ACCORD FINANCIAL CORP.

Meeting Challenges. Creating Opportunities.

Financial Services

1 Non-recourse factoring

In over 30 years of operations, Accord has emerged as a front-runner in Canadian non-recourse factoring. The industries we serve range from the old-world economy to the technology of today. We offer more regional representation than our competitors and have one of the top-ranked credit departments in the country with an immense amount of experience and expertise.

2 Recourse factoring

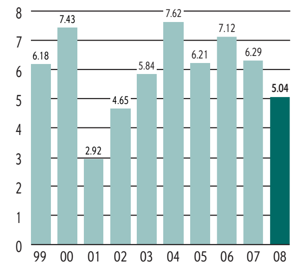
Offered in both the Canadian and U.S. markets, Accord's recourse factoring services focus on small to medium-sized companies which larger asset-based lenders overlook. Our extensive access to capital positions Accord as a very reliable source of funds at competitive rates. We strive to provide superior customer service, flexible solutions and rapid responses, combined with disciplined underwriting.

3 International trade financing

Our international department has received world-wide recognition and quality service awards. Our strong correspondent relationships and financing facilities allow Accord to provide superior service to a growing network of clients, domestic and foreign.

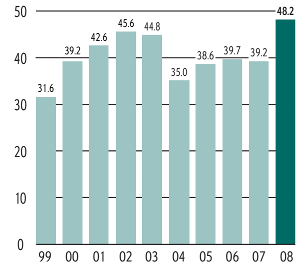
4 Asset-based lending

Combined with its factoring services, Accord provides financing against assets such as inventory, equipment and real estate. Accord also provides purchase order financing.



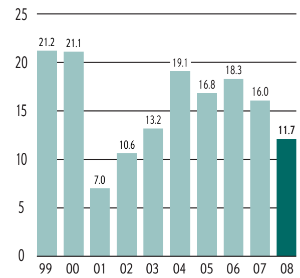
Net Earnings
(in millions of dollars)

Net earnings decreased by 20% to $5.0 million in 2008.



Shareholders' Equity
(at December 31 in millions of dollars)

Shareholders' equity increased to a record $48.2 million at Dec. 31, 2008 principally as a result of a $6.7 million improvement in the accumulated other comprehensive loss balance.



Return on Equity
(as a percent per annum on average shareholders' equity)

Return on average shareholders' equity declined to 11.7% in 2008. It has averaged 15.5% over the last 10 years.

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ACCORD
FINANCIAL CORP.

Meeting Challenges.
Creating Opportunities.

The economic challenges in 2008 were unprecedented and fundamentally affected global credit markets. Meeting these challenges head on, Accord relied on the excellent people who run our operations as well as the time-tested efficacy of our business model. Our system of checks and balances helps to reduce business risk.

With these challenges comes a rare chance to create opportunities. As many large industry players have trouble securing funding and smaller finance companies exit the industry, Accord, with its substantial capital and borrowing capacity, is well positioned to capitalize on market opportunities. Our business processes help keep us focused on quality deals that serve our clients and help Accord contribute to their success.

Inside this report, the interview with management tells a story of challenges and opportunities. Accord's North American presence positions it close to the business opportunities that help us continually add value for our clients. We remain a key, strategic source of funding for our clients, in turn helping to keep business liquid.

Keeping business liquid is our primary goal.

Financial Highlights

	2008	2007	2006
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Factoring volume (in millions)	$ 1,596	$ 1,497	$ 1,417
Revenue	28,060	28,346	28,864
Net earnings	5,041	6,287	7,117
Return on average shareholders' equity	11.7%	16.0%	18.3%
Balance Sheet Data At December 31 (in thousands of dollars)			
Total assets	$103,498	$107,133	$ 84,679
Shareholders' equity	48,179	39,197	39,717
Common Share Data (per common share)			
Earnings - basic	$ 0.53	$ 0.66	$ 0.73
- diluted	0.53	0.66	0.72
Dividends paid	0.24	0.22	0.20
Share price - high	8.39	9.45	8.25
- low	4.75	7.72	7.00
- close at December 31	5.81	8.00	7.75
Book value at December 31	5.10	4.15	4.21

Letter to the Shareholders

Meeting Challenges.
Creating Opportunities.

Ken Hitzig
President

Looking back at 2008, it is no overstatement on my part to describe it as a year of historic uncertainties and critical challenges. Nor is it surprising that Accord's operating results by the year's end were mixed. On one hand, our earnings for the first nine months were actually ahead of those for the same period in 2007. On the other hand, the clouds that had appeared on the horizon early in 2008 eventually materialized into an unabated economic downpour which, in the fourth quarter, significantly dampened the quality of our portfolio and necessitated write-offs and increases in our allowances for losses. All in all, 2008 called for constant and extraordinary vigilance and prudence, and we at Accord believe we weathered the often abrupt and severe changes of economic climate that occurred as the year unfolded with the kind of resilience our stakeholders have come to expect.

The volume of receivables processed in 2008 rose by almost $100 million to a record of $1.6 billion. Rate competition, particularly in Canada, continued unabated, and, together with lower interest rates, yields were under pressure all year long. As a result, our gross revenue declined about one percent, to $28.1 million. Interest rates fell precipitously in 2008 and our cost of borrowings fell over $100,000 to $2.1 million. General and administrative expenses, including depreciation, rose to $13.7 million from $13.4 million in 2007. The provision for credit and loan losses was up 60% to $3.8 million reflecting the weakened economic conditions and their impact on our portfolio.

A Risk Management Committee was formed at the end of 2007. Its purpose was to check the credit systems in use by the Company, tighten procedures, review portfolios and improve credit standards. The Committee has reviewed the loan portfolios quarterly and reported to the Board's Audit Committee on its findings, including the adequacy of our allowance for losses. In light of continuing economic uncertainty, the Risk Management Committee will be intensifying its oversight in 2009.

Net earnings for 2008 were $5,041,000 or 53 cents per diluted share. This compares with $6,287,000 or 66 cents per diluted share the previous year. Return on average equity was 12% in 2008 versus 16% in 2007.

Revenue from operations in Canada decreased to $20.3 million in 2008 compared with $22.1 million in 2007. The cost of borrowed money was $2.7 million in the latest year versus $3.3 million the previous year. General and administrative expenses, including depreciation, were $10.2 million in 2008, unchanged from 2007. Provision for credit and loan losses increased to $3.9 million in 2008 versus $2.2 million in 2007. Net earnings from Canadian operations in 2008 declined to $2,372,000 compared with $4,303,000 in 2007.

Our U.S. operations, in the thick of poor economic conditions, managed to steer their way through a minefield of trouble, and emerge with net earnings of US$2,518,000, 34% ahead of 2007 net earnings of US$1,884,000. Volume was up 25% and gross revenue rose 16%. Expressed in Canadian dollars, net earnings were $2,669,000 in 2008 compared with $1,984,000 in 2007. Outstanding factored receivables and loans were US$37.7 million at Dec. 31, 2008, an increase of 14% over the US$33.0 million one year earlier.

The Company continued and renewed its normal course issuer bid and we repurchased 154,000 shares for cancellation in 2008 at a cost of $1,005,000, or an average of $6.53 per share. Options on 138,000 shares were exercised in 2008 for proceeds of $510,000. The number of common shares outstanding at year-end was 9,438,171, down slightly from 9,454,171 a year earlier. The quarterly dividend was increased to 6.5 cents per share in the third quarter. As a result, total dividends amounted to 24 cents per share in 2008 compared with 22 cents in 2007. The Company has paid continuous dividends since 1987.

Looking Forward

Not a day goes by that we don't read of another catastrophe in the financial services industry. Commercial banks, savings banks, investment banks, insurance companies, finance companies, leasing companies, mortgage companies – no one is immune from this economic storm currently enveloping the world. Notwithstanding the rock-bottom interest rates posted by central banks everywhere, many financial institutions are experiencing difficulty in raising fresh capital even after offering relatively high rates of return. If the large players are having trouble securing funding for their companies, the smaller, entrepreneurially-owned-and-operated finance companies are having an even greater struggle in this market. Many of the smaller companies have exited the industry and there has been a trend toward consolidation among the larger companies. From our perspective we see the U.S. and Canadian economies improving, if at all, at a very low rate in the second half of 2009. Accord, with substantial capital and borrowing capacity, is in an ideal position to capitalize on the market opportunities presented in this turbulent time. Our deal flow, particularly in the U.S., continues to be very strong.

February 2008 marked Accord's thirtieth birthday. Apart from the gratification that comes from witnessing our growth from a mere seedling to a leader in our industry, there is the added pleasure of knowing that many of our employees, officers, directors and shareholders who came on board during the early days following Accord's inception remain active and continue to contribute so much talent and effort as we embark upon our fourth decade. That we survived tough years, and thrived in most, is a tribute to our fundamental business model and the excellent people who run our operations. I'm proud to be associated with them.

My sincere thanks to all of you. I look forward to seeing you at our Annual Meeting on May 6, 2009.

Ken Hitzig

Ken Hitzig
President

Toronto, Ontario
March 2, 2009

An Interview with Sonita Horvitch

Challenges and Opportunities of 2008-2009

Ken Hitzig
President

Sonita Horvitch, a well-known Canadian financial journalist recently led a discussion with Ken Hitzig, Accord Financial Corp.'s President, and Stuart Adair, the Company's Chief Financial Officer, to discuss the Company's 2008 results and the outlook for 2009. Ms. Horvitch has been reporting on the financial services industry, including factoring, for over thirty years.

Sonita: *How would you summarize the 2008 results in a nutshell?*

Ken: We did not come near our best year of 2004 when we made $7.6 million, but we did earn $5.0 million which was not all that shabby in the current environment.

Sonita: *Can you give me an overview of what happened?*

Ken: The economy declined for the first three quarters of 2008, but really nose-dived in the fourth quarter. The quality of our loan portfolio softened which caused increased write-offs and higher reserves at year-end.

Stuart: Our provision for credit and loan losses amounted to $3.8 million in 2008, a sixty percent increase over the comparable amount the previous year.

Sonita: *We have all read about the high-profile problems at many banks and insurance companies. The biggest factoring company in North America, CIT Group, Inc., reported huge losses, and a double-digit decline in factoring revenue. Tell me about Accord's experience.*

Ken: Pricing was quite competitive last year and we sharpened our rate structure as required. Our volume actually climbed to a record of almost $1.6 billion in 2008. But we sacrificed some yield in the process.

Stuart: Our revenue at $28 million was virtually unchanged in 2008 when compared with 2007. But we have always worked with substantial margins so that, even with our loss experience, we were able to show pre-tax earnings of $7.7 million which was 27% of our gross revenue.

Sonita: *Let's look at 2008. Was the experience in Canada the same as the U.S.? Or was it more challenging south of the border?*

Ken: The economy certainly hit the skids sooner and fell further in the U.S. But our results did not mirror that. Our revenue and earnings fell in Canada while revenue and earnings were up significantly in the U.S.

Stuart: There were several reasons for this. Firstly, there was a much greater provision for credit and loan losses in Canada than the U.S. Secondly, our American business was narrowly focused and while it faced competition for most of the year, that competition eased in the fourth quarter when many lenders including banks had liquidity problems. Canadian banks were in better shape; all have survived so far, and continue to be competitive. Very few Canadian factors and finance companies had liquidity issues to deal with last year and competition remains intense.

Sonita: *What were the comparable results?*

Stuart: Our Canadian operations represented 54% of total assets at year-end 2008 and posted net earnings of $2.4 million, or 47% of total earnings. Our U.S. operations represented 46% of total assets and posted net earnings of $2.6 million, or 53% of total earnings.

Sonita: *It appears your U.S. business is becoming your dominant geographical segment. Would you agree?*

Ken: Not quite. The Canadian results for 2008 were adversely impacted by unusually high write-offs; hopefully these will not recur. Our U.S. results benefitted from having no write-offs although the likelihood of sustaining that performance is quite low. However, that said, I would agree that it's only a matter of time before our earnings in the U.S. will consistently exceed those in Canada. And that's a good thing.

