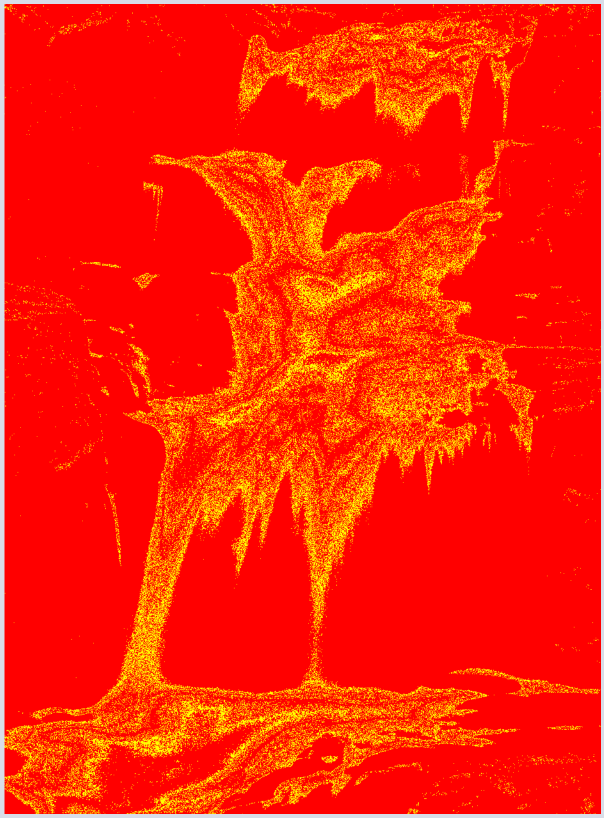
Second Quarter Report ▪ June 30, 2010



Keeping Business Liquid

ACCORD FINANCIAL

Keeping Business Liquid

Letter to the Shareholders

Tom Henderson
President &
Chief Executive Officer

Enclosed are the second quarter and semi-annual results for the respective periods ended June 30, 2010 together with comparative figures for the same periods of 2009. This report has not been reviewed by the Company's auditors, but has been reviewed and approved by the Company's Audit Committee and Board of Directors.

Factoring volume rose a strong 31% to a second quarter record $500 million, compared to last year's second quarter. Revenue rose by 42% to $8,069,000, another second quarter record, compared to $5,677,000 last year on improved volume and higher funds employed. Our interest cost came in at $409,000 compared to $245,000 a year ago, largely due to increased borrowings required to fund higher funds employed. Overhead costs, comprising general and administrative expenses and depreciation, rose 3% over last year's second quarter to $3,680,000. The provision for credit and loan losses, which includes changes in reserves, declined by 53% to $510,000 in the current quarter from $1,082,000 last year.

Net earnings for the second quarter of 2010 rose 368% to a second quarter record of $2,312,000 compared with $494,000 in the same quarter of 2009. Diluted earnings per share were also a second quarter record 25 cents this year, five times the 5 cents earned last year. Revenue and net earnings, both in our Canadian and U.S. operations, rose in the second quarter compared to last year. Revenue and net earnings were $4,997,000 and $1,255,000, respectively, in Canada compared to $3,703,000 and $485,000, respectively, in the second quarter of 2009. They were $3,072,000 and $1,057,000, respectively, in our U.S. operation compared to $1,975,000 and $9,000, respectively, last year. Our U.S. net earnings would have been somewhat higher had the average value of the U.S. dollar not declined by 12% in the current quarter compared to last year's second quarter.

The Company's gross factored receivables and loans, plus assets held for sale, which resulted from a foreclosed loan, totalled $108 million at June 30, 2010, up 30% compared to $83 million last June 30. Adding managed receivables to these figures, the Company's total portfolio, including assets held for sale, was $239 million at June 30, 2010 compared with $224 million at June 30, 2009. Although the value of the U.S. dollar fell by 13% over the last 12 months and adversely impacted the value of the Company's investment in its U.S. subsidiary, total shareholders' equity remained almost unchanged at approximately $47 million as of June 30, 2010. This is equivalent to a book value of $4.94 per share versus $4.97 a year ago.

Factoring volume for the first six months of 2010 surpassed the billion dollar mark for the first time rising to a record $1,005 million, up 29% compared with $782 million in 2009. Total revenue was a half yearly record $15,048,000, up 28% from $11,748,000 for the first six months last year. Interest expense rose to $794,000 from $546,000 in 2009. Overhead costs increased 2% to $7,285,000 in 2010 compared with $7,121,000 in 2009. The provision for credit and loan losses in the first six months of 2010 declined by 24% to $1,069,000 compared with $1,414,000 in the same period of 2009.

