

SECOND QUARTER REPORT
JUNE 30, 2012

STRENGTH AND STABILITY IN A CHALLENGING WORLD



ACCORD
FINANCIAL
Keeping Business Liquid



KEEPING BUSINESS LIQUID

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and six months ended June 30, 2012 together with comparative figures for the same period of 2011. 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.

Factoring volume for the second quarter decreased to \$443 million compared to \$455 million in last year's second quarter due to lower non-recourse volume. Revenue declined to \$6,323,000 in the second quarter compared to \$6,828,000 last year on lower volume, reduced funds employed and somewhat lower yields. Our interest cost decreased to \$469,000 compared to \$543,000 a year ago on lower interest rates and average borrowings. Overhead costs, comprising general and administrative expense and depreciation, increased slightly from last year's second quarter to \$3,315,000. The provision for credit and loan losses, which includes changes in reserves, rose to \$722,000 in the second quarter of 2012 compared to \$570,000 in 2011 largely due to increased net charge-offs. There was no impairment charge on the assets held for sale in the second quarter compared to \$462,000 last year.

Net earnings for the second quarter of 2012 declined to \$1,243,000 compared with \$1,394,000 in the same quarter of 2011. Earnings per common share were 15 cents this year compared with 16 cents last year. Second quarter revenue and net earnings were \$4,482,000 and \$814,000, respectively, in Canada compared to \$4,781,000 and \$1,061,000, respectively, in the second quarter of 2011. They were \$1,840,000 and \$429,000, respectively, in our U.S. operation compared to \$2,047,000 and \$333,000, respectively, last year.

The Company's gross factored receivables and loans (our funds employed) were \$116 million at June 30, 2012, slightly lower

than the record high \$120 million last June 30 but 27% higher than the \$91 million at December 31, 2011. Equity totalled \$47 million at June 30, 2012 compared to \$44 million last June 30 and \$48 million at December 31, 2011. This is equivalent to a book value per share of \$5.56 versus \$4.95 a year ago and \$5.49 at December 31, 2011; since June 30, 2011 the Company has repurchased and cancelled 428,070 shares acquired under its Normal Course Issuer Bids. There were 8,515,898 shares outstanding at June 30, 2012.

Factoring volume for the first six months of 2012 declined to \$880 million compared with \$937 million in 2011 on lower non-recourse volume. Revenue decreased to \$12,002,000 this year, down from \$13,695,000 last year for reasons noted above. Interest expense declined to \$859,000 from \$1,039,000 in 2011. Overhead costs decreased 1% to \$6,736,000 in 2012 compared with \$6,791,000 in 2011. The provision for credit and loan losses rose to \$1,327,000 in the first half of 2012 compared with \$1,017,000 in the same period of 2011 on higher net charge-offs and reserves expense. There was no impairment charge in 2012 compared to \$462,000 last year.

Net earnings for the first half of 2012 declined to \$2,126,000 from the \$2,992,000 earned in the first half of 2011. Earnings per share were 25 cents this year, compared with 33 cents last year. For the first half of 2012, Canadian revenue and net earnings were lower at \$8,548,000 and \$1,439,000, respectively, versus \$9,588,000 and \$2,055,000, respectively, for the same period of 2011. U.S. revenue and net earnings declined to \$3,463,000 and \$687,000, respectively, compared with \$4,107,000 and \$937,000, respectively, last year.

Our earnings are weaker compared to last year but we expect to have a better second half than the first half. As you recall, we

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Long-term Relationships: At Accord, we build long-term relationships with clients by listening, understanding and being committed to their business and customers. Our management, staff, and partners also tend to be long-term members of the Accord team. Accord partners with the best and most respected industry-specific trade and credit bureaus and associations around the globe to position our clients for world-class service.

started the year at a very low level of activity due to the loss of clients in two of our businesses. The U.S. recourse business witnessed very aggressive bank activity last year and the resulting early “graduation” of many clients to bank facilities. Similarly, our non-recourse factoring business saw the same thing happen largely as a result of newly aggressive Canadian credit insurers.

The earnings for the quarter and first half just ended do not yet reflect the impact of the many marketing initiatives I have informed you about in previous letters. Where the results of those initiatives can be seen is in the build-up of funds employed in our recourse factoring business, particularly in the U.S. Funds employed have increased 27% since the beginning of 2012 to \$116 million at June 30, 2012 and are within touching distance of our record high \$120 million. In addition, the pipeline of prospective transactions continues to be satisfactory. This augurs well for our recourse business as we head into the second half of the year.

Our non-recourse business is ramping up its marketing campaign for our new product, AccordOctet. This product was officially launched in June and is being heavily promoted in Canada and in the U.S. “Octet” is a supply chain finance product aimed at importers of products from China but it also has application for importers from almost any country. It provides the importer with an unsecured line of credit and results in the exporter getting paid in full immediately upon transfer of title.

On a global basis we see no real relief on the horizon for improved Euro Zone confidence and, like you, we watch developments there closely. In the same vein we also note slowing growth in the developing countries particularly China, India and Brazil. The recent drop in commodity prices seems to reflect a universal caution about real GDP growth everywhere. Certainly, the

economies in the two markets where we operate are very sluggish to say the least. In the U.S., political wrangling and a looming election are considered a damper on investment and risk taking. The erosion of commodity prices and a possible cooling of a hot real estate market may not encourage business expansion in Canada. In this environment we remain vigilant on asset quality and expense management while still vigorously promoting the Accord brand and our products and services.

I am pleased to report to you that your Company is progressing in the right direction, that we have undeniable momentum and confidence in our business strategy.

At the Board of Directors meeting held today, the Company raised its quarterly dividend by 7% to 8.0 cents per common share payable September 4, 2012 to shareholders of record August 15, 2012. The Board also agreed to apply for a renewal of its Issuer Bid. Under the current Issuer Bid, the Company has purchased 421,000 shares to July 24, 2012.

A handwritten signature in blue ink, appearing to read 'Tom Henderson'. The signature is stylized and somewhat cursive.

Tom Henderson
President and Chief Executive Officer

Toronto, Ontario
July 24, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION ("MD&A")

Quarter and six months ended June 30, 2012 compared with
quarter and six months ended June 30, 2011

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial position for the quarter and six months ended June 30, 2012 compared with the quarter and six months ended June 30, 2011 and, where presented, the quarter and six months ended June 30, 2010. 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 24, 2012, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements and notes thereto for the quarter and six months ended June 30, 2012 and 2011 (the "Statements"), which are included as part of this 2012 Second Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2011 audited consolidated financial statements and notes thereto included in the Company's 2011 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 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.

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 assess its performance and some of these are presented herein to help the reader better understand certain aspects of the Company's operating performance and financial position. These measures may not have standardized meanings or computations as prescribed by IFRS that would

ensure consistency and comparability between companies using these measures and are, therefore, considered to be non-IFRS measures. The Company 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 aspects of its business. The non-IFRS measures presented in this MD&A are defined as follows:

- a) Book value per share – book value is the net asset value of the Company calculated as total assets minus total liabilities and, by definition, is the same as total equity. Book value per share is the net asset value divided by the number of outstanding shares as of a particular date.
- b) (i) Equity expressed as a percentage of total assets; and (ii) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages provide information on trends in the Company's financial position and leverage.

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.

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, collection services, credit investigation and guarantees, and supply chain financing for importers. The Company's financial services are discussed in more detail in its 2011 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 three factoring companies in North America, namely, Accord Financial Ltd. ("AFL") and Accord Financial Inc. ("AFIC") in Canada and Accord Financial, Inc. ("AFIU") in the United States.



Financial Strength: A reliable service provider with a strong balance sheet, Accord offers an array of financial services including factoring, flexible credit guarantees, receivables purchase programs and management services, asset-based lending, and supply chain financing for Canadian and U.S. importers. By helping businesses manage cash flow and maximize financial opportunities, Accord keeps businesses liquid and improves their financial well-being.