Sonita: *Why do you say that?*

Ken: We already have a substantial market share in Canada. The United States represents a good growth opportunity for us, given the size of that market.

Sonita: *Let me move on to the issue of credit controls and leverage. Many financial institutions in the U.S. have been brought down in the last twelve months because of loose credit policies and high leverage such as Lehman Brothers and Washington Mutual. What has Accord done to minimize the damage that could be caused by client and customer failures?*

Ken: We have always had a well-defined credit system with strict credit limits on amounts that could be loaned, or credit granted, to any one name. As a rule, any substantial loan or credit requires one or more credit officers or loan officers to sign off, and anything over $1 million requires approval from the Board of Directors. With the weakening in the economy towards the end of 2007 we formed a Risk Management Committee to

Sonita Horvitch
Financial Journalist

Stuart Adair
Chief Financial Officer

oversee the system and fix any leaks.

Stuart: Ken and I became the face of the Risk Management Committee and we began to review the loan portfolios on a quarterly basis. By the fourth quarter of 2008 we had found a number of credit policy weaknesses, some of which had led to write-offs. Needless to say, we are correcting these problems so there is a much lower possibility of repeats.

Sonita: Let's discuss the issue of leverage. Some companies can get so highly leveraged that that alone can topple their company. I don't suppose you feel Accord is too leveraged?

Stuart: Not at all; if anything, we're quite underleveraged. If you look at our balance sheet at Dec. 31, 2008 you will note that there is bank indebtedness of $35.9 million. The banks are the only secured creditors that we have, and we have $100 million of receivables and loans to protect them; that is $2.79 of collateral for every one dollar of borrowing. Another way to look at it is this: our shareholders' equity is $48.2 million which supports the $35.9 million bank debt. That's a leverage ratio of only 0.74 to one. Most companies in our industry have leverage ratios of three, or four to one, or even higher. I think Accord must be unique.

Sonita: Accord's been around for a long time. Surely, this is not the first recession you've had to cope with.

Ken: We're in our fourth decade now, and, yes, we've been through tough times before, several times. Obviously, we've survived them all, but I must say the current economic conditions are the most challenging that I can recall.

Sonita: Let's look forward now. By any measure, 2009 looks to be a tough year. Some analysts forecast an economic turnaround before the year is out, but most of them feel it will be 2010 before we see any meaningful recovery. What is your guidance for 2009?

Ken: Accord has a long-standing policy of refraining from making earnings forecasts. We know we have challenges ahead, and our work is cut out for us. Our overall strategy consists of ensuring tight underwriting standards, constant monitoring of our portfolios, and, to the extent possible, growing our outstandings by taking advantage of our strong financial position in a market place of turmoil.

Stuart: Our credit standards are now higher than they have ever been. Inevitably, we will take some write-offs; we're in the risk business after all. But we have done our homework; we should survive this challenging period.

Ken: We might even do well. If we don't, it won't be for lack of trying.

Sonita: Accord's U.S. operation seems to be going from success to success. And this in spite of the worst economic conditions in a long time. Tell me what makes Accord different in that market.

Ken: As Stuart mentioned earlier, our U.S. operation has become very narrowly focused. They know precisely what kind of potential client would meet our standards and they target those prospects.

Stuart: They have a great mailing program, a monthly mailer that is sent to people who are likely deal originators such as business consultants, bank loan officers in charge of distressed loans, bankruptcy attorneys, and so on. Accord is also prominent in the Turnaround Management Association, which is a good source of new deals.

Ken: We have to mention the fact that our U.S. company has a great leader. Tom Henderson, who is President of Accord Financial, Inc., brought decades of commercial finance experience to the job. He inherited the position at the end of 2001 and our bottom line in the U.S. has been straight up ever since. Tom has developed and nurtured both a good management team and dedicated staff.

Sonita: He sounds like a find. Where did he come from?

Ken: He was with Heller Financial, Inc., one of the world's largest factoring and finance houses. He rose through the ranks there to become a senior executive. But after more than thirty years with the company he tired of Chicago winters and moved to North Carolina. He joined us shortly thereafter. It is also important to emphasize that our Canadian operations are ably headed up by two industry veterans and long-time executives at the Company. They are Mark Perna, who is President of Accord Business Credit Inc., which operates as an "old-line" factor, and Fred Moss, President of Montcap Financial Corp., which is Accord's Canadian recourse factoring and asset-based lending company.

Sonita: Your comments have been most enlightening to me. I expect that they will be to your investors as well. Thank you, gentlemen, and good luck with your challenges for 2009.

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

Stuart Adair
Chief Financial Officer

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the year ended December 31, 2008 compared with the year ended December 31, 2007. 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 should be read in conjunction with the Company's 2008 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 19) and the President's Letter to the Shareholders, all of which form part of this 2008 Annual Report. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at www.sedar.com.

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Please refer to note 3(c) to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with GAAP.

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. The Company's financial services and operations are also discussed earlier in this Annual Report. Its clients operate in many industries, including apparel, financial and professional services, engineering, chemicals, electronics, oilfield services, temporary staffing, telecommunications, textiles, food products, furniture, sporting goods, leisure products, footwear, plastics, and industrial products.

The Company, founded in 1978, operates three factoring companies in North America, namely, Accord Business Credit Inc. ("ABC") and Montcap Financial Corporation ("MFC") in Canada and Accord Financial, Inc. ("AFI") in the United States.

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

Results of Operations

Fiscal 2008

Year ended December 31, 2008 compared with year ended December 31, 2007

The Company's net earnings totalled $5,041,000 in 2008, 20% below 2007's net earnings of $6,287,000. Net earnings decreased principally as a result of a significantly higher provision for credit and loan losses, although increased general and administrative ("G&A") expenses and lower revenue contributed somewhat to the decline. These items are discussed below. Diluted earnings per common share for 2008 also decreased by 20% to 53 cents compared with 66 cents last year. The Company's return on average shareholders' equity declined to 11.7% in 2008 compared to 16.0% last year.

The volume of receivables factored by the Company rose by 7% to a record $1.596 billion in 2008 from

Results of Operations

Years ended December 31 (in thousands unless otherwise stated)		2008 Actual	2008 % of Revenue		2007 Actual	2007 % of Revenue	% change from 2007 to 2008
Factoring volume (millions)	$	1,596		$	1,497		6.6%
Revenue							
Factoring commissions, discounts, interest and other income	$	28,060	100.0%	$	28,346	100.0%	-1.0%
Expenses							
Interest		2,871	10.2%		2,992	10.5%	-4.0%
General and administrative		13,491	48.1%		13,143	46.4%	2.6%
Provision for credit and loan losses		3,849	13.7%		2,402	8.5%	60.2%
Depreciation		195	0.7%		209	0.7%	-6.7%
		20,406	72.7%		18,746	66.1%	8.9%
Earnings before income tax expense		7,654	27.3%		9,600	33.9%	-20.3%
Income tax expense		2,613	9.3%		3,313	11.7%	-21.1%
Net earnings	$	5,041	18.0%	$	6,287	22.2%	-19.8%
Earnings per common share							
Basic	$	0.53		$	0.66		-19.7%
Diluted		0.53			0.66		-19.7%

$1.497 billion last year. Volume represents total client sales invoices factored by the Company and is the basis of the majority of its revenue. Recourse factoring volume rose by 7%, while non-recourse volume rose by 6%. International volume, mostly cross-border business between the U.S. and Canada, rose by 11% to $374 million compared to $336 million in 2007. International volume comprised 23% of the Company's total in 2008 compared to 22% in 2007. The volume increase in 2008 was low-rate, and low risk, international or non-lending business and, consequently, did not result in a similar percentage increase in factoring fees.

Revenue declined by $286,000 or 1% to $28,060,000 in 2008 compared to $28,346,000 last year. Revenue declined despite the rise in volume principally as a result of reduced factoring commissions due to a decline in average factoring yields. Average yields declined in 2008 largely as a result of an increase in the proportion of low rate, and low risk, business, reduced interest rates and significant competitive pressures. Interest revenue on asset-based loans rose by 16% in 2008 on higher average loans to clients.

Interest expense declined by $121,000 or 4% to $2,871,000 in 2008 from $2,992,000 last year. The decrease resulted from lower interest rates which more than offset a 23% rise in average borrowings (bank indebtedness and notes payable) in 2008. Average borrowings rose in the first seven months of 2008 compared to the prior year, after which, borrowings declined when compared to 2007. The Company's borrowing rates were lower in 2008 as the average Canadian prime rate of interest declined to 4.8% per annum from 6.1% in 2007, while the average U.S. prime rate of interest declined to 5.1% from 8.1% in 2007.

G&A expenses comprise personnel costs, representing the major portion of G&A, as well as occupancy costs, marketing expenses, commissions to third parties, professional fees, data processing, travel, telephone and general overheads. G&A expenses increased by $348,000 or 3% to $13,491,000 in 2008 from $13,143,000 last year. G&A expenses increased by $331,000 or 11% in our U.S. operations. The Company continues to manage its controllable expenses closely. G&A expenses totalled 48% of

Selected Annual Information

(audited, in thousands of dollars, except per share data)

	2008	2007	2006
Revenue	$ 28,060	$ 28,346	$ 28,864
Net earnings	5,041	6,287	7,117
Earnings per share			
Basic	$ 0.53	$ 0.66	$ 0.73
Diluted	0.53	0.66	0.72
Dividends per share	0.24	0.22	0.20
Total assets	$ 103,498	$ 107,133	$ 84,679

revenue in 2008, up from 46% in 2007.

The provision for credit and loan losses, a combination of net charge-offs and charges or recoveries related to changes in the Company's allowances for losses, rose by 60% to $3,848,000 in 2008 from $2,401,000 last year. Net charge-offs increased by 63% to $2,950,000 compared with $1,815,000 in 2007. There was a charge of $898,000 in 2008 related to the increase in the Company's allowances for losses compared to a charge of $586,000 last year. The Company's allowances are discussed below. The provision for credit and loan losses, as a percentage of revenue, increased to 13.7% in 2008 and was the second highest percentage in the last ten years, compared to 8.5% in 2007. Net charge-offs increased to 10.5% of revenue in 2008 compared to 6.4% last year. The 63% rise in net charge-offs in 2008 was due to a number of significant insolvencies in the latter part of 2008 in our Canadian recourse factoring operations. Our U.S. operations had no charge-offs in 2008. The Company increased the allowance for losses on its factored receivables and loans ("FR&L") significantly in 2008 despite a small decline in them as it determined a higher allowance was required in light of current economic conditions and their impact on FR&L. While the Company manages its portfolio of FR&L 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.

Income tax expense declined by 21% to $2,613,000 in 2008 compared to $3,313,000 last year on a similar percentage decline in pre-tax earnings. The Company's effective corporate income tax rate in 2008 was 34.1%, slightly below the 34.5% in 2007 as the Canadian federal income tax rate declined this year.

Table 1 highlights the Company's profitability in terms of returns on its average assets and shareholders' equity. In 2008, on lower net earnings and higher shareholders' equity, these percentages declined to 4.8% and 11.7%, respectively.

Net revenue as a percentage of average assets declined to 23.9% compared to 26.4% in 2007. It has decreased over the past ten years as the increase in assets, principally FR&L, rose at a faster rate than net revenue due to growth in the Company's recourse factoring and asset-based lending business. In 2008 the percentage was also impacted by lower revenue. The ratio of operating expenses to average assets has also declined substantially over the last ten years for similar reasons. This ratio declined to 13.0% in 2008 compared with 13.9% last year.

Canadian operations

Net earnings from Canadian operations declined by $1,931,000 or 45% to $2,372,000 in 2008 compared to $4,303,000 last year principally as a result of a higher provision for credit and loan losses and lower revenue. Please see note 21 to the Statements, which sets out detailed segment information.