Net earnings for the first half of 2010 were a record $3,923,000, up 121% from the $1,774,000 earned in the first half of 2009. Earnings per diluted share were 42 cents this year, up from 19 cents last year.

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For the six months ended June 30, 2010, Canadian revenue and net earnings improved strongly to $9,741,000 and $2,161,000, respectively, versus $7,761,000 and $1,180,000, respectively, for the same period of 2009. U.S. revenue and net earnings also rose sharply to $5,307,000 and $1,762,000, respectively, compared with $3,988,000 and $594,000, respectively, last year.

Even without comparison to last year's dismal second quarter and first half, the record reporting periods just ended feel very good indeed. All three of the Company's operating units have shown improved performance in the first half of this year. Second quarter net earnings exceeded those of our excellent first quarter by 44% and, as noted above, represented our best ever second quarter. First half net earnings were also a record, exceeding the previous best in 2008 by 21%.

The economic recovery is sluggish in both of our markets, Canada and the U.S., so why is your Company doing this well so far in 2010? The clues to this lie in my first quarter's Letter to the Shareholders wherein I referred to weakened competitors and our intensified marketing efforts that promote the Accord brand along with our new tag line "*Keeping Business Liquid*". As noted above, our portfolio of factored receivables and loans has risen and, much to my satisfaction, it is also under much less stress than a year ago with non-earning accounts declining significantly.

The economic outlook for the rest of the year is, as they say, "cloudy" and the global economy can have a significant impact on our results. Until these economic clouds dissipate, we expect to see a lower level of business expansion than in a normal, more robust economy. This may mean our clients will use less of our funds and there will be fewer prospective clients seeking new lenders. It should also be noted that some of our competitors are having success de-leveraging their balance sheets and are beginning to stir again in the market.

At the Board of Directors meeting held today, the improved financial performance and prospects of the Company were considered in raising the quarterly dividend by 15% to 7.5 cents per common share. This dividend was declared payable September 1, 2010 to shareholders of record August 13, 2010. The Board also agreed to apply for a renewal of its normal course issuer bid ("Bid"). Under the current Bid, which commenced August 8, 2009, 14,800 shares had been purchased to July 27, 2010 for cancellation on the Toronto Stock Exchange.

Tom Henderson
President and Chief Executive Officer

Toronto, Ontario
July 27, 2010

Stuart Adair
Vice President,
Chief Financial Officer

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

Quarter and six months ended June 30, 2010 compared with quarter and six months ended June 30, 2009

Overview and Non-GAAP Financial Measures

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter and six months ended June 30, 2010 compared with the quarter and six months ended June 30, 2009 and, where presented, the quarter and six months ended June 30, 2008. 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 interim unaudited consolidated financial statements (the "Statements") and notes for the quarter and six months ended June 30, 2010 and 2009, which are included as part of this 2010 Second Quarter Report and as an update in conjunction with the discussion and analysis and audited consolidated financial statements and notes thereto included in the Company's 2009 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(b) to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with GAAP.

The Company uses a number of financial measures to assess its performance and some of these are presented herein to help the reader better understand certain aspects of the Company's operating performance. These measures may not have standardized meanings or computations that would ensure consistency and comparability between companies using these measures. The Company derives these measures from amounts presented in its Statements which are prepared in accordance with GAAP. The Company's focus continues to be on GAAP measures and any other information presented herein is purely supplemental to help the reader better understand its business. The non-GAAP measures presented in this MD&A are defined as follows:

a) Book value per share - book value is the net asset value of the Company calculated as total assets minus total liabilities and, by definition, is the same as total shareholders' equity. Book value per share is the net asset value divided by the number of shares outstanding as of a particular date.

b) (i) Shareholders' equity expressed as a percentage of total assets and (ii) debt (bank indebtedness and notes payable) expressed as a percentage of shareholders' equity. These percentages provide information on the Company's financial leverage compared to the previous year.