Quarterly Financial Information

(unaudited, in thousands of dollars except earnings per share)

Quarter ended	Revenue	Net Earnings	Basic and Diluted Earnings Per Common Share
2012 June 30	\$ 6,323	\$ 1,243	\$ 0.15
March 31	5,680	883	0.10
2011 December 31	\$ 7,371	\$ 2,345	\$ 0.27
September 30	7,342	2,248	0.25
June 30	6,828	1,394	0.16
March 31	6,867	1,598	0.18
Total	\$ 28,408	\$ 7,585	\$ 0.85*
2010 December 31	\$ 8,217	\$ 2,960	\$ 0.32
September 30	8,141	1,367	0.15
June 30	8,069	2,307	0.25
March 31	6,979	1,609	0.17
Total	\$ 31,406	\$ 8,243	\$ 0.88*

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

The Company's business principally involves: (i) recourse factoring by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as asset-based lending, namely, financing other tangible assets, such as inventory and equipment; and (ii) non-recourse factoring by AFL, which principally involves providing credit guarantees and collection services on a non-recourse basis, generally without financing.

Results of Operations

Quarter ended June 30, 2012 compared with quarter ended June 30, 2011

Net earnings for the quarter ended June 30, 2012 declined by \$151,000 or 11% to \$1,243,000 compared to \$1,394,000 earned in the second quarter of 2011 and were 46% below 2010's second quarter net earnings of \$2,307,000. Net earnings decreased compared to 2011 principally as a result of lower revenue and, to a lesser extent, a higher provision for credit and loan losses. Net earnings declined compared to 2010 mainly due to lower revenue. As a result of lower net earnings, earnings per common share for the current quarter decreased 6% to 15 cents from the 16 cents earned in the second quarter of 2011, while they were 40% lower than the 25 cents earned in the second quarter of 2010.

Factoring volume decreased by 3% to \$443 million compared to \$455 million in the second quarter of 2011. Non-recourse volume declined by 39%, while recourse volume rose by 17%. Non-recourse volume declined on the departure of numerous clients as a number of perceived risky retail customers improved to credit-worthy status. This resulted in credit insurers re-entering the market offering aggressive rates for these accounts and some significant clients left the Company. In addition, the Company suspended credit coverage on a significant retail customer in the second half of 2011 resulting in the further loss of clients. Recourse volume rose on signing a number of new clients.

Revenue declined by 7% or \$505,000 to \$6,323,000 in the current quarter compared with \$6,828,000 last year and was 22% lower than the \$8,069,000 in the second quarter of 2010. Revenue principally declined compared to 2011 and 2010 as a result of the decline in non-recourse factoring volume, and somewhat lower factored receivables and loans ("Loans" or "funds employed") and/or yields in our recourse factoring business.

Total expenses for the second quarter of 2012 decreased by \$293,000 to \$4,506,000 compared to \$4,799,000 last year mainly due to the absence of an impairment charge against assets held for sale this quarter, as well as a \$74,000 decline in interest expense. The provision for credit and loan losses rose by \$152,000, while general and administrative expenses ("G&A") increased by \$90,000. Depreciation was \$2,000 higher.

Interest expense declined by 14% to \$469,000 in the second quarter compared to \$543,000 last year as a result of lower borrowing rates and a 5% decrease in average borrowings (bank indebtedness and notes payable). Borrowings declined mainly on lower funds employed.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A increased by 3% to \$3,284,000 in the current quarter compared to \$3,194,000 last year largely due to increased marketing expenses. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose 27% to \$722,000 in

the second quarter of 2012 compared to \$570,000 last year. For the quarters ended June 30, 2012 and 2011, the provision comprised:

(in thousands)	Quarter ended June 30	
	2012	2011
Net charge-offs	\$ 494	\$ 344
Reserves expense related to increase in total allowances for losses	228	226
	\$ 722	\$ 570

Net charge-offs increased by \$150,000 or 44% to \$494,000 this quarter, while the reserves expense rose by \$2,000 to \$228,000. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies. The Company continues to employ a conservative approach to determining its allowances for losses and providing for charge-offs.

There was no impairment charge taken against the assets held for sale in the current quarter as appraisals thereof determined that their net realizable value was similar to their book value. An impairment charge of \$462,000 was taken in last year's second quarter. See note 6 to the Statements and the discussion below.

Income tax expense decreased by 10% to \$573,000 in the current quarter compared to \$635,000 last year on a similar decline in pre-tax earnings. The Company's effective income tax rate was 31.6% compared to 31.3% last year.

Canadian operations reported a 23% decrease in net earnings in the second quarter of 2012 compared to 2011 (see note 16 to the Statements). Net earnings declined by \$247,000 to \$814,000 on lower revenue and, to a lesser extent, higher G&A and provision for losses. Revenue declined by 6% or \$299,000 to \$4,482,000. Expenses increased by \$64,000 to \$3,365,000. G&A were \$97,000 higher at \$2,501,000, while the provision for credit and loan losses increased \$32,000 to \$429,000. Depreciation rose \$2,000. Interest expense was \$67,000 lower at \$409,000. Income tax expense decreased by 28% to \$303,000 on a 25% decline in pre-tax earnings and a lower Canadian federal income tax rate in 2012.

U.S. operations reported a 29% increase in net earnings in the second quarter of 2012 compared to 2011. Net earnings increased by \$96,000 to \$429,000 mainly due to the absence of an impairment charge against the assets held for sale this year. Revenue declined by \$207,000 or 10% to \$1,840,000 on lower yields and average

funds employed. Expenses decreased by \$357,000 or 24% to \$1,141,000 as a result of the absence of the impairment charge (2011: \$462,000). G&A declined \$7,000 to \$783,000, while interest expense was also \$7,000 lower at \$60,000. Depreciation expense decreased slightly to \$5,000. The provision for credit and loan losses increased by \$120,000 to \$293,000. Income tax expense rose by \$54,000 or 25% to \$270,000 on a 27% rise in pre-tax earnings.

Six months ended June 30, 2012 compared with six months ended June 30, 2011

Net earnings for the first six months of 2012 declined by \$866,000 or 29% to \$2,126,000 compared to \$2,992,000 last year. The decrease in net earnings principally resulted from lower revenue, and, to a lesser extent, an increase in the provision for credit and loan losses. Earnings per common share for the six months were 25 cents, 24% lower than the 33 cents earned last year.

Factoring volume decreased by \$57 million or 6% to \$880 million compared to \$937 million last year. Non-recourse volume decreased by 34%, while recourse volume increased by 12%. Non-recourse volume declined on the departure of a number of clients as discussed above, while recourse volume rose on signing a number of new clients.

Revenue for the current six month period declined by \$1,693,000 or 12% to \$12,002,000 compared with \$13,695,000 in the first six months of 2011. Revenue declined for reasons noted in the second quarter review above.

Total expenses for the current six months decreased by \$386,000 or 4% to \$8,922,000 compared to \$9,308,000 last year. There was no impairment charge (2011: \$462,000) taken against the assets held for sale in the current six month period, while interest expense declined by \$179,000. G&A was \$59,000 lower. The provision for credit and loan losses rose by \$310,000, while depreciation expense increased by \$4,000 to \$63,000.

Interest expense declined by 17% to \$859,000 on an 11% decrease in average borrowings and somewhat lower borrowing rates.

G&A decreased 1% to \$6,673,000 principally as a result of a \$131,000 decline in profit sharing expense related to lower earnings and a \$69,000 decrease in stock-based compensation expense related to the Company's share appreciation rights ("SARs").

The provision for credit and loan losses rose by 30% to \$1,327,000 in the current six month period compared to \$1,017,000 last year on higher net charge-offs and reserves expense. The provision

for the first six months of 2012 and 2011 comprised:

(in thousands)	Six months ended June 30	
	2012	2011
Net charge-offs	\$ 881	\$ 703
Reserves expense related to increase in total allowances for losses	446	314
	\$ 1,327	\$ 1,017

Net charge-offs increased by \$178,000 or 25% in the current six months compared to last year, while there was an increase of \$132,000 or 42% in the expense related to the rise in the Company's total allowances for losses.