Revenue decreased by $1,821,000 or 8% to $20,264,000 in 2008 compared to $22,085,000 last year as average factoring yields declined for reasons noted above offsetting the impact of a 3% rise in Canadian factoring volume. Interest expense declined by $629,000 or 19% to $2,666,000 as a result of lower interest rates this year. G&A expenses rose by $17,000 to $10,042,000. The provision for credit and loan losses rose by $1,709,000 or 79% to $3,878,000. As noted above, the increase resulted from a number of insolvencies and the requirement for additional allowances. Canadian income tax expense decreased by 47% to $1,137,000 in 2008 on a similar percentage decline in pre-tax earnings.

U.S. operations

The Company's U.S. operations saw a significant rise in earnings in 2008 as it benefitted from the adverse economic conditions and a deteriorating credit environment around it by increasing its business as new lending opportunities arose. Net earnings from U.S. operations rose by 35% to $2,669,000 in 2008 compared to $1,984,000 in 2007. In U.S. dollars, net income increased by 34% to US$2,518,000. Revenue rose by $1,040,000 or 15% to $7,836,000 principally as a result of higher volume and a $470,000 rise in interest on asset-based loans. Interest expense

Table 1—Profitability Ratios

(as a percentage)	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Return on Average Assets	11.4	10.4	3.9	6.6	7.9	10.2	7.6	8.1	6.6	**4.8**
Return on Average Equity	21.2	21.1	7.0	10.6	13.2	19.1	16.8	18.3	16.0	**11.7**
Net Revenue / Average Assets	45.2	39.8	36.0	36.4	34.5	35.0	29.8	30.3	26.4	**23.9**
Operating Expenses / Average Assets	24.1	20.7	20.0	21.1	19.8	19.0	18.6	15.6	13.9	**13.0**

rose slightly to $245,000 compared with $232,000 last year as higher borrowings outweighed the impact of lower interest rates. G&A expenses rose by $331,000 to $3,449,000 principally as a result of higher personnel expenses and professional fees. In 2008 there was a recovery of loan losses of $29,000 compared to a provision of $233,000 last year. AFI's income tax expense rose to $1,476,000 in 2008 on a 31% increase in pre-tax earnings.

Fourth quarter 2008

Quarter ended December 31, 2008 compared with quarter ended December 31, 2007

Net earnings for the quarter ended December 31, 2008 declined by $1,597,000 or 78% to $462,000 from $2,059,000 in the fourth quarter of 2007. Net earnings principally decreased due to a higher provision for credit and loan losses and lower revenue. The stronger U.S. dollar compared to the fourth quarter of 2007 helped increase net earnings by approximately $120,000. Diluted earnings per common share declined to 5 cents compared to 22 cents last year.

Factoring volume rose by 14% to a fourth quarter record of $429 million from $376 million in the fourth quarter of 2007. Volume in the Company's recourse factoring business rose by 11%, while volume in its non-recourse business increased by 18%. The increase in volume was low-rate international or non-lending business.

Revenue declined by $1,018,000 or 13% to $6,753,000 in the fourth quarter compared to $7,771,000 last year mainly as a result of a decrease in average factoring yields for reasons noted above. Continuing reductions in interest rates had a more profound impact on revenue in the fourth quarter, although this was partly offset by lower interest expense. The stronger U.S. dollar compared to last year's fourth quarter helped increase revenue by approximately $335,000.

Interest expense declined by 40% to $574,000 in the fourth quarter compared to $959,000 last year on lower interest rates and an 8% decrease in average borrowings.

G&A expenses for the quarter rose by $179,000 or 6% to $3,388,000 compared to $3,209,000 last year. The stronger U.S. dollar compared to the fourth quarter of 2007 was responsible for increasing the Canadian dollar equivalent of AFI's expenses by approximately $190,000.

The provision for credit and loan losses increased by $1,597,000 to $2,005,000 in the fourth quarter of 2008 from $408,000 last year. The provision comprised net charge-offs of $1,224,000 compared to $506,000 last year, while there was a charge of $781,000 related to an increase in the Company's total allowances for losses compared to a $98,000 recovery last year. As noted above, the substantial increase in the provision of credit and loan losses resulted from a number of significant insolvencies in the Company's Canadian operations in the quarter and the requirement for additional allowances as the credit and economic environment deteriorated adversely impacting the Company's FR&L.

Income tax expense decreased by 76% to $273,000 compared to $1,121,000 last year on a similar decline in pre-tax earnings.

Review of Balance Sheet

Shareholders' equity at December 31, 2008 was a record $48,179,000, an increase of $8,982,000 or 23% from $39,197,000 last year-end. Book value per share rose to $5.10 at December 31, 2008 compared to $4.15 a year earlier. The increase in shareholders' equity in 2008 principally resulted from a $6,717,000 improvement in the accumulated other comprehensive loss account and a $1,863,000 increase in retained earnings. These are discussed below.

Total assets declined by 3% to $103,498,000 at December 31, 2008 compared to $107,133,000 last year-end. Total assets largely comprised FR&L. As detailed in the Ten Year Financial Summary, total assets have grown significantly in the last ten years in line with the growth in the Company's recourse factoring and asset-based lending business.

Summary of Quarterly Financial Results*

Quarters ended (in thousands unless otherwise stated)	2008 Dec. 31	Sept. 30	June 30	Mar. 31	2007 Dec. 31	Sept. 30	June 30	Mar. 31
Factoring volume (millions)	$ 429	$ 419	$ 365	$ 383	$ 376	$ 413	$ 341	$ 366
Revenue								
Factoring commissions, discounts, interest and other income	$ 6,753	$ 6,785	$ 7,094	$ 7,427	$ 7,771	$ 7,174	$ 6,785	$ 6,617
Expenses								
Interest	574	628	789	880	960	836	657	540
General and administrative	3,388	3,342	3,340	3,421	3,209	3,286	3,280	3,368
Provision for credit and loan losses	2,005	760	248	835	408	1,210	243	540
Depreciation	51	47	50	47	14	65	65	66
	6,018	4,777	4,427	5,183	4,591	5,397	4,245	4,514
Earnings before income taxes	735	2,008	2,667	2,244	3,180	1,777	2,540	2,103
Income tax expense	273	676	908	756	1,121	614	869	709
Net earnings	$ 462	$ 1,332	$ 1,759	$ 1,488	$ 2,059	$ 1,163	$ 1,671	$ 1,394
Earnings per common share								
Basic	$ 0.05	$ 0.14	$ 0.19	$ 0.16	$ 0.22	$ 0.12	$ 0.18	$ 0.15
Diluted	0.05	0.14	0.18	0.16	0.22	0.12	0.17	0.15

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

Table 2 highlights the composition of the Company's balance sheet. The first two ratios in the table (45% and 47%), detailing equity as a percentage of assets, improved in 2008 with the rise in shareholders equity. The Company's debt (bank indebtedness and notes payable) to equity ratio is currently less than one and historically has been low. These ratios are better than those of most financial companies and indicate the Company's continued financial strength and overall low degree of leverage.

Excluding inter-company balances, 54% of identifiable assets were located in Canada at December 31, 2008 and 46% in the United States compared to 69% and 31%, respectively, at December 31, 2007. Please see note 21 to the Statements.

The Company's total portfolio, which comprises both gross FR&L and managed receivables, rose by 15% to $237 million at December 31, 2008 compared to $206 million last year-end as a result of an increase in managed receivables. Please see Table 2 for a ten year history.

Gross FR&L declined by $2,905,000 or 3% to $102,977,000 at December 31, 2008 compared with $105,882,000 a year earlier. Please see note 4 to the Statements. Net of the allowance for losses thereon, FR&L declined by $3,950,000 to $99,990,000 at December 31, 2008 from $103,940,000 last year-end. FR&L principally represent advances made by our recourse factoring and asset-based lending subsidiaries, MFC and AFI, to clients in a wide variety of industries. Due to the deteriorating credit and capital markets currently existing, particularly in the United States, the Company is seeing a larger number of prospective deals than previously as larger industry players have trouble securing sufficient funding and smaller finance companies exit the industry. The Company's recourse factoring and asset-based lending businesses had 145 clients at December 31, 2008. Five clients comprised over 5% of gross FR&L at December 31, 2008, of which the largest client comprised 8%.

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 balance sheet. These non-recourse or managed receivables totalled $134 million at December 31, 2008 compared to $100 million last year-end. The increase largely pertains to one customer which is discussed below. Managed receivables comprise the receivables of approximately 160 clients principally in the apparel, engineering, home furnishings, industrial products and footwear industries. The 25 largest clients generated 59% of non-recourse volume in 2008. Most of the clients' customers are retailers in Canada and the United States. At December 31, 2008, the 25 largest customers accounted for 62% of total managed receivables. One substantial new customer, in the engineering business, comprised 22% of year-end

Table 2—Balance Sheet Composition

(as a percentage)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tangible Equity / Assets	47	47	61	61	58	46	42	46	36	**45**
Equity / Assets	50	49	63	63	59	47	43	47	37	**47**
Debt (bank indebtedness & notes payable) / Equity	68	82	33	28	50	78	103	90	147	**97**
Receivables and loans ($000)										
Owned	60,528	77,298	64,036	65,893	70,561	72,249	85,730	81,284	105,882	**102,977**
Managed	127,306	101,233	93,298	134,879	124,120	113,894	113,947	105,339	100,189	**133,754**
Total	187,834	178,531	157,334	200,772	194,681	186,143	199,677	186,623	206,071	**236,731**

managed receivables. This customer is considered to be of the highest credit quality. Although the retail environment is suffering as a result of the current economic downturn, these accounts continue to be well rated and the Company's credit risk is being closely monitored.

The nature of the Company's factoring and asset-based lending business requires it to fund or assume credit risk on the receivables offered to it by its clients, as well as to fund other assets such as inventory, equipment and real estate. All 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, the Company's Board of Directors. The Company monitors and controls its risks and exposures through financial, credit and legal reporting systems and, accordingly, believes that it has in place procedures for evaluating and limiting the credit risks to which it is subject. The Company's credit risk management practices are also discussed in note 18(a) to the Statements.

All credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by customers and clients. 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 invoice due dates ranging from 30 to 60 days from original shipping or invoice date. Of the total managed receivables for which the Company guarantees payment, 9.3% were past due more than 60 days at December 31, 2008 compared to 9.5% last year-end. In the Company's recourse factoring business, receivables become "ineligible" when they reach a certain pre-determined age, usually 90 days past due, and are charged back to clients limiting the Company's credit risk thereon.

ABC employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. MFC and AFI employ a client rating system to assess credit risk, which reviews, among other things, the financial strength of each client, its management and the Company's underlying security, principally its clients' receivables, inventory, equipment and real estate. 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, real estate or other assets securing loans are professionally appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate. Examples of the clients' industries are set out on page 6. 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 reduces its credit risk by limiting to $10 million the maximum amount it will lend to any client, enforcing strict advance rates and disallowing certain types of receivables. It also charges back receivables as they become older and employs concentration limits on a customer and industry specific basis. The Company also confirms the validity of the majority of the receivables that it purchases. 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, which is particularly important in today's adverse economic environment. Note 18(a) to the Statements provides details of the Company's credit exposure by industrial sector.

Table 3 highlights the credit quality of the Company's portfolio, both owned and managed. Net charge-offs of our managed receivables declined slightly to $715,000 in 2008 compared to $766,000 last year.