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 are discussed in more detail

Quarterly Financial Information

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

Quarter ended		Revenue	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2010	**June 30**	**$ 8,069**	**$ 2,312**	**$ 0.25**	**$ 0.25**
	March 31	**6,979**	**1,611**	**0.17**	**0.17**
2009	December 31	$ 6,633	$ 605	$ 0.06	$ 0.06
	September 30	5,664	709	0.08	0.08
	June 30	5,677	494	0.05	0.05
	March 31	6,071	1,280	0.14	0.14
	Total	$24,045	$ 3,089*	$ 0.33	$ 0.33
2008	December 31	$ 6,753	$ 462	$ 0.05	$ 0.05
	September 30	6,785	1,332	0.14	0.14
	June 30	7,094	1,759	0.19	0.18
	March 31	7,427	1,488	0.16	0.16
	Total	$28,060*	$ 5,041	$ 0.53*	$ 0.53

due to rounding the total of the four quarters does not equal the total for the fiscal year.

in its 2009 Annual Report. Its clients operate in a wide variety of industries, details of which are set out in note 15(a) to the Statements.

The Company, founded in 1978, operates three factoring companies in North America, namely, Accord Financial Ltd. ("AFL") and Accord Financial Inc. ("AFIC") in Canada and Accord Financial, Inc. ("AFIU") in the United States.

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

Results of Operations

Quarter ended June 30, 2010 compared with quarter ended June 30, 2009

Net earnings for the quarter ended June 30, 2010 were a second quarter record $2,312,000, 368% above the depressed net earnings of $494,000 in last year's second quarter. They were 31% higher than the $1,759,000 earned in the second quarter of 2008. The increase in net earnings compared to the second quarter of 2009 resulted from an increase in revenue and, to a lesser extent, a lower provision for credit and loan losses, while the increase compared to the second quarter of 2008 was largely a result of 14% higher revenue. Diluted earnings per common share for the quarter were 25 cents, five times the 5 cents earned last year and 39% higher than the 18 cents earned in 2008.

Factoring volume increased by 32% to $500 million, a second quarter record, compared to $380 million in the second quarter of 2009. Recourse and non-recourse volume rose by 60% and 3%, respectively. Volume increased as a result of a number of significant new client additions since June 30, 2009.

Revenue increased 42% to $8,069,000, another second quarter record, compared with $5,677,000 last year. Revenue was 14% higher than the $7,094,000 in 2008's second quarter. Revenue rose as result of a combination of higher factoring volume and increased factored receivables and loans (collectively, "Loans" or "funds employed") resulting from new client additions, as well as reduced non-earning Loans and improved yields compared to the second quarters of 2009 and 2008.

Total expenses for the second quarter of 2010 decreased by $323,000 or 7% to $4,599,000 compared to $4,922,000 last year. The provision for credit and loan losses declined by $573,000 to $510,000. Interest expense was $163,000 higher at $408,000, while general and administrative expenses ("G&A") increased by $95,000 to $3,639,000. Depreciation expense declined by $8,000 to $42,000 on a lower net book value of capital assets.

Interest expense increased by 67% due to a rise in average borrowings (bank indebtedness and notes payable) and somewhat higher interest rates on our U.S. dollar borrowings. Average borrowings increased largely as a result of funding new clients.

G&A comprises personnel costs, representing the majority of G&A, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A expenses rose by 3% in the current quarter largely as a result of an increased profit sharing expense related to the rise in the Company's earnings. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses, a combination of net charge-offs and a charge or recovery related to changes in the Company's total allowance for losses, declined by 53% to $510,000 this year on lower charge-offs. The provision for credit and loan losses in the second quarters of 2010 and 2009 comprised:

	Quarter ended June 30	
(in thousands)	2010	2009
Net charge-offs	$ 418	$ 1,064
Charge related to increase in total allowances for losses	92	18
	$ 510	$ 1,082

Net charge-offs decreased by $646,000 in the current quarter compared to last year's second quarter, while there was an increase of $74,000 in the charge related to an increase in the Company's total allowances for losses. The Company is prudent in its approach to providing for charge-offs and believes that all problem accounts have been identified and adequately provided for, which is particularly important in the current economic environment. Please refer to the discussion on the Company's allowances for losses on pages 6 and 7.

Income tax expense rose by 344% to $1,158,000 in the current quarter compared to $261,000 in the second quarter of 2009 on a 360% increase in pre-tax earnings. The effective income tax rate for the current quarter was 33.4%, slightly lower than the 34.6% in last year's second quarter.

Canadian operations reported a 159% increase in net earnings in the second quarter of 2010 compared to 2009 (see note 11 to the Statements). Net earnings increased to $1,255,000 compared to $485,000 last year on higher revenue. Revenue rose by $1,294,000 or 35% to $4,997,000 on higher factoring volume and yields. Expenses increased by $196,000 or 7% to $3,184,000. The rise in expenses resulted from a $110,000 increase in G&A and a $99,000 rise in interest expense. The provision for credit and loan losses declined by $9,000, while depreciation expense was $4,000 lower. Income tax expense rose by $328,000 or 143% to $558,000 on a 154% rise in pre-tax earnings.