Income tax expense declined by \$441,000 or 32% to \$954,000 compared to \$1,395,000 in the first six months of 2011 on a 30% decrease in pre-tax earnings. The effective income tax rate declined to 31.0%, somewhat below last year's 31.8%. As noted above, the Canadian federal income tax rate was reduced in 2012.

Canadian operations reported a 30% decrease in net earnings in the first six months of 2012 compared to 2011 (see note 16 to the Statements). Net earnings declined by \$616,000 to \$1,439,000 compared to \$2,055,000 last year as a result of lower revenue. Revenue declined by \$1,040,000 or 11% to \$8,548,000 mainly as a result of lower non-recourse volume. Expenses decreased by \$123,000 or 2% to \$6,578,000. Interest expense was \$135,000 lower at \$779,000, while the provision for credit and loan losses declined by \$33,000 to \$679,000. G&A increased by \$39,000, while depreciation was \$6,000 higher. Income tax expense declined by \$301,000 or 36% to \$531,000 on a 32% decline in pre-tax earnings and a lower Canadian federal income tax rate this year.

U.S. operations reported a 27% decrease in net earnings compared to the first six months of 2011. Net earnings declined by \$250,000 to \$687,000 compared to \$937,000 last year. Revenue decreased by \$644,000 or 16% to \$3,463,000 on lower average funds employed and yields. Expenses declined by \$254,000 or 10% to \$2,353,000 largely due to the absence of an impairment charge this year. Interest expense declined by \$36,000 to \$89,000, while G&A decreased by \$97,000 to \$1,607,000. The provision for credit and loan losses rose by \$343,000 to \$648,000 largely as a result of the requirement for additional allowances for losses related to an 83% increase in funds employed in 2012. Income tax expense declined by 25% to \$423,000 on a 26% decrease in pre-tax earnings. In U.S. dollars, AFIU's net earnings decreased by 29% to US\$684,000 compared to US\$960,000 last year.

Review of Financial Position

Equity at June 30, 2012 totalled \$47,356,000, a decrease of \$499,000 from \$47,855,000 at December 31, 2011 but \$3,104,000 above the \$44,252,000 at June 30, 2011. Book value per common share was \$5.56 at June 30, 2012, slightly above the \$5.49 at December 31, 2011 and 12% higher than the \$4.95 a year earlier. The increase in equity since June 30, 2011 resulted from a rise in retained earnings and an improved accumulated other comprehensive loss ("AOCL") balance. The decrease in equity during the first six months of 2012 principally resulted from the total of dividends paid and the cost of shares repurchased under the Company's Issuer Bid exceeding total comprehensive income in the six month period. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 13 of this Second Quarter Report.

Total assets were \$123,381,000 at June 30, 2012 compared to \$98,309,000 at December 31, 2011 and \$128,851,000 at June 30, 2011. Total assets largely comprised Loans (funds employed). Identifiable assets located in the United States were 50% of total assets at June 30, 2012, compared to 37% and 41%, respectively, at December 31, 2011 and June 30, 2011.

Gross Loans, before the allowance for losses thereon, totalled \$116,330,000 at June 30, 2012, 28% above the \$90,626,000 at December 31, 2011 but 3% lower than the record high of \$120,153,000 at June 30, 2011. As detailed in note 5, the Company's Loans comprised:

(in thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2011
Factored receivables	\$ 100,181	\$ 76,133	\$ 102,912
Loans to clients	16,149	14,493	17,241
Factored receivables and loans, gross	116,330	90,626	120,153
Less allowance for losses	1,934	1,502	2,021
Factored receivables and loans, net	\$ 114,396	\$ 89,124	\$ 118,132

The Company's factored receivables increased by 32% to \$100,181,000 at June 30, 2012 compared to \$76,133,000 at December 31, 2011 but were 3% lower than the \$102,912,000 at June 30, 2011. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, rose by 11% to \$16,149,000 at June 30, 2012 compared to \$14,493,000 at December 31, 2011 but were 6% lower than the \$17,241,000 last June 30. Net of the allowance for losses thereon, Loans increased by 28% to \$114,396,000 at June 30, 2012 compared to \$89,124,000

at December 31, 2011 but were 3% lower than the \$118,132,000 at June 30, 2011. The Company's Loans principally represent advances made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had 123 clients at June 30, 2012. Five clients each comprised over 5% of gross Loans at June 30, 2012, of which the largest client comprised 11%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These non-recourse or managed receivables totalled \$73 million at June 30, 2012 compared to \$102 million at December 31, 2011 and \$119 million at June 30, 2011. Managed receivables comprise the receivables of approximately 130 clients at June 30, 2012. As noted above, numerous clients have terminated their contracts with the Company since last June 30 resulting in a significant decrease in non-recourse volume and total managed receivables. The 25 largest clients comprised 64% of non-recourse volume in the first half of 2012. 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, 2012, the 25 largest customers accounted for 44% of total managed receivables, of which the largest five comprised 25%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

The Company's total portfolio, which comprises both gross Loans and managed receivables decreased by 2% to \$189 million at June 30, 2012 compared to \$193 million at December 31, 2011 and was 21% lower than the \$239 million at June 30, 2011.

As described in note 17(a) to the Statements, the Company's business involves funding or assuming credit risk on the receivables offered to it by its clients, as well as funding other assets such as inventory and equipment. 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 \$1,000,000, by 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. 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. The Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables.

Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due. 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. Of the total managed receivables that the Company guarantees payment, 6.4% were past due more than 60 days at June 30, 2012. In the Company's recourse factoring 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 recourse factoring business, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring 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 factored are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. For a factoring company, 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, 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 non-recourse factoring business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all customer credit in excess of \$2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At June 30, 2012, the Company's largest exposure to any one customer was approximately \$8 million. As a factoring company, which administers and collects the majority of its clients' receivables, the Company is able to quickly identify problems as

and when they arise and act promptly to minimize credit and loan losses. This is particularly important in today's tumultuous economic and credit environment. Note 17(a) to the Statements provides details of the Company's credit exposure by industrial segment.

After the customary detailed quarter-end review of the Company's \$189 million 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 allowance for losses on Loans increased by 29% to \$1,934,000 at June 30, 2012 compared to \$1,502,000 at December 31, 2011 on a similar rise in funds employed in the first half of the year. The allowance was 4% below the \$2,021,000 at June 30, 2011 on 3% lower funds employed. The allowance for losses on the guarantee of managed receivables increased to \$768,000 at June 30, 2012 compared to \$751,000 at December 31, 2011 but was 33% lower than the \$1,138,000 at June 30, 2011 on a 39% decrease in managed receivables since that date. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. The allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in both allowance for losses accounts for the first six months of 2012 and 2011 is set out in note 5 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased to \$1,850,000 at June 30, 2012 compared with \$2,854,000 at December 31, 2011 and \$4,499,000 at June 30, 2011. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. However, due to the large volume of cash being processed daily it is necessary that a certain amount of cash be held to fund daily requirements. Fluctuations in cash balances are normal.

Assets held for sale are stated at their net realizable value and totalled \$3,384,000 at June 30, 2012 compared to \$3,380,000 at December 31, 2011 and \$3,218,000 last June 30. They comprise certain assets securing a defaulted loan upon which the Company's U.S. subsidiary foreclosed and obtained title in 2009. The assets continue to be marketed for sale and will be sold as market conditions permit. During the first six months of 2012, there were no additions to or sale of the assets. In the six months ended June 30, 2011 there were additions of \$308,000 relating to improvements made to assist in the sale thereof, while assets of

\$7,000 were disposed of. No impairment charges were booked against the assets during the six months ended June 30, 2012 (2011 - \$462,000). The net realizable value of the assets at the above dates was determined by professional appraisals.