Table 3—Credit Quality

(as a percentage)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Portfolio Turnover (days)	50	53	54	52	51	48	50	50	49	**50**
Managed Receivables past due more than 60 days	10.1	9.7	9.8	7.6	5.6	6.5	7.6	9.9	9.5	**9.3**
Reserves* / Portfolio	0.9	1.0	1.0	0.9	1.0	1.0	1.1	1.1	1.3	**1.6**
Reserves* / Net Charge-offs	183	143	21	207	171	482	317	103	147	**125**
Net Charge-Offs / Volume	0.07	0.09	0.56	0.06	0.08	0.03	0.05	0.15	0.12	**0.18**

*Reserves comprise the total of the allowance for losses on FR&L and on the guarantee of managed receivables.

Net charge-offs in the Company's recourse factoring business more than doubled to $2,235,000 in 2008 compared to $1,049,000 last year. Overall, the Company's total net charge-offs, as discussed in the Results of Operations section above, rose by 63% to $2,950,000 in 2008 compared with $1,815,000 last year as the economic environment worsened and the Company suffered from of a number of insolvencies as a result thereof. Total net charge-offs, the second highest in the last ten years, were 18 basis points of volume in 2008 compared to 12 basis points last year.

After the customary detailed year-end review of the Company's $237 million portfolio, all problem accounts were identified and provided for. The Company maintains separate allowances for credit and loan losses on both its FR&L and its guarantee of managed receivables, at amounts, which, in management's judgment, are sufficient to cover the fair value of losses thereon. The allowance for losses on FR&L increased by $1,045,000 or 54% to $2,987,000 at December 31, 2008 from $1,942,000 last year-end despite a small decline in the Company's FR&L. It was determined a higher allowance was required in light of the charge-offs incurred in 2008 and current economic conditions. The allowance for losses on the guarantee of managed receivables declined slightly to $686,000 at December 31, 2008 compared to $725,000 last year-end. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. As these managed receivables are off-balance sheet, this allowance is included in the total of accounts payable and other liabilities. The activity in both allowance for losses accounts for 2008 and 2007 is set out in note 4 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be adequate.

Cash declined to $994,000 at December 31, 2008 compared to $1,148,000 at the end of 2007. The Company endeavors to minimize cash balances 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.

Income taxes receivable totalled $267,000 at December 31, 2008 compared to income taxes payable of $1,012,000 last year-end. The large income tax payable balance last year-end arose because one of the Company's subsidiaries was not required to pay instalments in 2007 and had an income tax payable balance of $878,000 at December 31, 2007.

Capital assets increased by $38,000 to $635,000 at December 31, 2008 compared to $597,000 last year-end. Capital assets acquired during the year, net of disposals, totalled $221,000 compared to $86,000 in 2007 and principally comprised leasehold improvements, and computer and office equipment.

Goodwill, net of accumulated amortization, totalled $1,171,000 at December 31, 2008 compared to $953,000 at December 31, 2007. In accordance with GAAP, goodwill is subject to an impairment test at least annually or more frequently if impairment indicators arise. In 2008 and 2007, the Company determined there was no impairment to the carrying value of goodwill. The increase in goodwill in 2008 relates to the translation of AFI's goodwill balance of US$962,000 into Canadian dollars at a higher year-end U.S. dollar exchange rate than at December 31, 2007.

Total liabilities at December 31, 2008 declined by $12,618,000 to $55,318,000 from $67,936,000 last year-end. The decrease principally resulted from a decline in bank indebtedness.

Bank indebtedness declined by $12,330,000 or 26% to $35,877,000 at December 31, 2008 compared with $48,207,000 at December 31, 2007. Bank indebtedness decreased in 2008 as a result of cash generated from operating activities, principally from net earnings and FR&L collections. Please refer to the Company's 2008 Cash Flow Statement on page 25 of this Annual Report.

Bank indebtedness is secured primarily by FR&L. The Company has approved credit lines totalling approximately $100 million at December 31, 2008 and was in compliance with all loan covenants thereunder. The Company has no term debt outstanding.

Amounts due to clients decreased by $309,000 to $4,588,000 at December 31, 2008 compared to $4,897,000 at the end of 2007. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Accounts payable and other liabilities declined by $366,000 to $3,080,000 at December 31, 2008 compared to $3,446,000 last year-end. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables.

Deferred income, which comprises the deferral of a portion of factoring commissions and discounts until collection of the underlying receivables, rose slightly to $829,000 at December 31, 2008 compared to $806,000 last year-end.

Notes payable increased by $1,377,000 to $10,944,000 at December 31, 2008 compared to $9,567,000 last year-end. Please see Related Party Transactions section below and note 8 to the Statements. The increase in 2008 represents notes issued, net of redemptions, and accrued interest.

Capital stock increased by $516,000 to $6,732,000 at December 31, 2008 from $6,216,000 a year earlier. There were 9,438,171 common shares outstanding at December 31, 2008 compared with 9,454,171 a year earlier. Note 9(b) to the Statements provides details of changes in the Company's issued and outstanding common shares and capital stock. During 2008, 138,000 stock options were exercised by directors and key managerial employees for proceeds of $510,000, while $114,000 was transferred to capital stock from contributed surplus upon the exercise of these stock options. Offsetting these increases was a $108,000 reduction in capital stock in respect of shares repurchased and cancelled by the Company pursuant to the terms of its Normal Course Issuer Bids ("Bids"). Note 9(c) to the Statements provides details of the Company's Bids. During 2008, 154,000 common shares were repurchased and cancelled under the Company's Bids at a cost of $1,005,000 (an average price of $6.53 per common share). This amount was applied to reduce capital stock and retained earnings by $108,000 and $897,000, respectively.

Details of the Company's stock option plans and options outstanding at December 31, 2008 are set out in note 9(e) to the Statements. The Company has not issued any options to employees or directors since 2004 and currently does not plan to do so. In 2007 the Company established a share appreciation rights ("SARs") plan whereby SARs are granted to directors and key managerial employees of the Company and its subsidiaries. Details of the SARs plan are set out in note 9(f) to the Statements. In 2008, 95,000 SARs were granted by the Company at a strike price of $7.25. These are the only SARs granted to date. As at December 31, 2008, the outstandings SARs had no intrinsic value.

Contributed surplus totalled $82,000 at December 31, 2008 compared to $196,000 at December 31, 2007. The decrease in 2008 comprised the $114,000 that was transferred to capital stock. Please refer to note 9(d) to the Statements. This balance will decline when any remaining stock options are exercised and their fair value is transferred to capital stock.

Retained earnings increased by $1,863,000 to $43,543,000 at December 31, 2008 compared to $41,680,000 at December 31, 2007. The increase in 2008 comprised net earnings of $5,041,000 less dividends paid of $2,281,000 (24 cents per common share) and the $897,000 premium paid over stated capital value per share on the shares repurchased under the Bids. Please refer to the Consolidated Statements of Retained Earnings on page 24 of this Annual Report.

Accumulated other comprehensive loss comprises the unrealized foreign exchange loss arising on the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary. This was negative $2,178,000 at December 31, 2008 compared to negative $8,895,000 at December 31, 2007. Please refer to note 16 to the Statements. The improvement in 2008 resulted from the 23% rise in the value of the U.S. dollar against the Canadian dollar during the year. The U.S. dollar rose from $0.991 at December 31, 2007 to $1.218 at December 31, 2008. This increased the Canadian dollar equivalent of the Company's net investment in its U.S. subsidiary of approximately US$30 million by $6,717,000 in 2008.

Contractual Obligations and Commitments at December 31, 2008

(in thousands of dollars)	Payments due in Less than one year	Two and three years	Four and five years	After five years	Total
Operating lease obligations	$ 333	$ 676	$ 367	$ 374	$ 1,750
Purchase obligations	37	—	—	—	37
	$ 370	$ 676	$ 367	$ 374	$ 1,787

Liquidity and Capital Resources

The Company's financing and capital requirements generally increase with the total FR&L 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 approximately $100 million at December 31, 2008 and had borrowed approximately $36 million against these facilities. Bank borrowings are usually margined as a percentage of outstanding FR&L. As noted above, the Company was in compliance with all loan covenants under its lines of credit at December 31, 2008. Funds generated through operating activities, notes payable and share issuances decrease the usage of, and dependence on, these lines.

As noted in the Review of Balance Sheet section above, the Company had cash balances of $994,000 at December 31, 2008, a decrease of $154,000 compared to the $1,148,000 at December 31, 2007. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

Cash inflow from net earnings before changes in operating assets and liabilities totalled $6,114,000 in 2008, a decrease of 17% compared with $7,349,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash inflow from operating activities of $14,011,000 in 2008 compared with a net cash outflow of $20,271,000 last year. Changes in operating assets and liabilities in 2008 are discussed in the Review of Balance Sheet section above and detailed in the Company's Consolidated Statements of Cash Flows on page 25 of this Annual Report.

Net cash outflows from financing activities totalled $14,831,000 in 2008 compared to net cash inflows of $20,185,000 last year. In 2008 bank indebtedness of $13,331,000 was repaid, while dividends totalling $2,281,000 were paid and $1,005,000 was expended on the repurchase of common shares under the Bids. Offsetting these cash outflows was $1,276,000 raised from the issue of notes payable and $510,000 received from the issuance of shares pursuant to the exercise of stock options. In 2007, bank indebtedness increased by $21,915,000, while $439,000 was raised from the issue of notes payable and $245,000 was received from the issuance of shares pursuant to the exercise of stock options. Offsetting these cash inflows were dividend payments of $2,081,000 and the repurchase of common shares under the Bids at the cost of $333,000.

The effect of exchange rate changes on cash in 2008 comprised an $886,000 increase compared to an $830,000 decrease last year. The increase in 2008 resulted from the rise in the value of the U.S. dollar against the Canadian dollar during the year.

Overall, there was a net cash outflow of $154,000 in 2008 compared to $1,002,000 in 2007.

Management believes that current cash balances, existing credit lines and 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 provide sufficient liquidity and capital resources for future growth.

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 and bear interest at the bank prime rate less one half of one percent per annum, which is below the rate of interest charged by the Company's banks. Notes payable at December 31, 2008 increased by $1,377,000 to $10,944,000 from $9,567,000 at December 31, 2007. Of these notes payable, $9,665,000 (2007 - $8,335,000) or 88%

was owing to related parties and $1,279,000 (2007 - $1,232,000) was owing to third parties. Interest expense on these notes totalled $437,000 in 2008 compared to $534,000 last year. Please refer to note 8 to the Statements.

Financial Instruments

All financial assets, including derivatives, are measured at fair value on the consolidated balance sheet with the exception of factored receivables and loans, which are recorded at cost; as these are short term in nature their carrying values approximate fair values. Financial liabilities that are held for trading or are derivatives or guarantees are measured at fair value on the consolidated balance sheet. Non-trading financial liabilities, such as bank indebtedness and notes payable, are measured at amortized cost.

The Company has entered into a forward foreign exchange contract with a financial institution that is exercisable between January 2, 2009 and January 30, 2009 and obliges the Company to sell Canadian dollars and buy US$400,000 at an exchange rate of 1.1545. The contract was entered into by the Company on behalf of one of its clients and a similar forward foreign exchange contract was entered into between the Company and the client thereby offsetting the foreign exchange risks to the Company. The favorable and unfavorable fair values of these contracts are not significant and there has been no foreign exchange gain or loss to the Company as a result of entering into these contracts.

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 to be critical to the financial results of its business segments:

i) the allowance for credit and loan losses on both its FR&L 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 the estimated fair value of 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. 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. 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 set out in note 4 to the Statements.

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

Adoption of New Accounting Policies

Effective January 1, 2008 the Company adopted two new accounting standards issued by The Canadian Institute of Chartered Accountants ("CICA") on financial instruments comprising Handbook Sections 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation, which apply to interim and annual financial statements. These sections revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The new disclosures provide additional information on the nature and extent of risks arising from the financial instruments to which the Company is exposed and how it manages those risks. Please refer to note 18 to the Statements. The Company also adopted CICA Handbook Section 1535 Capital Disclosures which requires the Company to disclose qualitative and quantitative information relating to its objectives, policies and processes for managing its capital. Please refer to note 19 to the Statements.