U.S. operations also reported significantly better operating results this quarter. Net earnings rose to $1,057,000 in the quarter compared to $9,000 last year. Revenue rose by 56% on higher factoring volume and funds employed. Expenses decreased by $520,000 or 27% to $1,415,000. The provision for credit and loan losses declined by $564,000 to $377,000, G&A declined by $15,000 to $954,000 on the weaker U.S. dollar, while depreciation was $4,000 lower. Interest expense rose by $63,000 to $79,000. Income tax expense increased by $569,000 to $600,000 as a result of the $1,617,000 rise in pre-tax earnings. It is noted that the 12% decline in the average value of the U.S. dollar this quarter compared to last year's second quarter served to reduce the Canadian dollar equivalent of AFIU's earnings by approximately $130,000 in the quarter.

Six months ended June 30, 2010 compared with six months ended June 30, 2009

Net earnings for the first half of 2010 increased by $2,149,000 or 121% to $3,923,000, a first half record, compared to $1,774,000 last year. The increase in net earnings principally resulted from higher revenue and, to a lesser extent, a lower provision for credit and loan losses. Diluted earnings per common share for the first six months of 2010 were 42 cents, 121% higher than the 19 cents earned last year.

Factoring volume increased by $223 million or 28% to a first half record $1,005 million compared to $782 million last year. Recourse and non-recourse volume rose by 51% and 7%, respectively. As noted above, volume rose as a result of new client additions since June 30, 2009.

Revenue increased by $3,300,000 or 28% to a first half record $15,048,000 this year compared with $11,748,000 in the first half of 2009. Revenue rose for the same reasons noted in the second quarter review above.

Total expenses for the first six months of 2010 increased by $68,000, or less than 1%, to $9,148,000 compared to $9,080,000 last year. Interest expense rose by $248,000 or 45% to $794,000, while G&A increased by $191,000 or 3% to $7,210,000. The provision for credit and loan losses decreased by $345,000 or 24% to $1,069,000, while depreciation expense declined to $75,000.

Interest expense increased on a 24% rise in average borrowings and somewhat higher interest rates. Borrowings rose largely as a result of funding new clients.

G&A principally rose on increased profit sharing expense related to the higher earnings, which costs were partly offset by the impact of the weaker U.S. dollar this year on the translation of AFIU's expenses into Canadian dollars and lower severance costs.

The provision for credit and loan losses decreased by 24% to $1,069,000 in the first six months of 2010 compared to $1,414,000 last year on lower charge-offs. The provision for credit and loan losses for the first six months of 2010 and 2009 comprised:

	Six months ended June 30	
(in thousands)	2010	2009
Net charge-offs	$ 916	$ 1,485
Charge (recovery) related to increase (decrease) in total allowances for losses	153	(71)
	$ 1,069	$ 1,414

Net charge-offs decreased by $569,000 in the first six months of 2010 compared to last year, while there was an increase of $224,000 in the charge related to the change in the Company's total allowances for losses.

Income tax expense rose by 121% to $1,978,000 compared to $894,000 in the first half of 2009 on a similar percentage increase in pre-tax earnings. The effective income tax rate was 33.5%, the same as last year.

Canadian operations reported an 83% increase in net earnings in the first six months of 2010 compared to 2009 (see note 11 to the Statements). Net earnings rose by $981,000 to $2,161,000 compared to $1,180,000 last year as a result of higher revenue. Revenue rose 26% to $9,741,000. Expenses increased by $572,000 or 10% to $6,600,000. G&A was $324,000 higher for reasons noted above, while interest expense increased by $172,000 to $672,000 and the provision for credit and loan losses rose by $94,000. Income tax expense increased by $427,000 or 77% to $980,000 on an 81% increase in pre-tax earnings.

U.S. operations reported much improved results compared to the first half of 2009. Net earnings rose to $1,762,000 compared to $594,000 last year. Revenue increased by $1,319,000 or 33% to $5,307,000 on higher volume and funds employed. Expenses decreased by $506,000 or 17% to $2,547,000 as a result of a $439,000 reduction in the provision for credit and loan losses and a $134,000 decline in G&A resulting from the weaker U.S. dollar. Interest expense increased by $75,000 on higher borrowings. Income tax expense rose by $657,000 or 193% to $998,000 on a similar percentage increase in pre-tax earnings. In U.S. dollars, AFIU's net earnings increased to US$1,705,000 compared to US$460,000 last year. It is noted that the 14% decline in the average value of the U.S. dollar during the first half of 2010 compared to the first half of 2009 served to reduce the Canadian dollar equivalent of AFIU's earnings by approximately $270,000.