Changes in income taxes receivable, deferred tax, net, other assets, capital assets and goodwill since December 31, 2011 and June 30, 2011 were not significant.

Total liabilities increased by \$25,572,000 to \$76,026,000 at June 30, 2012 compared to \$50,454,000 at December 31, 2011 but were \$8,574,000 lower than the \$84,600,000 at June 30, 2011. The increase compared to last year-end resulted from higher bank indebtedness.

Amounts due to clients decreased by \$466,000 to \$3,053,000 at June 30, 2012 compared to \$3,519,000 at December 31, 2011 and were \$1,491,000 lower than the \$4,544,000 at June 30, 2011. 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 more than doubled to \$54,863,000 at June 30, 2012 compared with \$27,222,000 at December 31, 2011 but was \$6,446,000 lower than the \$61,309,000 at June 30, 2011. The increase since December 31, 2011 principally resulted from financing higher funds employed. The Company had approved credit lines with a number of banks totalling \$116 million at June 30, 2012 and was in compliance with all loan covenants thereunder at the above dates. 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 funds employed. The Company has no term debt outstanding.

Accounts payable and other liabilities totalled \$2,477,000 at June 30, 2012 compared to \$3,723,000 at December 31, 2011 and \$2,723,000 last June 30. The decrease since December 31, 2011 principally results from payment of the Company's 2011 employee profit sharing liability in February 2012. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables.

Notes payable, net, decreased to \$14,120,000 at June 30, 2012 compared to \$14,611,000 at December 31, 2011 and \$14,824,000 at June 30, 2011 on a small amount of note redemptions. Please see Related Party Transactions section below and note 13 to the Statements.

Changes in income taxes payable and deferred income since December 31, 2011 and June 30, 2011 were not significant.

Capital stock decreased to \$6,253,000 at June 30, 2012 compared to \$6,402,000 at December 31, 2011 and \$6,567,000 at June 30, 2011 on the repurchase of shares under the Company's Issuer Bids ("Bids"). There were 8,515,898 common shares outstanding at June 30, 2012 compared to 8,718,998 at December 31, 2011 and 8,943,968 a year earlier. The consolidated statements of changes in equity on page 13 of this report provides details of changes in the Company's issued and outstanding common shares and capital stock. Details of the Company's Bids are provided in note 9(a). During the six months ended June 30, 2012, the Company repurchased and cancelled 203,100 common shares acquired under the Bids at a cost of \$1,397,600 (for an average price of \$6.88). Since June 30, 2011, the Company has repurchased 428,070 shares under the Bids. The Company's repurchase of shares is accretive to its earnings per share calculations. At the date of this MD&A, July 24, 2012, 8,515,898 common shares were outstanding.

Retained earnings totalled \$42,024,000 at June 30, 2012 compared to \$42,424,000 at December 31, 2011 and \$40,501,000 at June 30, 2011. In the first six months of 2012, retained earnings decreased by \$400,000 which comprised dividends paid of \$1,277,000 (15 cents per common share) and the premium paid on the shares repurchased under the Company's Bids of \$1,249,000 less net earnings of \$2,126,000. Please see the consolidated statements of changes in equity on page 13 of this report for details of changes in retained earnings in the first half of 2012 and 2011.

The Company's AOCL account solely comprises the cumulative unrealized foreign exchange loss arising on the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary. The AOCL balance was in a loss position of \$964,000 at June 30, 2012 compared to \$1,013,000 at December 31, 2011 and \$2,859,000 at June 30, 2011. These balances represent the cumulative translation losses arising as a result of the weakening of the U.S. dollar against the Canadian dollar since January 1, 2010, the date the Company transitioned to IFRS and reset its AOCL balance to zero. Please refer to note 14 to the Statements and the consolidated statements of changes in equity on page 13 of this report, which details movements in the AOCL account during the first half of 2012 and 2011. The \$49,000 improvement in loss position in the first six months of 2012 resulted from the slight increase in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar rose from \$1.017 at December 31, 2011 to \$1.018 at June 30, 2012. This increased the Canadian dollar equivalent book value of the Company's net investment in its

U.S. subsidiary of approximately US\$37 million by \$49,000.

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company's objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure 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, principally Loans. These ratios are set out in the table below.

(as a percentage)	June 30, 2012	Dec. 31, 2011	June 30, 2011
Debt* / Equity	146%	87%	172%
Equity / Assets	38%	49%	34%

*bank indebtedness & notes payable

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

The Company had bank credit lines totalling \$116 million at June 30, 2012 and had borrowed almost \$55 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 \$1,850,000 at June 30, 2012 compared to \$2,854,000 at December 31, 2011. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flow for the six months ended June 30, 2012 compared with the six months ended June 30, 2011

Cash inflow from operating activities before changes in operating assets and liabilities totalled \$3,596,000 in the first six months of 2012 compared with \$5,383,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash outflow from operating activities of \$25,172,000 in the first six months of 2012 compared to \$17,033,000 last year. The net cash outflow in the current six months resulted from financing gross Loans of \$25,377,000. The net cash outflow in the first six months of 2011 largely arose from financing \$17,458,000 of gross Loans. Changes in other operating assets and liabilities are set out in the Company's consolidated statements of cash flows on page 14 of this report.

Net cash inflow from financing activities totalled \$24,271,000 in the first six months of 2012 compared to \$17,046,000 last year. The net cash inflow in the current six month period resulted from bank borrowings of \$27,439,000 largely used to finance the increase in gross Loans. This inflow was somewhat offset by the repurchase of 203,100 common shares acquired under the Bids at a cost of \$1,398,000, the payment of dividends totalling \$1,277,000 and the net redemption of notes payables of \$493,000. The net cash inflow in the first six months of 2011 resulted from bank borrowings of \$17,138,000 and \$4,696,000 received from the issue of notes payable, net. These inflows were partly offset by the repurchase of common shares acquired under the Bids at a cost of \$3,443,000 and payments of dividends totalling \$1,345,000.

Cash outflows from investing activities and the effect of exchange rates changes on cash were not significant in the six months ended June 30, 2012 and 2011.

Overall, there was a \$1,004,000 decrease in cash balances in the first six months of 2012 compared to \$42,000 in the first six months of 2011.

Contractual Obligations and Commitments at June 30, 2012

(in thousands of dollars)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	
Operating lease obligations	\$ 334	\$ 669	\$ 636	\$ 19	\$ 1,658
Purchase obligations	128	6	—	—	134
Total	\$ 462	\$ 675	\$ 636	\$ 19	\$ 1,792

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, in the case of one note, a week after demand and bear interest at rates at or below the rates charged by the Company's banks. Notes payable at June 30, 2012 were \$14,120,000 compared with \$14,611,000 at December 31, 2011 and \$14,824,000 at June 30, 2011. Of these notes payable, \$12,796,000 (December 31, 2011 - \$13,324,000; June 30, 2011 - \$13,422,000) was owing to related parties and \$1,324,000 (December 31, 2011 - \$1,287,000; June 30, 2011 - \$1,402,000) to third parties. Interest expense on these notes in the current quarter and first half of 2012 totalled \$103,000 (2011 - \$77,000) and \$207,000 (2011 - \$138,000), respectively. Interest expense rose this year as a result of an increased average balance payable and somewhat higher average interest rates.

Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables and the Company's SARs liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets or liabilities recorded at cost are short term in nature, and, therefore, their carrying values approximate fair values.

At June 30, 2012, the Company had an outstanding forward foreign exchange contract with a financial institution that is exercisable between August 2, 2012 and August 31, 2012 and which obliges the Company to sell Canadian dollars and buy US\$1,000,000 at an exchange rate of 1.0054. This contract was entered into on behalf of a client and a similar contract was entered into between the Company and the client to sell US\$1,000,000 to and buy Canadian dollars from the client, thereby offsetting most risks to the Company. These contracts are discussed further in note 12 to the Statements.