Future Changes in Accounting Policies

Transition to International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements and will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis. The Company will also provide comparative financial information on an IFRS basis, including an opening balance sheet as at January 1, 2010.

The Company commenced its IFRS transition project in 2008, which includes four key phases:

- Project awareness and engagement - this includes identifying the members for the Company's IFRS transition team, and other representatives as required. In addition, this phase includes communicating the key project requirements with timelines and objectives to the Company's senior management, Board of Directors and Audit Committee.

- Diagnostic - this phase includes an assessment of the differences between current GAAP and IFRS, focusing on the areas which will have the most significant impact to the Company.

- Design, planning and solution development - this phase focuses on determining the specific impacts to the Company based on the application of IFRS requirements. This includes the development of detailed solutions and work plans to address implementation requirements. Accounting policies will be finalized, first-time adoption exemptions will be considered, draft financial statements and disclosures will be prepared and a detailed implementation plan with timeline will be developed.

- Implementation - this phase includes implementing the required changes necessary for IFRS compliance. The focus is the finalization of the Company's IFRS conversion plan, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, and preparation of opening IFRS balances.

A transition team is in place and is responsible for recommendations and implementation of IFRS to the Audit Committee and Board of Directors. The Company has completed the diagnostic assessment phase by performing comparisons of the differences between GAAP and IFRS. At this time, the impact on the Company's financial position and results of operations is not reasonably determinable or estimable for any of the IFRS conversion impacts identified.

The Company is currently working on the design, planning and solution development phase. We are evaluating the specific impacts of IFRS conversion to the Company and will develop recommendations and accounting policies accordingly. Communication, training and education are a essential to the success of this conversion project. In addition, the Company is monitoring the IASB's active projects and all changes to IFRS prior to January 1, 2011 will be incorporated as required.

Controls and Procedures

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed them to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2008 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

The following report is provided by the Company's management, including its President and Chief Financial Officer, in respect of the Company's internal control over financial reporting ("ICFR") (as defined in the rules of the CSA):

(i) the Company's management is responsible for establishing and maintaining adequate ICFR within the Company. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation;

(ii) the Company's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR and test its operating effectiveness;

(iii) the Company's management has designed and tested the operating effectiveness of its ICFR as at December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with GAAP. Management advises that such ICFR is effective and that there are no material weaknesses in the design and operating effectiveness of ICFR that have been identified by it. The operating effectiveness of the Company's ICFR has been verified by an independent consultant who confirmed no material weaknesses were identified as at December 31, 2008.

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 also refer to note 18 to the Statements, which discusses the Company's 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. Further, the Company's clients and their customers are often adversely affected by economic slowdowns or weak credit conditions and this can lead to increases in 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 factoring volume rose to $1.6 billion in 2008, while its portfolio was approximately $237 million at December 31, 2008. Operating results may be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 18(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (interest revenue) and lenders (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 FR&L substantially exceed its interest sensitive borrowings, the Company is exposed to interest rate fluctuations. Please refer to note 18(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 to 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 adversely impact its operating results upon the translation of its U.S. subsidiary's results into Canadian dollars. It has also caused a significant decrease in the value of the Company's net Canadian dollar investment in its U.S. subsidiary, which has reduced the accumulated other comprehensive income component of shareholders' equity to a loss position, although, the accumulated other comprehensive loss balance improved significantly in the second half of 2008 as the U.S. dollar strengthened. Please refer to note 18(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 standards of credit. Marketing initiatives and alliances are continuing to bear fruit. Among initiatives, MFC has long-standing referral programs with Bank of Nova Scotia and Liquid Capital Corp., a franchisor of small factoring companies in Canada and the U.S. Our U.S. operation, which is active within the turnaround management industry, is seeing accelerated deal flow as the credit and capital markets in the U.S. worsen and its profile is increasing. This has resulted in a substantially improved performance by our U.S. subsidiary. Lower interest rates are starting to adversely impact revenues, while weak economic conditions have increased the Company's credit risk and credit and loan losses related thereto in 2008. The Company expects that the same quantum of credit and loan losses will not be repeated in 2009 as it further tightens its credit policies. Many large industry players are currently having trouble securing funding and smaller finance companies are exiting the industry as the economic and credit environment worsens. Accord, with its substantial capital and borrowing capacity, is well positioned to capitalize on market opportunities.

Through experienced management and staff, coupled with its financial resources, the Company is well positioned to meet increased competition and develop new opportunities. It continues to look to introduce new financial and credit services to fuel growth in a very competitive and challenging environment.

Stuart Adair

Stuart Adair
Chief Financial Officer
March 2, 2009

Five Key Benchmarks

One of our primary functions at Accord is to manage risk and to assess credit quality. As detailed in Table 3, there are five key benchmarks which tell us how well we are doing.

1. Portfolio turnover

We try to minimize risk by turning our portfolio in as few days as possible. The turnover in 2008 was 50 days.

2. Past due receivables

We also try to keep our past due receivables as low as possible. Over the past ten years, the percentage of managed receivables past due more than 60 days has ranged from a low of 5.6% to a high of 10.1%. At Dec. 31, 2008, the percentage was 9.3%.

3. Reserves to portfolio

In an effort to minimize financial risk, we try to maximize this measure. Over the past ten years, it has ranged between 0.9% and 1.6%. The percentage at Dec. 31, 2008 was the ten-year-high of 1.6%.

4. Reserves to net charge-offs

Ideally, this percentage should be greater than 50%, which is to say that the year-end reserves would absorb about six months of charge-offs. This number has been consistently over 100% since 1999, except for the 21% at Dec. 31, 2001. At Dec. 31, 2008, it was 125%.

5. Net charge-offs to volume

This is an important benchmark in our business. The long term industry average ranges from 15 to 20 basis points. Our record has been very good since 1999. The figure in 2008 was 18 basis points as net charge-offs rose significantly this year.

Ten Year Financial Summary 1999-2008

All figures are in thousands of dollars except factoring volume (in millions) and earnings, dividends and book value per share and share price history.

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Factoring volume	$	1,304	1,372	1,253	1,366	1,439	1,489	1,424	1,417	1,497	1,596
Revenue	$	26,144	31,031	28,197	26,235	26,214	27,418	26,230	28,864	28,346	28,060
Interest		1,697	2,516	1,569	757	773	1,225	1,762	2,391	2,992	2,871
General and administrative		12,635	14,422	14,422	14,324	14,175	13,760	14,892	13,290	13,143	13,491
Provision for credit and loan losses		1,403	1,328	6,754	1,189	1,231	422	1,074	1,961	2,402	3,849
Depreciation and amortization		820	654	828	408	418	416	338	322	209	195
Provision for settlement of claim		—	—	—	2,339	712	—	—	—	—	—
Total expenses		16,555	18,920	23,573	19,017	17,309	15,823	18,066	17,964	18,746	20,406
Earnings before income tax expense		9,589	12,111	4,624	7,218	8,905	11,595	8,164	10,900	9,600	7,654
Income tax expense		3,405	4,683	1,705	2,569	3,066	3,971	2,861	3,783	3,313	2,613
Earnings before extraordinary gain		6,184	7,428	2,919	4,649	5,839	7,624	5,303	7,117	6,287	5,041
Extraordinary gain		—	—	—	—	—	—	907	—	—	—
Net earnings	$	6,184	7,428	2,919	4,649	5,839	7,624	6,210	7,117	6,287	5,041
Earnings per common share											
Basic	$	0.66	0.79	0.31	0.49	0.61	0.78	0.63	0.73	0.66	0.53
Diluted		0.64	0.76	0.30	0.49	0.61	0.76	0.62	0.72	0.66	0.53
Dividends per common share	$	0.12	0.14	0.14	0.14	0.16	1.68	0.18	0.20	0.22	0.24
Factored receivables and loans	$	55,838	70,156	63,075	64,882	69,479	71,136	84,270	79,863	103,940	99,990
Other assets		7,349	9,797	4,807	7,186	6,005	2,909	5,834	4,816	3,193	3,508
Total assets	$	63,187	79,953	67,882	72,068	75,484	74,045	90,104	84,679	107,133	103,498
Bank indebtedness	$	20,714	30,748	11,732	10,298	20,045	15,608	32,592	26,687	48,207	35,877
Due to clients		4,852	3,487	7,932	6,783	4,309	5,532	5,092	4,227	4,897	4,588
Accounts payable & other liabilities		4,219	3,941	2,553	5,952	2,932	5,227	5,565	3,940	4,459	3,081
Deferred income		1,028	1,124	937	956	916	908	992	913	806	829
Notes payable		742	1,466	2,119	2,451	2,482	11,778	7,298	9,195	9,567	10,944
Total liabilities		31,555	40,766	25,273	26,440	30,684	39,053	51,539	44,962	67,936	55,319
Shareholders' equity		31,632	39,187	42,609	45,628	44,800	34,992	38,565	39,717	39,197	48,179
Total liabilities and equity	$	63,187	79,953	67,882	72,068	75,484	74,045	90,104	84,679	107,133	103,498
Shares outstanding at Dec. 31	#	9,383	9,503	9,503	9,513	9,650	9,876	9,930	9,443	9,454	9,438
Book value per share at Dec. 31	$	3.37	4.12	4.48	4.80	4.64	3.54	3.88	4.21	4.15	5.10
Share price - high	$	5.75	6.60	6.65	5.85	7.55	11.25	8.80	8.25	9.45	8.39
- low		4.25	5.00	4.56	4.80	4.95	6.50	6.70	7.00	7.72	4.75
- close at Dec. 31		5.50	5.60	5.10	5.05	7.05	8.75	7.05	7.75	8.00	5.81

Corporate Governance

The Board of Directors ("Board") and management of the Company are committed to strong corporate governance and believe it is a vital component for the effective and efficient operation and future success of the Company. Good corporate governance demonstrates the Board's ability to independently direct and evaluate the performance of the Company's management as well as that of the Board members themselves. This is achieved through a well qualified Board, a strong relationship between the Board and senior management, and strong governance practices and procedures.

The Company has considered the guidance provided by the CSA National Policy 58-201 ("NP 58-201") in developing its corporate governance practices. NP 58-201 is intended to assist companies in improving their corporate governance practices and contains guidelines on issues such as the constitution and independence of corporate boards and their functions. The Company's corporate governance practices generally comply with NP 58-201's fundamental principles. The Company also follows the provisions of CSA's National Instrument 58-101 with respect to disclosure of its corporate governance practices.

CSA has also enacted rules regarding the composition of audit committees (Multilateral Instrument 52-110 - Audit Committees) and the certification of an issuer's disclosure controls and procedures and internal control over financial reporting (Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings). The Company is currently in compliance with the requirements of these instruments.

The Company's corporate governance practices are outlined below.

Mandate and Responsibilities of the Board

The shareholders of Accord elect the members of the Board who in turn are responsible for overseeing all aspects of the Company's business, including appointing management and ensuring that the business is managed properly, taking into account the interests of the shareholders and other stakeholders, such as employees, clients, suppliers and the community at large. The Board's duties are formally set out in its Charter. In addition to the Board's statutory obligations, the Board is specifically responsible for the following:

(i) satisfying itself as to the integrity of the Company's President and other executive officers and that they create a culture of integrity within the Company;
(ii) adoption of a strategic planning process – the Board participates in strategic and operational planning initiatives as they develop, provides direction to management and monitors its success in achieving those initiatives;
(iii) identification of the principal risks of the Company's business and ensuring that there are systems in place to effectively monitor and manage these risks. In this respect, the Board reviews and approves all credit above $1,000,000, including loans to clients and assumption of credit risk;
(iv) appointing, training and monitoring senior management and planning for succession – the Board evaluates senior management on a regular basis, sets objectives and goals and establishes compensation to attract, retain and motivate skilled and entrepreneurial management;
(v) a communications policy to communicate with shareholders and other stakeholders involved with the Company – the Company has a policy in place to disseminate information, respond to inquiries, issue press releases covering significant business activities and display information on the Company's web site;
(vi) the integrity of the Company's internal control and management information systems – the Audit Committee oversees the integrity of the Company's internal control and management information systems and reports to the Board;
(vii) reviewing the Company's quarterly and annual financial statements, MD&A and related press releases, and overseeing its compliance with applicable audit, accounting and reporting requirements through the functions of its Audit Committee; and
(viii) ensuring strong governance is in place by establishing structures and procedures to allow the Board to function independently of management, establishing Board committees to assist it in carrying out its responsibilities and undertaking regular self-evaluation as to the effectiveness and independence of the Board.