Review of Balance Sheet

Shareholders' equity at June 30, 2010 totalled $46,516,000, $430,000 lower than the $46,946,000 at June 30, 2009 but $3,161,000 higher than the $43,356,000 at December 31, 2009. Book value per common share declined somewhat to $4.94 at June 30, 2010 compared to $4.97 a year earlier but was higher than the $4.61 at December 31, 2009. The decrease in shareholders' equity since June 30, 2009 resulted from a $3,001,000 decline in the accumulated other comprehensive loss account, which was, to a large degree, offset by higher retained earnings.

Total assets were $112,000,000 at June 30, 2010 compared to $87,000,000 at June 30, 2009 and $98,000,000 at December 31, 2009. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located in the United States were 47% of total assets at June 30, 2010 compared with 46% at June 30, 2009.

Gross Loans, before the allowance for losses thereon, totalled $103 million at June 30, 2010, 34% higher than the $77 million at June 30, 2009 and 13% above the $91 million at December 31, 2009. As detailed in note 4, the Company's factored receivables have risen 55% to $88 million at June 30, 2010 compared to June 30, 2009 on new client additions, while its loans to clients have declined 24% to $15 million largely as a result of a number of client liquidations. In addition to higher funds employed, this change in mix of Loans, together with a decrease in non-earning Loans, has had a favorable impact on revenue. Net of the allowance for losses thereon, Loans totalled $102 million at June 30, 2010 compared to $74 million at June 30, 2009 and $90 million at December 31, 2009. Loans principally represent advances made by our recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 130 clients at June 30, 2010. Two clients comprised over 5% of gross Loans at June 30, 2010, of which the largest comprised 5.4%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables, usually without financing them. Since the Company does not take title to these receivables, they do not appear on its balance sheet. These non-recourse or managed receivables decreased to $131 million at June 30, 2010, compared to $140 million at June 30, 2009 and $155 million at December 31, 2009. The decrease resulted from a decline in receivables from a large, low-rate, international client, whose contract is coming to an end, and also as a result of seasonal factors when compared to December 31, 2009. Managed receivables comprise the receivables of approximately 190 clients at June 30, 2010. The 25 largest clients generated 57% of non-recourse volume in the first six months of 2010. Most of the clients' customers are large "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At June 30, 2010, the 25 largest customers accounted for 48% of total managed receivables, of which the largest five customers comprised 31%.

The Company's portfolio, which comprises both gross Loans and managed receivables, totalled $234 million at June 30, 2010, 8% higher than the $217 million at June 30, 2009 but 5% below the $247 million at December 31, 2009.

Credit risk relating to the Company's recourse and non-recourse receivables and asset-based loans is managed in a variety of ways. This is discussed in note 15(a) to the Statements and in the MD&A included in the Company's 2009 Annual Report.

After a detailed review of the Company's $234 million portfolio at June 30, 2010, all problem accounts were identified and provided for as necessary. The Company maintains separate allowances for credit and loan losses on both its Loans and on its guarantee of managed receivables, at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans decreased by $1,123,000 to $1,686,000 at June 30, 2010 compared to $2,809,000 at June 30, 2009. As set out in note 4 to the Statements, the allowance at June 30, 2009 comprised a general allowance of $1,241,000, as well as specific allowances of $1,568,000 established against a number of non-performing Loans, while the allowance at June 30, 2010 comprised only a general allowance. Subsequent to June 30, 2009, charge-offs were taken against the non-performing Loans which existed at that date and at June 30, 2010 there were no specific allowances outstanding. The 36% increase in the general allowance for losses on Loans at June 30, 2010 compared to last June 30 resulted from a similar percentage rise in gross Loans. The allowance for losses on the guarantee of managed receivables comprised only a general allowance of $1,094,000 at June 30, 2010, which was 25% higher than the $876,000 general allowance at June 30, 2009. The general allowance increased despite a decline in managed receivables, because of a similar percentage rise in the Company's "at-risk" managed receivables. 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 estimates of both allowance for losses are judgmental. Management considers them to be adequate.