Critical Accounting Policies and Estimates

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

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

The Company's allowances on its Loans and its guarantee of managed receivables may comprise specific and collective components. A specific allowance may be established against Loans that are identified as impaired, or non-performing, when the Company determines, based on its review, identification and evaluation of problem Loans, that the timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where a client's customer becomes insolvent and the Company's credit guarantee is called upon. In such cases, the Company will estimate the fair value of the required payments to the clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate.

A collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its collective allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are based upon historic loss experience and are reviewed for adequacy on an ongoing basis. The Company has always been prudent in establishing its collective allowances such that they have normally been sufficient to absorb substantial charge-offs. 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 are set out in note 5 to the Statements.

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

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 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 be lessened, 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 factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled \$189 million at June 30, 2012. 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 (impacting interest revenue) and lenders (impacting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Please refer to note 17(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources are 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 weakening of the U.S. dollar against the Canadian dollar affect its operating results when its U.S. subsidiary's results are translated into Canadian dollars. It also caused a significant decrease in the value of the Company's net Canadian dollar investment in its U.S. subsidiary, which reduced the accumulated other comprehensive income or loss component of equity to a large loss position until this was reset to zero upon transition to IFRS on January 1, 2010. Please see the discussion on AOCL above and refer to 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.

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, SARs, 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.

During 2011, the Company's portfolio declined by 25% as it faced significant competitive pressures. Our non-recourse factoring business, AFL, saw competition from credit insurers "eat into" its business as they restarted coverage on certain accounts by offering clients cheaper rates, while AFIU, our U.S. recourse factoring business, also faced heightened competition from the U.S. regional banks, who were offering lower borrowing rates. This saw numerous clients graduate to bank financing during 2011.

Given this experience, the Company began 2012 at a lower level of business activity. However, in the first half of 2012, the Company's funds employed in its recourse factoring business increased 28% to \$116 million at June 30, 2012 and are within touching distance of the Company's all time high of \$120 million. The pipeline of prospective transactions also remains satisfactory. The strong increase in funds employed in the first six months of 2012 gives the Company cause for optimism that the second half of the year will be better than the first half. AFL, our non-recourse factoring operation, is still suffering from the loss of clients and it may take some time for its results to improve, although it has initiatives in place, such as the recently announced AccordOctet import financing program, which it hopes will increase its business activity.

Accord, with its substantial capital and borrowing capacity, 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
Vice President, Chief Financial Officer
July 24, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2012	December 31, 2011	June 30, 2011
Assets			
Cash	\$ 1,850,310	\$ 2,854,168	\$ 4,499,046
Factored receivables and loans, net (note 5)	114,395,684	89,124,431	118,131,746
Income taxes receivable	683,156	253,147	179,987
Other assets	218,713	145,896	231,882
Assets held for sale (note 6)	3,383,914	3,380,258	3,217,803
Deferred tax, net	1,469,489	1,135,561	1,278,607
Capital assets	401,105	437,326	384,851
Goodwill (note 7)	979,104	978,046	927,557
	\$ 123,381,475	\$ 98,308,833	\$ 128,851,479
Liabilities			
Due to clients	\$ 3,053,052	\$ 3,519,322	\$ 4,544,270
Bank indebtedness (note 8)	54,862,538	27,222,021	61,309,379
Accounts payable and other liabilities	2,477,141	3,723,300	2,722,795
Income taxes payable	754,063	621,110	236,742
Notes payable (note 13)	14,120,173	14,610,651	14,824,453
Deferred income	758,810	757,326	962,149
	76,025,777	50,453,730	84,599,788
Equity			
Capital stock (note 9)	6,252,752	6,401,876	6,567,059
Contributed surplus	42,840	42,840	42,840
Retained earnings	42,024,151	42,423,832	40,500,860
Accumulated other comprehensive loss (note 14)	(964,045)	(1,013,445)	(2,859,068)
	47,355,698	47,855,103	44,251,691
	\$ 123,381,475	\$ 98,308,833	\$ 128,851,479

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 and six months ended June 30	Three months		Six months	
	2012	2011	2012	2011
Revenue				
Factoring commissions, discounts, interest and other income	\$ 6,322,501	\$ 6,828,201	\$ 12,002,125	\$ 13,695,478
Expense				
Interest	469,120	543,443	859,482	1,039,077
General and administrative	3,283,641	3,194,090	6,672,895	6,731,596
Provision for credit and loan losses	722,345	570,359	1,326,819	1,016,760
Impairment of assets held for sale	—	462,026	—	462,026
Depreciation	31,357	29,644	62,675	58,912
	4,506,463	4,799,562	8,921,871	9,308,371
Earnings before income tax expense	1,816,038	2,028,639	3,080,254	4,387,107
Income tax expense	573,000	635,000	954,000	1,395,000
Net earnings	\$ 1,243,038	\$ 1,393,639	\$ 2,126,254	\$ 2,992,107
Basic and diluted earnings per common share	\$ 0.15	\$ 0.16	\$ 0.25	\$ 0.33
Basic and diluted weighted average number of common shares outstanding	8,515,898	8,948,580	8,525,571	8,975,460

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and six months ended June 30	2012	2011	2012	2011
Net earnings	\$ 1,243,038	\$ 1,393,639	\$ 2,126,254	\$ 2,992,107
Other comprehensive income (loss): unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operation	764,582	(172,971)	49,400	(1,027,104)
Comprehensive income	\$ 2,007,620	\$ 1,220,668	\$ 2,175,654	\$ 1,965,003

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Capital Stock		Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
	Number of common shares outstanding	Amount				
Balance at January 1, 2011	9,065,571	\$ 6,656,345	\$ 42,840	\$ 39,692,340	\$ (1,831,964)	\$ 44,559,561
Comprehensive income	—	—	—	2,992,107	(1,027,104)	1,965,003
Dividends paid	—	—	—	(1,344,769)	—	(1,344,769)
Shares repurchased for cancellation	(121,603)	(89,286)	—	(838,818)	—	(928,104)
Balance at June 30, 2011	8,943,968	\$ 6,567,059	\$ 42,840	\$ 40,500,860	\$ (2,859,068)	\$ 44,251,691
Balance at January 1, 2012	8,718,998	\$ 6,401,876	\$ 42,840	\$ 42,423,832	\$ (1,013,445)	\$ 47,855,103
Comprehensive income	—	—	—	2,126,254	49,400	2,175,654
Dividends paid	—	—	—	(1,277,459)	—	(1,277,459)
Shares repurchased for cancellation	(203,100)	(149,124)	—	(1,248,476)	—	(1,397,600)
Balance at June 30, 2012	8,515,898	\$ 6,252,752	\$ 42,840	\$ 42,024,151	\$ (964,045)	\$ 47,355,698

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six months ended June 30	2012	2011
Cash provided by (used in)		
Operating activities		
Net earnings	\$ 2,126,254	\$ 2,992,107
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	445,573	313,490
Impairment of assets held for sale	—	462,026
Deferred income	860	143,809
Depreciation	62,675	58,912
Loss on disposal of capital assets	6,177	17,753
Income tax expense	954,000	1,395,000
	3,595,539	5,383,097
Changes in operating assets and liabilities:		
Factored receivables and loans, gross	(25,376,925)	(17,458,214)
Due to clients	(476,967)	(539,713)
Other assets	(72,207)	(84,979)
Accounts payable and other liabilities	(1,193,528)	(1,218,362)
Addition to assets held for sale	—	(308,374)
Sale of assets held for sale	2,531	9,586
Income tax paid, net	(1,650,528)	(2,816,539)
	(25,172,085)	(17,033,498)
Investing activities		
Additions to capital assets, net	(32,538)	(24,655)
Financing activities		
Bank indebtedness	27,439,475	17,137,561
Notes (redeemed) issued, net	(492,951)	4,696,415
Repurchase and cancellation of shares	(1,397,600)	(3,443,047)
Dividend paid	(1,277,459)	(1,344,769)
	24,271,465	17,046,160
Effect of exchange rate changes on cash	(70,700)	(30,116)
Decrease in cash	(1,003,858)	(42,109)
Cash at beginning of period	2,854,168	4,541,155
Cash at end of period	\$ 1,850,310	\$ 4,499,046
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	\$ 879,431	\$ 1,036,903

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2012 and 2011

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, credit investigation, guarantees and receivables collection to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 77 Bloor Street West, 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 have been prepared in accordance 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, 2012, as detailed in note 4, and are the same as those applied for the Company's audited consolidated financial statements for the fiscal year ended December 31, 2011. 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, 2011.