In addition to those matters which must by law be approved by the Board, management seeks Board approval for any transaction which is outside of the ordinary course of business or could be considered to be material to the business of the Company. The frequency of the meetings of the Board, as well as the nature of agenda items, change depending upon the state of the Company's affairs and in light of opportunities or risks which the Company faces. The Board meets at least quarterly to review the business operations and financial results of the Company, including regular meetings both with, and without, management to discuss specific aspects of the operations of the Company. Each director is expected to attend all Board meetings and comprehensively review meeting materials provided in advance of each meeting. During 2008 there were four meetings of the Board of Directors, which were attended by all directors with the exception of Mr. Thomas Beck, who attended three meetings, Mr. Jeremy Hitzig, who attended the two meetings prior to his resignation, and Mr. Simon Hitzig, who attended the two meetings after his appointment.

Composition of the Board

The Board currently comprises eight persons. Their biographies are set out in the Company's Management Proxy Circular dated March 24, 2009, which was mailed to shareholders with this Annual Report and is filed under the Company's Profile with SEDAR at www.sedar.com. Of the current board, six directors are considered to be independent, since their respective relationships to the Company are independent of management and free from any interest or business which could, or could reasonably be perceived to, materially interfere with or compromise each director's ability to act independently with a view to the best interests of the Company, other than interests arising from shareholdings. Mr. Ken Hitzig, President, is an officer of the Company and is, by definition, a related director. Mr. Simon Hitzig is the son of Mr. Ken Hitzig and is, by definition, a related director. All directors stand for re-election annually. A number of directors also act as directors of other public companies. These directorships, if any, are set out in each Board member's biography.

The Board has considered its size and the number of directors and believes that the current size facilitates effective decision-making and direct and immediate communication between the directors and management. It also permits individual directors to involve themselves directly in specific matters where their personal inclination or experience will best assist the Board and management in dealing with specific issues.

The Board has neither a corporate governance committee nor a nominating committee preferring instead to perform these functions directly at the Board level. The Board and its committees have had, and continue to have, varied responsibilities. They include nominating new directors, assessing the effectiveness of the Board, its committees and members individually and as a whole, approving requests of directors to engage outside advisors at the expense of the Company and reviewing the adequacy and form of compensation of directors. Directors' compensation is set after giving due consideration to the directors' workload and responsibilities and reviewing compensation paid to directors of similar-sized public companies.

The Board does not have a formal chair or "lead" director and it is felt that, given the current structure of the Board and the fact that seven of its eight members are independent of management, one is not needed. The Board believes that there are adequate structures in place to facilitate the functioning of the Board independent of management without the need for a chair. Should the need develop in the future, the Board will consider whether a formal or acting chair or a "lead" director is required.

Given the fact that there have only been three new directors of the Company in the past fifteen years, no formal orientation and education program for new directors is currently considered necessary. However, as individual circumstances dictate, each new director receives a detailed orientation to the Company, which covers the nature and operations of the Company's business and his responsibilities as a director.

Directors are also expected to continually educate themselves to maintain the skill and knowledge necessary for them to meet their obligations as directors. They do this principally through attendance at seminars and the review of publications and materials relevant to a director's role as provided by the Company's management, external auditors, lawyers, other directorships and outside sources.

Committees of the Board

The Board discharges its responsibilities directly and through two committees: an Audit Committee and a Compensation Committee.

The Audit Committee is composed of Mr. Austin Beutel, Chairman, Mr. Ben Evans, Mr. John Lamont and Mr. Frank White, each of whom is an independent director. Each member of the Audit Committee is financially literate, that is, they are able to read and understand fundamental financial statements. The Charter of the Audit Committee sets out the Committee's responsibilities which include reviewing quarterly and annual financial statements and MD&A and related press releases before they are approved by the Board; making recommendations to the Board regarding the appointment of independent auditors and assuring their independence; meeting with the Company's management at least quarterly; reviewing annual audit findings with the auditors and management; and reviewing the risks faced by the Company, the business environment, the emergence of new opportunities, and the steps management has taken to mitigate exposure to significant risks. During 2008 there were four meetings of the Audit Committee, which were attended by all four members.

The Audit Committee has adopted a corporate Code of Ethics and a "whistleblower policy" whereby any director, officer or employee of the Company or its subsidiaries who is aware of acts by a director, officer or employee which are in contravention of the standards of business and personal ethics required of them by the Company, or in violation of applicable laws and regulations, is required to bring such matters to the attention of management or directly to the Chairman of the Audit Committee. All reported violations will be investigated and appropriate corrective action taken if warranted.

The Compensation Committee is composed of Mr. Austin Beutel, Mr. John Lamont and Mr. Thomas Beck, each of whom is an independent director. The Compensation Committee's mandate includes evaluating the performance of the Company's executives and making recommendations for approval by the Board with respect to their remuneration. The Compensation Committee reviews compensation paid to management of similar-sized companies to ensure that remuneration is consistent with industry standards. The Compensation Committee also considers and makes recommendations with respect to such matters as incentive plans, employee benefit plans and the structure and granting of stock options or share appreciation rights. The Compensation Discussion and Analysis report to shareholders is included in the Company's Management Proxy Circular. During 2008 there were three meetings of the Compensation Committee, which were attended by all three members.

Expectations of Management

The Board expects management to adhere to the highest standards of business and personal ethics and to conduct itself with the utmost degree of honesty and integrity in fulfilling its duties and responsibilities and complying with all applicable laws and regulations. The Board expects management to operate the Company in accordance with approved annual business and strategic plans, to do everything possible to enhance shareholder value and to manage the Company in a prudent manner. Management is expected to provide regular financial and operating reports to the Board and to make the Board aware of all important issues and major business developments, particularly those that had not been previously anticipated. Management is expected to seek opportunities for business acquisitions and expansion, and to make appropriate recommendations to the Board.

Management's Report to the Shareholders

The management of Accord Financial Corp. is responsible for the preparation, presentation and integrity of the consolidated financial statements, financial information and MD&A contained in this annual report. This responsibility includes the selection of the Company's accounting policies in addition to judgments and estimates in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The accounting principles which form the basis of the consolidated financial statements and the more significant policies applied are described in notes 2 and 3 to the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of the CSA's National Instrument 51-102.

In order to meet its responsibility for the reliability and timeliness of financial information, management maintains systems of accounting and administrative controls that assure, on a reasonable basis, the reliability of financial information and the orderly and efficient conduct of the Company's business. A report on the design and effectiveness of the Company's disclosure controls and the design and operating effectiveness of its internal control over financial reporting is set out in the MD&A as required by CSA's Multilateral Instrument 52-109.

The Company's Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of four independent directors. The Committee meets at least quarterly with management and periodically with the Company's auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and MD&A and to recommend approval of the consolidated financial statements and MD&A to the Board.

KPMG LLP, independent auditors appointed by the shareholders, express an opinion on the fair presentation of the consolidated financial statements. They have full and unrestricted access to the Audit Committee and management to discuss matters arising from their audit, which includes a review of the Company's accounting records and internal controls.

Stuart Adair

Stuart Adair
Chief Financial Officer

Toronto, Canada
March 2, 2009

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Accord Financial Corp. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

KPMG LLP

Toronto, Canada
January 30, 2009

Consolidated Balance Sheets

At December 31	2008	2007
Assets		
Factored receivables and loans, net (note 4)	$ 99,990,000	$ 103,939,783
Cash	993,723	1,147,684
Other assets	229,554	272,151
Income taxes receivable	266,693	—
Future income taxes, net (note 11)	211,273	223,297
Capital assets (note 5)	635,010	596,597
Goodwill (note 6)	1,171,346	953,330
	$ 103,497,599	$ 107,132,842
Liabilities		
Bank indebtedness (note 7)	$ 35,876,905	$ 48,206,627
Due to clients	4,588,209	4,897,403
Accounts payable and other liabilities	3,080,485	3,446,184
Income taxes payable	—	1,012,337
Deferred income	828,624	806,304
Notes payable (note 8)	10,944,148	9,567,112
	55,318,371	67,935,967
Shareholders' equity		
Capital stock (note 9)	6,731,581	6,215,914
Contributed surplus (note 9(d))	82,225	195,562
Retained earnings	43,543,490	41,680,286
Accumulated other comprehensive loss (note 16)	(2,178,068)	(8,894,887)
	48,179,228	39,196,875
Commitments and contingencies (notes 4, 13, 14 and 15)		
	$ 103,497,599	$ 107,132,842
Common shares outstanding (note 9)	9,438,171	9,454,171

See accompanying notes to consolidated financial statements.

On behalf of the Board

Ken Hitzig, Director

Austin C. Beutel, Director

Consolidated Statements of Earnings

Years ended December 31	2008	2007
Revenue		
Factoring commissions, discounts, interest and other income	$ 28,059,765	$ 28,345,999
Expenses		
Interest	2,871,402	2,992,114
General and administrative	13,490,618	13,143,314
Provision for credit and loan losses	3,848,451	2,401,329
Depreciation	195,133	209,277
	20,405,604	18,746,034
Earnings before income tax expense	7,654,161	9,599,965
Income tax expense (note 11)	2,613,000	3,313,000
Net earnings	$ 5,041,161	$ 6,286,965
Earnings per common share (note 12)		
Basic	$ 0.53	$ 0.66
Diluted	0.53	0.66
Weighted average number of common shares (note 12)		
Basic	9,490,837	9,463,231
Diluted	9,530,932	9,575,387

Consolidated Statements of Comprehensive Income

Years ended December 31	2008	2007
Net earnings	$ 5,041,161	$ 6,286,965
Other comprehensive income (loss):		
Unrealized gain (loss) on translation of self-sustaining foreign operation	6,716,819	(4,640,380)
Comprehensive income	$ 11,757,980	$ 1,646,585

Consolidated Statements of Retained Earnings

Years ended December 31	2008	2007
Retained earnings at January 1	$ 41,680,286	$ 37,779,781
Net earnings	5,041,161	6,286,965
Dividends paid	(2,280,810)	(2,081,147)
Premium on shares repurchased for cancellation (note 9(c))	(897,147)	(305,313)
Retained earnings at December 31	$ 43,543,490	$ 41,680,286

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2008	2007
Cash provided by (used in)		
Operating activities		
Net earnings	$ 5,041,161	$ 6,286,965
Items not involving cash		
Allowances for losses, net of charge-offs and recoveries	830,773	586,512
Deferred income	1,266	(81,626)
Depreciation	195,133	209,277
Future income tax expense	45,826	346,548
Stock-based compensation expense	—	1,406
	6,114,159	7,349,082
Changes in operating assets and liabilities		
Factored receivables and loans, gross	10,052,281	(28,992,798)
Due to clients	(475,854)	843,922
Income taxes receivable/payable	(1,323,238)	818,551
Other assets	71,272	(68,828)
Accounts payable and other liabilities	(427,161)	(221,259)
	14,011,459	(20,271,330)
Investing activities		
Additions to capital assets, net	(220,508)	(86,338)
Financing activities		
Bank indebtedness	(13,331,681)	21,914,764
Notes payable issued	1,276,157	438,761
Issuance of shares	510,200	245,350
Repurchase and cancellation of shares	(1,005,017)	(332,634)
Dividends paid	(2,280,810)	(2,081,147)
	(14,831,151)	20,185,094
Effect of exchange rate changes on cash	886,239	(829,868)
Decrease in cash	(153,961)	(1,002,442)
Cash at January 1	1,147,684	2,150,126
Cash at December 31	$ 993,723	$ 1,147,684
Supplemental cash flow information		
Interest paid	$ 2,520,291	$ 2,604,740
Income taxes paid	3,987,389	2,450,923

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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.