Assets held for sale totalled $4,822,000 at June 30, 2010 compared with $6,342,000 at June 30, 2009 and $4,997,000 at December 31, 2009. Assets held for sale comprise certain assets securing a defaulted loan upon which the Company foreclosed and obtained title in May 2009. The assets are currently being actively marketed for sale and will be sold as market conditions permit. Since taking title to the assets, the Company has disposed of small portions thereof for proceeds totalling $313,000. The assets are stated at their net realizable value at June 30, 2010, which was based on a recent independent appraisal of, and unaccepted offers received for, the assets. No impairment charge was booked in respect of the assets in the first six months of 2010. The decrease in assets held for sale since June 30, 2009 largely relates to an impairment charge taken against the assets in the fourth quarter of 2009 and subsequent dispositions. Please refer to note 5 to the Statements.

Cash totalled $3,231,000 at June 30, 2010 compared with $3,279,000 at June 30, 2009 and $339,000 at December 31, 2009. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. However, due to the large volume of cash being processed daily, it is necessary that a certain amount of cash be held to fund daily requirements. Fluctuations in cash balances are normal.

Changes in other assets, future income taxes, capital assets and goodwill compared to June 30, 2009 and December 31, 2009 were not significant.

Total liabilities at June 30, 2010 were $65,826,000 compared to $39,689,000 at June 30, 2009 and $54,582,000 at December 31, 2009. The Company's liabilities are discussed below.

Bank indebtedness totalled $47,320,000 at June 30, 2010, more than double the $22,158,000 at June 30, 2009 and 29% higher than the $36,798,000 at December 31, 2009. The $25,162,000 increase since last June 30 principally resulted from funding the rise in Loans. The Company has approved credit lines with a number of banks totalling approximately $102 million at June 30, 2010 and was in compliance with all loan covenants thereunder at June 30, 2010. The Company's major credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Amounts due to clients totalled $3,973,000 at June 30, 2010 compared to $4,168,000 at June 30, 2009 and $4,517,000 at December 31, 2009. Amounts due to clients principally consist of receivables collected and 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 totalled $3,016,000 at June 30, 2010 compared to $2,592,000 at June 30, 2009 and $3,266,000 at December 31, 2009. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables, which increased by $218,000 compared to last June 30.

Income taxes payable totalled $598,000 at June 30, 2010 compared with income taxes receivable of $354,000 at June 30, 2009 and $285,000 at December 31, 2009. Higher income taxes were payable in respect of the Company's earnings for the current six months, while 2010 income tax instalment payments are based on 2009's lower earnings. As a result, there were significant income taxes payable at June 30, 2010.

Notes payable decreased slightly to $10,041,000 at June 30, 2010 compared to $10,105,000 at June 30, 2009 but were $787,000 higher than the $9,254,000 at December 31, 2009 as a result of new notes issued, net. Please see Related Party Transactions section below.

Capital stock totalled $6,907,000 at June 30, 2010, $28,000 lower than the $6,935,000 at June 30, 2009 and just below the $6,908,000 at December 31, 2009. There were 9,407,571 common shares outstanding at June 30, 2010 compared with 9,445,371 a year earlier and 9,408,971 at December 31, 2009. Note 8 to the Statements provides details of changes in the Company's issued and outstanding common shares and capital stock. Note 8 also provides details of the Company's Normal Course Issuer Bids (collectively referred to as "Bid"). During the six months ended June 30, 2010, the Company repurchased and cancelled 1,400 common shares acquired under the Bid. At the date of this MD&A, July 27, 2010, 9,407,571 common shares were outstanding.

Details of the Company's stock option plans are set out in note 10(e) to the Company's audited financial statements included in its 2009 Annual Report. The Company has not issued any options to employees or directors since May 2004. There remained 42,000 options outstanding with an exercise price of $7.25 at June 30, 2010. These options expired unexercised on July 5, 2010. Note 7 to the Statements provides details of the Company's share appreciation rights ("SARs") plan. On May 7, 2010, 155,000 SARs were issued. At June 30, 2010, the 305,000 outstanding SARs had an intrinsic value of $73,000 (2009 - nil).