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 are the determination of the allowance for losses

relating to factored receivables and loans and to the guarantee of managed receivables, as well as the net realizable value of the assets held for sale (see notes 4(d), 4(n), 5 and 6). Management believes 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
- Assets held for sale
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Share appreciation rights ("SARs") liability*
- Guarantee of managed receivables*

**a component of accounts payable and other liabilities*

The condensed interim unaudited consolidated financial statements for the three months and six months ended June 30, 2012 were approved for issue by the Company's Board of Directors ("Board") on July 24, 2012.

3. Adoption of future accounting policy

Effective for annual periods beginning on or after January 1, 2015, IFRS 9, Financial Instruments, addresses the classification and measurement of financial assets, and is the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 will replace the multiple category model previously contained in IAS 39 with a new measurement model having two categories – amortized cost and fair value. Management does not currently believe that the future implementation of this standard will have a significant impact on the Company's consolidated financial statements.

4. Significant accounting policies

a) Basis of consolidation

The statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, Accord Financial Ltd. ("AFL") and Accord Financial Inc. ("AFIC") 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. Inter-company balances and transactions are eliminated upon consolidation.

b) Revenue recognition

Revenue principally comprises factoring commissions from the Company's recourse and non-recourse factoring businesses and is measured at the fair value of the consideration received. Factoring commissions are calculated as a discount percentage of the gross amount of the factored invoice. These commissions are recognized as revenue at the time of factoring. A portion of the revenue is deferred and recognized over the period when costs are being incurred in collecting the receivables. In its recourse factoring business, additional factoring commissions are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. Interest charges on loans and factored receivables are recognized as revenue on an accrual basis. Other revenue, such as due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

c) Factored receivables and loans

Factored receivables and loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Factored receivables and loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

d) Allowances for losses

The Company maintains a separate allowance for losses on both its factored receivables and loans and its guarantee of managed receivables. At each reporting date, the Company assesses whether there is objective evidence that the factored receivables and loans and managed receivables are impaired. A factored receivable or loan or a group of factored receivables or loans is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of these asset(s), and that the loss event has an impact on the future cash flows resulting from the factored receivable(s) and loan(s) that can be estimated reliably. At each reporting date, the Company also assesses whether there is objective evidence that a loss event has occurred in respect of the Company's guarantee of managed receivables. A loss event has occurred if there exists objective evidence that a debtor is bankrupt or insolvent and payments, which can be estimated reliably, are required to be made by the Company to clients under its guarantees to them.

The Company maintains these allowances for losses 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 customer receivable portfolios and typical industry loss experience.

The Company considers evidence of impairment for factored receivables and loans and managed receivables at both a specific asset and collective level. All individually significant factored receivables and loans and managed receivables are first assessed for specific impairment and, if found not to be specifically impaired, they are then collectively assessed for any impairment that has been incurred but not yet identified. Factored receivables and loans and managed receivables that are not individually significant are collectively assessed for impairment.

Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on factored receivables and loans are charged to the allowance for losses account when collectibility becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Recoveries from previously written-off accounts are credited to the respective allowance for losses account. The allowance for losses on factored receivables and loans is recorded at amortized cost, while the allowance for losses on the guarantee of managed receivables is recorded at fair value.

e) Capital assets

Capital assets are stated at cost. Depreciation is provided annually over the estimated useful lives of the assets as follows:

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Automobiles	Declining balance	30%
Leasehold improvements	Straight line	Over remaining lease term

Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the accounts

and any gain or loss is recorded in income or expense. The Company reviews capital assets on a regular basis to determine that their carrying values have not been impaired.

f) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but tested for impairment annually, or more frequently if impairment indicators arise, to ensure that its fair value remains greater than, or equal to, its book value. If its book value exceeds fair value, the excess will be charged against earnings in the year in which the impairment is determined.

g) Income taxes

The Company follows the balance sheet liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized based on temporary differences between the tax and accounting bases of assets and liabilities, as well as losses available to be carried forward to future years for income tax purposes.

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the

extent that it is no longer probable that the related tax benefit will be realized.

Income taxes receivable and payable and deferred tax assets and liabilities are offset if there is a legally enforceable right of set off and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

h) Foreign subsidiary

The assets and liabilities of the Company's self-sustaining foreign subsidiary 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.

i) Foreign currency translation

Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at period-end. Any non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses are translated into Canadian dollars at the prevailing average monthly exchange rate. Translation gains and losses are credited or charged to earnings.

j) Earnings per common share

The Company presents basic and diluted earnings per share ("EPS") for its common shares. Basic EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding in the period. Diluted EPS is calculated by dividing net earnings by the diluted weighted average number of common shares outstanding in the period, which comprises the weighted average number of common shares outstanding plus the effects of all dilutive common share equivalents.

k) Stock-based compensation

The Company accounts for SARs issued to directors and employees using fair value-based methods. The Company utilizes the Black-Scholes option pricing model to calculate

the fair value of the SARs on the grant date. This fair value is expensed over the award's vesting period, or immediately if fully vested. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date, and are recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

l) Derivative financial instruments

The Company records derivative financial instruments on its consolidated statements of financial position at their respective fair values. Changes in the fair value of these instruments are reported in earnings unless all of the criteria for hedge accounting are met, in which case, changes in fair value would be recorded in other comprehensive income or loss.

m) Financial assets and liabilities

Financial assets and liabilities are recorded at amortized cost, with the exception of cash, derivative financial instruments, the SARs liability, and the guarantee of managed receivables, which are all recorded at fair value.

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 statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends to either 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.

n) Assets held for sale

Assets acquired on realizing security on defaulted loans are held for sale and are stated at the lower of cost or net realizable value.

o) Financial instruments – disclosures

IFRS 7 details disclosure requirements in respect of financial instruments that are based on a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for each of the three levels are based on:

- Level 1 – quoted prices in active markets;
- Level 2 – models using observable inputs other than quoted market prices included within Level 1; and
- Level 3 – models using inputs that are not based on observable market data.

5. Factored receivables and loans

	June 30, 2012	Dec. 31, 2011	June 30, 2011
Factored receivables	\$ 100,181,335	\$ 76,133,293	\$102,911,914
Loans to clients	16,148,349	14,493,138	17,240,832
Factored receivables and loans, gross	116,329,684	90,626,431	120,152,746
Less allowance for losses	1,934,000	1,502,000	2,021,000
Factored receivables and loans, net	\$ 114,395,684	\$ 89,124,431	\$118,131,746

The Company's allowance for losses on factored receivables and loans at the above noted dates comprised only a collective allowance. The activity in the allowance for losses on factored receivables and loans account during the first six months of 2012 and 2011 was as follows:

	2012	2011
Allowance for losses at January 1	\$ 1,502,000	\$ 1,729,000
Provision for credit and loan losses	990,236	837,648
Charge-offs	(582,699)	(586,476)
Recoveries	21,035	62,318
Foreign exchange adjustment	3,428	(21,490)
Allowance for losses at June 30	\$ 1,934,000	\$ 2,021,000

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, 2012, the gross amount of these managed receivables was \$72,628,935 (December 31, 2011 – \$102,004,001; June 30, 2011 – \$119,121,883). At June 30, 2012,

management provided an amount of \$768,000 (December 31, 2011 – \$751,000; June 30, 2011 – \$1,138,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the six months ended June 30, 2012 and 2011 was as follows:

	2012	2011
Allowance for losses at January 1	\$ 751,000	\$ 1,138,000
Provision for credit and loan losses	336,582	179,112
Charge-offs	(322,109)	(209,987)
Recoveries	2,527	30,875
Allowance for losses at June 30	\$ 768,000	\$ 1,138,000

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 under terms that are usual and customary to the Company's factoring and lending activities. The Company controls the credit risk associated with its factored 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, 2012, the Company held cash collateral of \$1,791,917 (December 31, 2011 – \$2,081,137; June 30, 2011 – \$1,648,676) to help it reduce the risk of loss on certain of the Company's factored receivables and loans and managed receivables.