2. Basis of presentation

These financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

3. Significant accounting policies

(a) Adoption of new accounting and disclosure policies

Effective January 1, 2008, the Company adopted two new accounting standards issued by The Canadian Institute of Chartered Accountants ("CICA") on financial instruments comprising Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863 Financial Instruments - Presentation, which apply to interim and annual financial statements. These sections revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The new disclosures provide additional information on the nature and extent of risks arising from the financial instruments to which the Company is exposed and how it manages those risks. The Company also adopted CICA Handbook Section 1535, Capital Disclosures, which requires the Company to disclose qualitative and quantitative information relating to its objectives, policies and processes for managing its capital.

(b) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, Accord Business Credit Inc. and Montcap Financial Corporation ("MFC") in Canada and Accord Financial, Inc ("AFI") in the United States. Inter-company balances and transactions are eliminated upon consolidation.

(c) Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting years. Actual results could differ from those estimates. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to factored receivables and loans and to managed receivables (note 4). Management believes that both allowances for losses are adequate.

(d) Revenue recognition

Revenue principally comprises factoring commissions from the Company's recourse and non-recourse factoring businesses. 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. Additional factoring commissions are charged on a per diem basis if the invoice is not paid by the due date. Interest charges on loans 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.

(e) Allowances for losses

The Company maintains a separate allowance for losses on both its factored receivables and loans and its guarantee of managed receivables. The Company maintains these allowances for losses at amounts which, in management's judgment, are sufficient to cover the fair value of 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.

Credit losses on factored receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on loans are charged to the allowance for losses when collectability becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Recoveries of previously written off accounts are credited to the respective allowance for losses account.

(f) 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.

(g) Goodwill

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 income in the year in which the impairment is determined.

(h) Income taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future income 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. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse and are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. To the extent that the realization of future income tax assets is not considered to be more likely than not, a valuation allowance is provided.

(i) 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 balance sheet date. 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.

(j) Foreign currency translation

Assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. 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.

(k) Earnings per common share

Earnings per common share are calculated using the treasury stock method to compute the dilutive effect of stock options.

(l) Stock-based compensation

The Company accounts for stock-based compensation awards, including stock options and share appreciation rights ("SARs") issued to employees and directors, using fair value based methods.

(m) Derivative financial instruments

The Company records derivative financial instruments on its balance sheet 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.

4. Factored receivables and loans

	2008	2007
Factored receivables	$ 70,886,805	$ 68,745,451
Loans to clients	32,090,195	37,136,332
Factored receivables and loans, gross	102,977,000	105,881,783
Less allowance for losses	2,987,000	1,942,000
Factored receivables and loans, net	$ 99,990,000	$103,939,783

The activity in the allowance for losses on factored receivables and loans account during 2008 and 2007 was as follows:

	2008	2007
Allowance for losses at January 1	$ 1,942,000	$ 1,421,000
Provision for credit and loan losses	3,171,825	1,630,274
Charge-offs	(2,481,692)	(1,238,529)
Recoveries	246,982	189,767
Foreign exchange adjustment	107,885	(60,512)
Allowance for losses at December 31	$ 2,987,000	$ 1,942,000

The Company has also entered into agreements with clients whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At December 31, 2008, the gross amount of these managed receivables was $133,754,008 (2007 - $100,189,507). Management has provided an amount of $686,000 (2007 - $725,000) as an allowance for losses on the guarantee of these managed receivables which represents the estimated fair value of these guarantees. As these managed receivables are off-balance sheet, this liability is included in the total of accounts payable and other liabilities.

The activity in the allowance for losses on the guarantee of managed receivables account during 2008 and 2007 was as follows:

	2008	2007
Allowance for losses at January 1	$ 725,000	$ 720,000
Provision for credit losses	676,626	771,055
Charge-offs	(887,585)	(820,012)
Recoveries	171,959	53,957
Allowance for losses at December 31	$ 686,000	$ 725,000

The nature of the Company's business requires it to fund or assume the credit risk on receivables offered to it by its clients. 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 18(a).

5. Capital assets

	2008	2007
Cost	$ 2,747,802	$ 2,485,388
Less accumulated depreciation	2,112,792	1,888,791
	$ 635,010	$ 596,597

6. Goodwill

	2008	2007
Goodwill	$ 2,002,600	$ 1,629,867
Less accumulated amortization	831,254	676,537
	$ 1,171,346	$ 953,330

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2008 and 2007, the Company conducted annual impairment reviews and determined there was no impairment to the carrying value of goodwill. The change in the net goodwill balance in 2008 relates to the translation of the Company's net goodwill balance of US$961,697 into Canadian dollars at a different prevailing year-end exchange rate.

7. 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 December 31, 2008, the amounts outstanding under these lines of credit totalled $35,876,905 (2007 - $48,206,627). The Company was in compliance with the loan covenants under these lines of credit as at December 31, 2008 and 2007.

8. 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 and bear interest at the bank prime rate less one-half of one percent per annum. Notes payable and related interest expense were as follows:

	2008		2007	
	Notes payable	Interest expense	Notes payable	Interest expense
Related parties	$ 9,665,558	$ 379,220	$ 8,334,760	$ 458,478
Third parties	1,278,590	57,910	1,232,352	75,926
	$10,944,148	$ 437,130	$ 9,567,112	$ 534,404

9. Capital stock, contributed surplus, stock options and share appreciation rights

(a) Authorized

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares.

The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board of Directors. At December 31, 2008 and 2007, there were no first preferred shares outstanding.

(b) Issued and outstanding

The common shares issued and outstanding are as follows:

	Number	Amount
Balance at Jan. 1, 2007	9,442,771	$ 5,990,645
Issued on exercise of stock options	53,000	245,350
Shares repurchased for cancellation	(41,600)	(27,321)
Transfer from contributed surplus	—	7,240
Balance at Jan. 1, 2008	9,454,171	$ 6,215,914
Issued on exercise of stock options	138,000	510,200
Shares repurchased for cancellation	(154,000)	(107,870)
Transfer from contributed surplus	—	113,337
Balance at Dec. 31, 2008	9,438,171	$ 6,731,581

The fair value of stock options exercised is transferred from contributed surplus to capital stock.

(c) Share repurchase program

On August 2, 2006, the Company received approval from the Toronto Stock Exchange ("TSX") to commence a normal course issuer bid (the "2006 Bid") for up to 488,158 of its common shares at prevailing market prices on the TSX. The 2006 Bid commenced August 8, 2006 and terminated on August 7, 2007. Under the 2006 Bid, the Company repurchased and cancelled 321,700 shares at an average price of $7.62 per share for a total consideration of $2,451,975. This amount was applied to reduce share capital by $204,091 and retained earnings by $2,247,884.

On August 1, 2007, the Company received approval from the TSX to commence a new normal course issuer bid (the "2007 Bid") for up to 474,723 of its common shares at prevailing market prices on the TSX. The 2007 Bid commenced August 8, 2007 and terminated on August 7, 2008. Under the 2007 Bid, the Company repurchased and cancelled 75,600 shares at an average price of $7.83 per share for a total consideration of $591,782. This amount was applied to reduce share capital by $49,705 and retained earnings by $542,077.

On August 5, 2008, the Company received approval from the TSX to commence a normal course issuer bid (the "2008 Bid") for up to 477,843 of its common shares at prevailing market prices on the TSX. The 2008 Bid commenced August 8, 2008 and will terminate on the earlier of August 7, 2009 or the date on which a total of 477,843 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2008 Bid will be cancelled. During the year ended December 31, 2008, the Company repurchased and cancelled 118,700 common shares acquired under the 2008 Bid at an average price of $6.20 per common share for a total consideration of $735,769, which was applied to reduce share capital by $84,660 and retained earnings by $651,109.

During the year ended December 31, 2008, the Company repurchased and cancelled 154,000 common shares acquired under the 2007 and 2008 Bids at an average price of $6.53 per common share for a total consideration of $1,005,017, which was applied to reduce share capital by $107,870 and retained earnings by $897,147. During the year ended December 31, 2007, the Company repurchased and cancelled 41,600 common shares acquired under the 2006 and 2007 Bids at an average price of $8.00 per common share for a total consideration of $332,634, which was applied to reduce share capital and retained earnings by $27,321 and $305,313, respectively.

(d) Contributed surplus

	2008	2007
Contributed surplus at Jan. 1	$ 195,562	$ 201,396
Stock-based compensation expense (note 10)	—	1,406
Transfer to capital stock (note 9(b))	(113,337)	(7,240)
Contributed surplus at Dec. 31	$ 82,225	$195,562

(e) Stock option plans

The Company has established an employee stock option plan. Under the terms of the plan, an aggregate of 1,000,000 common shares has been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries.

According to the terms of the plan, options may be earned upon the achievement by the Company of certain minimum earnings.

The Company has also established a non-executive directors' stock option plan. Under the terms of the plan, an aggregate of 500,000 common shares has been reserved for issue upon the exercise of options granted to non-executive directors of the Company.

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date. The Company has issued no options to employees or directors since May 2004 and currently does not plan to do so.

During 2008, there were 138,000 (2007 - 53,000) stock options exercised for cash proceeds of $510,200 (2007 - $245,350), which were credited to capital stock.

The following table is a summary of stock option activity:

	2008	2007
Outstanding at Jan. 1	229,000	282,000
Exercised	(138,000)	(53,000)
Outstanding at Dec. 31	91,000	229,000

The following stock options were earned, exercisable and outstanding at December 31:

Exercise price	Expiry date	2008	2007
Employee stock option plan:			
$ 3.50	July 2, 2008	—	60,000
3.85	July 2, 2008	—	51,000
3.95	July 2, 2009	49,000	62,000
7.25	July 5, 2010	42,000	42,000
Non-executive directors' stock option plan:			
$ 3.75	March 4, 2008	—	14,000
		91,000	229,000
Weighted average exercise price		$ 5.47	$ 4.40

(f) Share appreciation rights

The Company has an established SARs plan whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be issued in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the TSX for the ten trading days that shares were traded immediately preceding the date of grant. An employee will have the right to sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant. Directors have no minimum holding period and can only exercise their SARs when they cease to be members of the Board of Directors, at which time exercise will be compulsory.

During 2008, 95,000 SARs were granted by the Company to directors and employees of the Company and its subsidiaries at a strike price of $7.25. These are the only SARs granted by the Company to date.

10. Stock-based compensation

The Company accounts for stock-based compensation, including stock option grants and SARs, using fair value based methods. Stock options are granted to employees and non-executive directors at prices not less than the market price of such shares on the grant date. These options vest over a period of three years provided certain earnings criteria are met. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the stock options on the grant date. This fair value is expensed over the award's vesting period. Note 9(f) sets out details of the Company's SARs plan. Changes in the fair value of outstanding SARs are calculated at each balance sheet date. The change will be recorded in general and administrative expenses, with a corresponding entry to accounts payable and other liabilities. As at December 31, 2008, the outstanding SARs had no intrinsic value. No stock options were granted by the Company in 2008 and 2007.

In 2008 there was no stock-based compensation expense to record in respect of stock option and SARs grants (2007 - $1,406). The 2007 expense pertained to options granted for which the vesting period of such options included, in whole or in part, the year ended December 31, 2007.