Retained earnings totalled $46,476,000 at June 30, 2010 compared to $43,876,000 at June 30, 2009 and $43,783,000 at December 31, 2009. In the first half of 2010, retained earnings increased by $2,693,000, which comprised net earnings of $3,923,000 less dividends paid of $1,223,000 (13 cents per common share) and the premium of $7,000 paid on the shares repurchased under the Bid. In the first half of 2009, retained earnings increased by $333,000, which comprised net earnings of $1,774,000 less dividends paid of $1,225,000 (13 cents per common share) and the $216,000 premium paid on the 41,800 shares repurchased under the Bid. Please refer to the Consolidated Statements of Retained Earnings on page 16 of this 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. The accumulated loss was $6,910,000 at June 30, 2010 compared to $3,908,000 at June 30, 2009 and $7,379,000 at December 31, 2009. Please refer to note 13 to the Statements. The $469,000 decrease in loss position in 2010 resulted from a small increase in the value of the U.S. dollar against the Canadian dollar this year. The U.S. dollar rose against the Canadian dollar from $1.051 at December 31, 2009 to $1.065 at June 30, 2010. This increased the Canadian dollar equivalent of the Company's net investment in its U.S. subsidiary of approximately $32 million by $469,000.

Liquidity and Capital Resources

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

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

(as a percentage)	June 30, 2010	June 30, 2009	Dec. 31, 2009
Equity / Assets	41%	54%	44%
Debt* / Equity	123%	69%	106%

**bank indebtedness & notes payable*

At June 30, 2010, the level of the Company's leverage increased compared to June 30, 2009 and December 30, 2009. The rise in leverage, as shown by a lower equity to assets ratio and a higher debt to equity ratio, resulted from higher borrowings used to fund the increase in Loans. These ratios indicate the Company's continued financial strength and overall low degree of leverage.

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

The Company had credit lines totalling approximately $102 million at June 30, 2010 and had borrowed approximately $47 million against these facilities. 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 of $3,231,000 as at June 30, 2010 compared to $3,279,000 as at June 30, 2009. As far as possible, cash on hand is usually maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Quarter ended June 30, 2010 compared with quarter ended June 30, 2009

Cash inflow from net earnings before changes in operating assets and liabilities totalled $2,346,000 in the second quarter of 2010 compared with an outflow of $264,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash outflow from operating activities of $1,392,000 in the current quarter compared to a net cash inflow of $14,683,000 last year. The net cash outflow in the current quarter largely resulted from funding Loans of $5,551,000. In the second quarter of 2009, the net cash inflow largely resulted from $15,107,000 of Loan collections. Changes in other operating assets and liabilities are set out in the Company's Consolidated Statements of Cash Flows on page 17 of this report.

Net cash inflow from financing activities totalled $2,500,000 in the current quarter compared to a net cash outflow of $12,389,000 last year. In the current quarter, bank indebtedness rose by $2,575,000, while notes payable, net, of $545,000 were issued. Partly offsetting these cash inflows, were dividend payments of $612,000 (6.5 cents per common share) and the $8,000 cost of common shares repurchased under the Bid. In the second quarter of 2009 bank indebtedness of $12,372,000 was repaid, while dividends of $612,000 (6.5 cents per common share) were paid and 12,500 common shares repurchased under the Bid at a cost of $75,000. Partly offsetting these outflows was cash of $476,000 received from the issue of notes payable, net, and $194,000 received from the issuance of 49,000 common shares pursuant to the exercise of stock options.

Cash outflows from investing activities and the effect of exchange rate changes on cash were not significant during the quarters ended June 30, 2010 and 2009.

Overall, there was a $1,141,000 increase in cash balances in the current quarter compared to $2,187,000 in the second quarter of 2009.

Six months ended June 30, 2010 compared with six months ended June 30, 2009

Cash inflow from operating activities before changes in operating assets and liabilities totalled $4,231,000 in the first half of 2010 compared with $1,412,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash outflow from operating activities of $6,880,000 in the first six months of 2010 compared to an inflow of $17,896,000 last year. The net cash outflow in the current six months resulted from funding $11,011,000 of Loans. The net cash inflow in the first half of 2009 largely arose from Loan collections of $17,601,000. Changes in other operating assets and liabilities are set out in the Company's Consolidated Statements of Cash Flows on page 17 of this report.

Net cash inflow from financing activities totalled $9,775,000 in the first six months of 2010 compared to a net cash outflow of $15,511,000 last year. The net cash inflow in the current six month period resulted from bank borrowings of $10,225,000 and $782,000 received from the issue of notes payable, net. These inflows were partly offset by the payment of dividends totalling $1,223,000 (13 cents per common share) and the repurchase of 1,400 common shares acquired under the Bid at a cost of $8,000. The net cash outflow in the first half of 2009 resulted from a repayment of bank indebtedness of $13,418,000, payment of dividends totalling $1,225,000 (13 cents per common share), the redemption of $816,000 of notes payable, net, and the repurchase of 41,800 common shares under the Bid at a cost of $246,000. Partly offsetting these cash outflows was the issuance of 49,000 common shares for proceeds of $194,000.