The Company considers the allowances for losses on both its loans and its guarantee of managed receivables critical to its financial results (see note 4(d)). As noted above, 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 estimated losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios and typical industry loss experience. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

In establishing its collective allowances, the Company applies percentage formulae to its factored receivables and loans and managed receivables. The formulae are reviewed for adequacy on an ongoing basis. The Company has always been prudent in establishing its collective allowances such that they have normally been sufficient to absorb substantial charge-offs.

6. Assets held for sale

The Company obtained title to certain long-lived assets securing a defaulted loan in 2009. During the three and six months ended June 30, 2012, there were no additions to or disposals of the assets. During the three and six months ended June 30, 2011 there were additions of \$149,776 and \$308,374, respectively, to the assets relating to improvements made to assist in the sale thereof, while assets of \$4,644 and \$6,789, respectively, were disposed of. No impairment charges were taken against the assets during the three and six months ended June 30, 2012, while an impairment charge of \$462,026 was taken during the three and six months ended June 30, 2011.

The assets are currently being marketed for sale and will be sold as market conditions permit. The net realizable value of the assets at June 30, 2012 and 2011 and December 31, 2011 were determined by professional appraisals.

7. Goodwill

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2011, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2012's impairment review will be conducted in the Company's fourth quarter unless impairment indicators arise prior to then. The goodwill is carried in the Company's U.S. operations and the differences in the goodwill balances reported in the Company's consolidated statements of financial position relate to the translation of the goodwill balance of US\$961,697 into Canadian dollars at different prevailing period-end exchange rates.

8. Bank indebtedness

Revolving lines of credit have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. These lines of credit are collateralized primarily by factored receivables and loans to clients. At June 30, 2012, the amounts outstanding under these lines of credit totalled \$54,862,538 (December 31, 2011 – \$27,222,021; June 30, 2011 – \$61,309,379). The Company was in compliance with all loan covenants under these lines of credit.

9. Capital stock

a) Share repurchase program

On August 5, 2010, the Company received approval from the Toronto Stock Exchange ("TSX") to commence a normal course issuer bid (the "2010 Bid") for up to 470,373 of its common shares at prevailing market prices on the TSX. The 2010 Bid commenced on August 8, 2010 and terminated on July 19, 2011 when the Company had repurchased and cancelled all of the 470,373 shares permitted. The shares were acquired at an average price of \$7.53 per share for total consideration of \$3,540,387. This amount was applied to reduce share capital by \$345,369 and retained earnings by \$3,195,018.

On August 4, 2011, the Company received approval from the TSX to commence a new normal course issuer bid (the "2011 Bid") for up to 446,845 of its common shares at prevailing market prices on the TSX. The 2011 Bid commenced on August 8, 2011 and will terminate on August 7, 2012 or the date on which a total of 446,845 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2011 Bid will be cancelled. To June 30, 2012, the Company had repurchased and cancelled 421,000 common shares acquired under the 2011 Bid at an average price of \$6.78 per common share for total consideration of \$2,854,901. This amount was applied to reduce share capital by \$309,117 and retained earnings by \$2,545,784.

During the six months ended June 30, 2012, the Company repurchased and cancelled 203,100 shares acquired under the 2011 Bid at an average price of \$6.88 per common share for a total consideration of \$1,397,600. This was applied to reduce share capital by \$149,124 and retained earnings by \$1,248,476. During the six months ended June 30, 2011, the Company repurchased and cancelled 121,603 shares acquired under the 2010 Bid at an average price of \$7.63 per common share for a total consideration of \$928,104. This was applied to reduce share capital by \$89,286 and retained earnings by \$838,818.

b) Dividends

Dividends on the Company's common shares are declared in Canadian dollars. During the three and six months ended June 30, 2012, dividends per common share of \$0.075 and \$0.15, respectively, were declared and paid totalling \$638,692 and \$1,277,459, respectively. During the three and six months

ended June 30, 2011 dividends of \$0.075 and \$0.15, respectively, were declared and paid totalling \$671,278 and \$1,344,769, respectively.

10. Stock-based compensation

The Company's stock-based compensation relates solely to its SARs. The Company recorded a stock-based compensation recovery of \$24,534 in the three months ended June 30, 2012, while it booked an expense of \$31,366 in the six months ended June 30, 2012. During the three months ended June 30, 2011, the Company recorded a stock-based compensation recovery of \$28,625, while it had an expense of \$100,622 in the six months ended June 30, 2011. The Company's SARs plan is discussed in more detail in note 11(e) to its audited consolidated financial statements for the fiscal year ended December 31, 2011. The following SARs were outstanding:

SARs		June 30, 2012	Dec. 31, 2011	June 30, 2011
grant price	Grant Date			
\$ 7.25	May 7, 2008	57,500	57,500	57,500
\$ 6.03	July 28, 2009	70,000	70,000	70,000
\$ 5.50	May 7, 2010	140,000	140,000	140,000
\$ 7.95	May 4, 2011	152,500	152,500	152,500
\$ 7.56	July 26, 2011	5,000	5,000	—
SARs outstanding		425,000	425,000	420,000
SARs vested		342,500	262,500	222,500

At June 30, 2012, the Company had accrued \$240,100 (December 31, 2011 – \$208,733; June 30, 2011 – \$381,633) in respect of its liability for outstanding SARs.

11. 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 defence. This involves analyzing potential outcomes and assuming various litigation and settlement strategies.
- b) At June 30, 2012, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of \$1,295,527 (December 31, 2011 – \$1,122,394; June 30, 2011 – \$939,174). These amounts were considered in

determining the allowance for losses on factored receivables and loans.

12. Derivative financial instruments

At June 30, 2012, the Company had entered into a forward foreign exchange contract with a financial institution which must be exercised by the Company between August 2, 2012 and August 31, 2012 and which obliges the Company to sell Canadian dollars and buy US\$1,000,000 at an exchange rate of 1.0054. This contract was entered into by the Company on behalf of a client and a similar forward foreign exchange contract was entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US\$1,000,000 to the client.

At December 31, 2011, the Company had no outstanding forward foreign exchange contracts, while at June 30, 2011, it had entered into forward foreign exchange contracts with a financial institution that matured between August 2, 2011 and September 29, 2011 and obliged the Company to sell Canadian dollars and buy US\$2,000,000 at various exchange rates. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company bought Canadian dollars from and sold U.S. dollars to the client.

The favorable and unfavorable fair values of the above contracts were recorded on the Company's consolidated statements of financial position in other assets and accounts payable and other liabilities, respectively. The fair value of the contracts were classified as Level 2 under IFRS 7. During 2012 and 2011, there was no movement between the three-level fair value hierarchy described in note 4(o).

13. 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 in the case of one note, a week after requesting repayment, and bear interest at bank prime rate or below. Notes payable were as follows:

	June 30, 2012	Dec. 31, 2011	June 30, 2011
Related parties	\$ 12,796,371	\$ 13,323,474	\$ 13,421,667
Third parties	1,323,802	1,287,177	1,402,786
	\$ 14,120,173	\$ 14,610,651	\$ 14,824,453

Interest expense on the notes payable for the three and six months ended June 30, 2012 and 2011 was as follows:

	Three Months		Six Months	
	2012	2011	2012	2011
Related parties	\$ 95,244	\$ 68,484	\$ 191,231	\$ 119,230
Third parties	8,133	8,252	16,160	18,842
	\$ 103,377	\$ 76,736	\$ 207,391	\$ 138,072

14. Accumulated other comprehensive loss

Accumulated other comprehensive loss ("AOCL") solely comprises the unrealized foreign exchange loss (commonly referred to as cumulative translation adjustment loss) arising on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary, which are translated into Canadian dollars at the exchange rate prevailing at the reporting date.