11. Income taxes

The Company's income tax expense comprises:

	2008	2007
Current income tax expense	$ 2,567,174	$ 2,952,284
Future income tax expense	45,826	360,716
Income tax expense	$ 2,613,000	$ 3,313,000

The Company's income tax expense varies from the amount that would be computed using the Canadian statutory income tax rate of 33.5% (2007 - 36.1%) due to the following:

	2008	%
Tax computed at statutory rates	$ 2,564,144	33.5
Increase resulting from:		
Higher effective tax rate on income of subsidiaries	45,683	0.6
Other	3,173	—
Income tax expense	$ 2,613,000	34.1

	2007	%
Tax computed at statutory rates	$ 3,465,587	36.1
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(198,089)	(2.1)
Other	45,502	0.5
Income tax expense	$ 3,313,000	34.5

The tax effects that give rise to future income tax assets and liabilities at December 31 are as follows:

	2008	2007
Future income tax assets:		
Allowances for losses	$ 348,902	$ 267,837
Capital assets	24,000	44,000
Other	10,353	15,365
Tax loss carryforwards	—	15,546
	383,255	342,748
Future income tax liabilities:		
Basis differential on goodwill	(168,815)	(112,413)
Other	(3,167)	(7,038)
	(171,982)	(119,451)
Future income taxes, net	$ 211,273	$ 223,297

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

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

The following is a reconciliation of common shares used in the calculation:

	2008	2007
Basic weighted average number of common shares outstanding	9,490,837	9,463,231
Effect of dilutive stock options	40,095	112,156
Diluted weighted average number of common shares outstanding	9,530,932	9,575,387

Certain options were excluded from the calculation of diluted shares outstanding in 2008 because they were considered to be anti-dilutive for earnings per common share purposes. No options were excluded in 2007.

13. Contingent liabilities

(a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company.

(b) At December 31, 2008, the Company was contingently liable with respect to unaccepted letters of credit issued on behalf of clients in the amount of $2,273,300 (2007 - $1,776,416). There were no letters of guarantee issued on behalf of clients outstanding at December 31, 2008 (2007 - $469,633). These amounts have been considered in determining the allowance for losses on factored receivables and loans.

14. Lease commitments

The Company is committed under operating leases, principally office space leases, which expire between 2009 and 2017. The minimum rentals payable under these long-term operating leases, exclusive of certain operating costs and property taxes for which the Company is responsible, over the next five years and thereafter are as follows:

2009	$ 333,077
2010	336,653
2011	339,336
2012	252,492
2013	114,917
Thereafter	373,481
	$ 1,749,956

15. Financial instruments

The Company has entered into a forward foreign exchange contract with a financial institution, which must be exercised by the Company between January 2, 2009 and January 30, 2009 and which obligates the Company to sell Canadian dollars and buy US$400,000 at an exchange rate of 1.1545. The contract was entered into by the Company on behalf of one of its clients 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 the US$400,000 to the client. The favorable and unfavorable fair values of these contracts have been recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively. There has been no gain or loss to the Company as a result of entering into these contracts.

As at December 31, 2007, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 3, 2008 and May 30, 2008 and obliged the Company to sell Canadian dollars and buy US$1,175,000 at an exchange rate of 0.9526. The contracts were entered into by the Company on behalf of one of its clients and similar forward foreign exchange contracts were entered into between the Company and the client whereby the Company would buy Canadian dollars from and sell the US$1,175,000 to the client. The favorable and unfavorable fair values of those contracts were recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively. There was no gain or loss to the Company as a result of entering into these contracts.

16. Accumulated other comprehensive loss

Accumulated other comprehensive loss comprises the unrealized foreign exchange gain or loss arising on translation of the assets and liabilities on the Company's self-sustaining U.S. subsidiary, which are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Movements in this balance during 2008 and 2007 were as follows:

	2008	2007
Balance at January 1	$ (8,894,887)	$ (4,254,507)
Unrealized gain (loss) on translation of self-sustaining foreign operation	6,716,819	(4,640,380)
Balance at December 31	$ (2,178,068)	$ (8,894,887)

17. 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.

18. Financial risk management

The Company is exposed to credit, liquidity and market risk related to the use of financial instruments in its operations. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. 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 factored receivables and loans, managed receivables and any other counterparty the Company deals with. The carrying amount of these assets 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 requires it to fund or assume credit risk on the receivables offered to it by its clients, as well as to finance other assets, such as inventory, equipment and real estate. 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.

All 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 Board of Directors. The Company monitors and controls its risks and exposures through financial, credit and legal reporting systems and, accordingly, believes that it has in place procedures for evaluating and limiting the credit risks to which it is subject. All credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by customers and clients. 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 payments terms of 30 to 60 days from original shipping or invoice date. Of the total managed receivables for which the Company guarantees payment, 9.3% were past due more than 60 days at December 31, 2008. In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 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 reviews, amongst other things, the financial strength of each client, its management and the Company's underlying security, principally its clients' receivables, inventory, equipment and real estate, while in its non-recourse factoring business it employs a customer credit scoring system to assess the credit risk associated with those client receivables that it guarantees (managed receivables). Credit risk is primarily managed by ensuring that the receivables factored are of the highest quality and that any inventory, equipment or other assets securing loans are professionally 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 the clients' customers is often more important than the financial strength of the clients themselves. The Company also minimizes credit risk by limiting to $10,000,000 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 employing concentration limits on a customer and industry specific basis. The Company also confirms the validity of the majority of the receivables that it purchases.

The following table summarizes the Company's credit exposure relating to its factored receivables and loans by industrial sector at December 31, 2008.

Industrial sector	Gross factored receivables and loans	% of total
	(in thousands)	
Financial and professional services	$ 21,298	21
Apparel and textiles	19,820	19
Food processing	14,084	14
Wholesale	13,507	13
Manufacturing	12,650	12
Chemicals	5,902	6
Other	15,716	15
	$ 102,977	100

The following table summarizes the Company's credit exposure relating to its managed receivables by industrial sector at December 31, 2008:

Industrial sector	Managed receivables	% of total
	(in thousands)	
Retail	$ 86,836	65
Engineering	29,449	22
Other	17,469	13
	$ 133,754	100

As set out in notes 3(e) and 4, the Company maintains an allowance for credit and loan losses on both 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 the fair value of future 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 principle obligations are its bank indebtedness, notes payable, due to clients and accounts payable and other liabilities. Revolving credit lines totalling approximately $100,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At December 31, 2008, the Company had borrowed approximately $36,000,000 against these facilities (note 7). 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 December 31, 2008 and 2007. Notes payable (note 8) are due on demand and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at December 31, 2008, 88% of these notes were due to related parties and 12% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations the majority of which are payable within six months.

The Company had factored receivables and loans totalling approximately $103,000,000 at December 31, 2008, which substantially exceeded its total liabilities of approximately $55,000,000 at that date. The Company's receivables normally have payment terms of 30 to 60 days from original shipping or 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$30,000,000 at December 31, 2008. 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 the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary into Canadian dollars at the balance sheet date. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the accumulated other comprehensive income or loss component of shareholders' equity (note 16).

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 in the year ended December 31, 2008, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $25,000. It would also change other comprehensive income or loss and the accumulated other comprehensive income or loss component of shareholders' equity by approximately $300,000. 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 December 31, 2008, the Company had unhedged foreign currency positions of US$49,000, €48,000 and £8,000 in its Canadian operations. 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 when necessary to address short-term imbalances.

(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.

The Company's agreements with its clients (interest revenue) and lenders (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, between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's shareholders' equity.

The following table shows the interest rate sensitivity gap at December 31, 2008:

(in thousands)	Floating rate	Within 3 months	Non-rate sensitive	Total
Assets				
Factored receivables and loans, net	$ 88,510	$ —	$ 11,480	$ 99,990
Cash	—	—	994	994
All other assets	—	—	2,514	2,514
	88,510	—	14,988	103,498
Liabilities				
Bank indebtedness	26,837	9,040	—	35,877
Due to clients	—	—	4,588	4,588
Notes payable	10,944	—	—	10,944
All other liabilities	—	—	3,909	3,909
Shareholders' equity	—	—	48,180	48,180
	37,781	9,040	56,677	103,498
	$ 50,729	$(9,040)	$(41,689)	$ —

Based on the Company's interest rate positions as at December 31, 2008, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $420,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

19. Capital disclosure

The Company considers its capital structure to include shareholders' 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 debt. The Company monitors the ratio of its equity to total assets, principally factored receivables and loans, and its debt to shareholders' equity. The Company's debt, and leverage, will usually rise with an increase in factored receivables and loans and vice-versa. These ratios are currently considerably better than those of most financial companies indicating the Company's continued financial strength and overall low degree of leverage. 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, MFC is required to maintain a debt to TNW ratio of less than 4.0, while AFI is required to maintain a minimum TNW of US$12,000,000 and a ratio of total liabilities to TNW of less than 2.5. The Company was fully compliant with these covenants at December 31, 2008 and 2007. There were no changes in the Company's approach to capital management from the previous year.

20. Future accounting changes

The CICA will transition financial reporting for Canadian public entities to International Financial Reporting Standards effective for fiscal years beginning on or after January 1, 2011. The impact of the transition on the Company's consolidated financial statements is being determined.

21. Segmented information

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

2008 (in thousands)	**Canada**	**United States**	**Inter-company**	**Consolidated**
Identifiable assets	**$ 55,911**	**$ 47,587**	**$ —**	**$103,498**
Revenue	**$ 20,264**	**$ 7,836**	**$ (40)**	**$ 28,060**
Expenses				
Interest	**2,666**	**245**	**(40)**	**2,871**
General and administrative	**10,042**	**3,449**	**—**	**13,491**
Provision for (recovery of) credit and loan losses	**3,878**	**(29)**	**—**	**3,849**
Depreciation	**169**	**26**	**—**	**195**
	16,755	**3,691**	**(40)**	**20,406**
Earnings before income tax expense	**3,509**	**4,145**	**—**	**7,654**
Income tax expense	**1,137**	**1,476**	**—**	**2,613**
Net earnings	**$ 2,372**	**$ 2,669**	**$ —**	**$ 5,041**

2007 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	$ 73,432	$ 33,701	$ —	$ 107,133
Revenue	$ 22,085	$ 6,796	$ (535)	$ 28,346
Expenses				
Interest	3,295	232	(535)	2,992
General and administrative	10,025	3,118	—	13,143
Provision for credit and loan losses	2,169	233	—	2,402
Depreciation	169	40	—	209
	15,658	3,623	(535)	18,746
Earnings before income tax expense	6,427	3,173	—	9,600
Income tax expense	2,124	1,189	—	3,313
Net earnings	$ 4,303	$ 1,984	$ —	$ 6,287

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario

Austin C. Beutel, Toronto, Ontario [1, 2]

John D. Lamont, Oakville, Ontario [1, 2]

Robert J. Beutel, Toronto, Ontario

H. Thomas Beck, Toronto, Ontario [2]

Ben Evans, Stamford, Connecticut [1]

Frank D. White, Mount Royal, Quebec [1]

Simon Hitzig, New York, New York

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

Officers

Ken Hitzig, President

Gerald S. Levinson, Vice-President

Fred Moss, Vice-President

Mark Perna, Vice-President

Jim Bates, Secretary

Robert J. Beutel, Assistant Secretary

Stuart Adair, Chief Financial Officer

Subsidiaries

Accord Business Credit Inc.
Mark Perna, President

Montcap Financial Corp.
Fred Moss, President

Accord Financial, Inc.
Tom Henderson, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

Bank of America

The Bank of Nova Scotia

The Toronto-Dominion Bank

Canadian Imperial Bank of Commerce

Stock Exchange Listing

Toronto Stock Exchange
Symbol: ACD

Registrar & Transfer Agent

Computershare Trust Company of Canada

Annual Meeting

The Annual Meeting of Shareholders will be held Wednesday, May 6th, 2009 at 4:15 pm at The Toronto Board of Trade, First Canadian Place, Toronto, Ontario

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Keeping Business Liquid

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