Financial Officer
Jim Bates, Secretary
Simon Hitzig, Senior Vice President
Fred Moss, Vice President

Subsidiaries

Accord Financial Ltd., Jim Bates, President
Accord Financial Inc., Fred Moss, President
Accord Financial, Inc., Tom Henderson, President
Accord Small Business Finance (Varion Capital Corp.), James Jang, President
Accord CapX LLC, Jeff Pfeffer, President
BondIt Media Capital, Matthew Helderman, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

Bank of Montreal
The Bank of Nova Scotia
Branch Banking and Trust
Canadian Imperial Bank of Commerce
HSBC Bank Canada
M & T Bank
The Toronto-Dominion Bank

Stock Exchange Listing

Toronto Stock Exchange
Symbol: ACD

Registrar and Transfer Agent

Computershare Trust Company of Canada

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