Changes in the AOCL balance during the six months ended June 30, 2012 and 2011 are set out in the consolidated statements of changes in equity on page 13.

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.

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, 2012

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 62,129	\$ 61,252	\$ —	\$ 123,381
Revenue	\$ 4,482	\$ 1,840	\$ —	\$ 6,322
Expenses				
Interest	409	60	—	469
General and administrative	2,501	783	—	3,284
Provision for credit and loan losses	429	293	—	722
Impairment of assets held for sale	—	—	—	—
Depreciation	26	5	—	31
	3,365	1,141	—	4,506
Earnings before income tax expense	1,117	699	—	1,816
Income tax expense	303	270	—	573
Net earnings	\$ 814	\$ 429	\$ —	\$ 1,243

Three months ended June 30, 2011

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 76,136	\$ 52,715	\$ —	\$ 128,851
Revenue	\$ 4,781	\$ 2,047	\$ —	\$ 6,828
Expenses				
Interest	476	67	—	543
General and administrative	2,404	790	—	3,194
Provision for credit and loan losses	397	173	—	570
Impairment of assets held for sale	—	462	—	462
Depreciation	24	6	—	30
	3,301	1,498	—	4,799
Earnings before income tax expense	1,480	549	—	2,029
Income tax expense	419	216	—	635
Net earnings	\$ 1,061	\$ 333	\$ —	\$ 1,394

Six months ended June 30, 2012

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 62,129	\$ 61,252	\$ —	\$ 123,381
Revenue	\$ 8,548	\$ 3,463	\$ (9)	\$ 12,002
Expenses				
Interest	779	89	(9)	859
General and administrative	5,066	1,607	—	6,673
Provision for credit and loan losses	679	648	—	1,327
Impairment of assets held for sale	—	—	—	—
Depreciation	54	9	—	63
	6,578	2,353	(9)	8,922
Earnings before income tax expense	1,970	1,110	—	3,080
Income tax expense	531	423	—	954
Net earnings	\$ 1,439	\$ 687	\$ —	\$ 2,126

Six months ended June 30, 2011

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 76,136	\$ 52,715	\$ —	\$ 128,851
Revenue	\$ 9,588	\$ 4,107	\$ —	\$ 13,695
Expenses				
Interest	914	125	—	1,039
General and administrative	5,027	1,704	—	6,731
Provision for credit and loan losses	712	305	—	1,017
Impairment of assets held for sale	—	462	—	462
Depreciation	48	11	—	59
	6,701	2,607	—	9,308
Earnings before income tax expense	2,887	1,500	—	4,387
Income tax expense	832	563	—	1,395
Net earnings	\$ 2,055	\$ 937	\$ —	\$ 2,992

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 factoring and asset-based lending business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as financing

other assets, such as inventory and equipment. 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.

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, 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. 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. The Company's primary focus continues to be on the creditworthiness and collectability of its clients' receivables.

Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due. 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. Of the total managed receivables that the Company guarantees payment, 6.4% were past due more than 60 days at June 30, 2012 (December 31, 2011 – 9.4%; June 30, 2011 – 11.8%). In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from 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 recourse factoring business, which assesses, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring 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 factored are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. For a factoring company, 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 non-recourse 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.

The following table summarizes the Company's credit exposure relating to its factored receivables and loans by industrial sector at June 30, 2012.

Industrial sector	Gross factored receivables and loans	% of total
	(in thousands)	
Manufacturing	\$ 54,272	47
Financial and professional services	34,366	29
Wholesale and distribution	20,156	17
Transportation	4,335	4
Other	3,201	3
	\$ 116,330	100

The following table summarizes the Company's credit exposure relating to its managed receivables at June 30, 2012 by industrial sector.

Industrial Sector	Managed receivables	% of total
	(in thousands)	
Retail	\$ 63,598	88
Other	9,031	12
	\$ 72,629	100

As set out in notes 4(d) and 5 the Company maintains an allowance for credit and loan losses on its factored receivables and 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 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, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling \$116,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At June 30, 2012 the Company had borrowed \$54,862,538 (December 31, 2011 – \$27,222,021; June 30, 2011 – \$61,309,379) against these facilities. These lines of credit are collateralized primarily by factored receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit as at June 30, 2012. Notes payable are due on demand, or in the case of one note, 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, 2012, 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 few days 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, 2012, the Company had gross factored receivables and loans totalling \$116,330,000 (December 31, 2011 – \$90,626,000; June 30, 2011 – \$120,153,000) which substantially exceeded its total liabilities of \$76,026,000 at that date (December 31, 2011 – \$50,454,000; June 30, 2011 – \$84,600,000). The Company's receivables normally have

payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

c) Market risk

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

i) Currency risk

The Company is exposed to currency risk primarily in its self-sustaining U.S. subsidiary, which operates exclusively in U.S. dollars, to the full extent of the U.S. subsidiary's net assets of approximately US\$37,000,000 at June 30, 2012. The Company's investment in its U.S. subsidiary is not hedged as it is long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary into Canadian dollars each period-end. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the AOCL component of equity (note 14). The Company is also subject to foreign currency risk on the earnings of its U.S. subsidiary, which are unhedged. Based on the U.S. subsidiary's results for the six months ended June 30, 2012, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately \$14,000. It would also change other comprehensive income or loss and the AOCL component of equity by approximately \$370,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. 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, 2012, the Company's unhedged foreign currency positions in its Canadian operations totalled \$596,000 (December 31, 2011 – \$80,000; June 30, 2011 – \$27,000). The Company ensures that its net exposure is kept to an acceptable level

by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a one percent 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 (impacting interest revenue) and lenders (impacting 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 factored receivables and loans substantially exceed its borrowings, the Company is exposed 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.

The following table shows the interest rate sensitivity gap at June 30, 2012:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Cash	\$ 1,221	\$ —	\$ —	\$ 629	\$ 1,850
Factored receivables and loans, net	111,087	2,572	684	53	114,396
Assets held for sale	—	—	—	3,384	3,384
All other assets	—	683	—	3,068	3,751
	112,308	3,255	684	7,134	123,381
Liabilities					
Due to clients	—	—	—	3,053	3,053
Bank indebtedness	27,700	27,163	—	—	54,863
Notes payable	14,120	—	—	—	14,120
All other liabilities	—	754	—	3,236	3,990
Equity	—	—	—	47,355	47,355
	41,820	27,917	—	53,644	123,381
	\$ 70,488	\$(24,662)	\$ 684	\$(46,510)	\$ —

Based on the Company's interest rate positions as at June 30, 2012, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately \$460,000 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 management

The Company considers its capital structure to include equity and debt, namely, its bank indebtedness and notes payable. The Company's objectives when managing capital are to: (i) maintain financial flexibility in order to preserve its ability 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'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 equity and its equity to total assets. As a percentage, these ratios were 146% (December 31, 2011 – 87%; June 30, 2011 – 172%) and 38% (December 31, 2011 – 49%; June 30, 2011 – 34%), respectively, at June 30, 2012 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 factored 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, 2012, AFIC is required to maintain a debt to TNW ratio of less than 4.0, while AFIU is required to maintain a minimum TNW of US\$25,000,000 and a ratio of total liabilities to TNW of less than 3.0. The Company was fully compliant with its banking covenants at June 30, 2012. There were no changes in the Company's approach to capital management from the previous year.

19. Subsequent events

As of July 24, 2012, there were no subsequent events occurring after June 30, 2012 that required disclosure.

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