Cash outflows from investing activities and the effect of exchange rate change on cash were not significant in the six months ended June 30, 2010 and 2009.

Overall, there was a $2,892,000 increase in cash balances in the first six months of 2010 compared to $2,285,000 in the first half of 2009.

Contractual Obligations and Commitments at June 30, 2010

	Payments due in				
(in thousands)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Operating lease obligations	$ 331	$ 472	$ 248	$ 201	$ 1,252
Purchase obligations	121	28	—	—	149
Total	$ 452	$ 500	$ 248	$ 201	$ 1,401

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 June 30, 2010 decreased by $64,000 to $10,041,000 compared with $10,105,000 at June 30, 2009. Of these notes payable, $8,074,000 (2009 - $8,440,000) was owing to related parties and $1,967,000 (2009 - $1,665,000) to third parties. Interest expense on these notes in the current quarter and first half of 2010 totalled $45,000 (2009 - $44,000) and $88,000 (2009 - $104,000), respectively.

Financial Instruments

All financial assets, including derivatives, are measured at fair value on the consolidated balance sheet with the exception of 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.

At June 30, 2010, the Company had an outstanding forward foreign exchange contract with a financial institution that must be exercised between August 3, 2010 and August 31, 2010 and which obliges the Company to sell Canadian dollars and buy US$1,000,000 at an exchange rate of 1.0012. This contract was entered into on behalf of a client and a similar contract was entered into between the Company and the client to sell US$1,000,000 to and buy Canadian dollars from the client. This contract is discussed further in note 12 to the Statements.

Critical Accounting Policies and Estimates

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

i) the allowance for credit and loan losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic 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.

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

   A general allowance on both its Loans and managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its general allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are reviewed for adequacy on an ongoing basis. The Company has always been prudent in establishing its general allowances such that they have normally been sufficient to absorb substantial charge-offs. Management believes that its allowances for losses are sufficient and appropriate. The Company's allowances are discussed above and are 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 claims currently outstanding upon which significant damages could result.

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 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 at January 1, 2010. The Company commenced its IFRS transition project in 2008. This project comprises four key phases:

- Project awareness and engagement - this included identifying the members of the Company's IFRS transition team, and other representatives as required. Continued communication, training and education are essential to the success of this conversion project. In addition, this phase included communicating the key project requirements with timelines and objectives to the Company's senior management, Board of Directors (the "Board") and Audit Committee.

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

- Design, planning and solution development – this phase focuses on determining the specific impacts on the Company based on the application of IFRS requirements. This includes the development of detailed solutions and work plans to address implementation requirements. While no changes in accounting policies are currently anticipated, first-time adoption exemptions have been identified and draft statements and note disclosures are being developed.

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

A transition team is in place and is responsible for making recommendations to the Company's Audit Committee and Board and implementing IFRS. The Company has completed the diagnostic assessment and substantially completed the design, planning and solution development phases by identifying the differences between GAAP and IFRS. Given the present IFRS framework applicable at this time, the Company has identified first time adoption exemptions applicable to the Company and the financial statement and note disclosures that are required. The Company is monitoring the IASB's active projects and all changes to IFRS prior to January 1, 2011 will be implemented as required.

Based on the current information available, the Company has compared the accounting policies that it presently follows under GAAP with the proposed accounting policies under IFRS. At this point in time, no changes in current accounting policies are expected on adoption of IFRS although new International Accounting Standards ("IAS") may be introduced in future which may result in changes. The Company is, however, continuously monitoring information to determine or estimate the impact on its financial position and results of operations for any of the IFRS conversion changes identified. In particular, the Company will review new IAS that are introduced in the future to determine their impact on the Company.

Under IFRS 1, "First time adoption of International Financial Reporting Standards", the Company has a choice to elect to reset the cumulative translation adjustment component of its accumulated other comprehensive loss to zero on the transition date with the amount being adjusted to opening retained earnings. The Company intends to make this election.

Since the Company does not anticipate any major changes in the accounting policies due to the changeover to IFRS, it does not anticipate any significant changes in the business processes and information technology systems leading to the collection of information for the purpose of IFRS related reporting. Further, no changes in the Company's financial reporting obligations under contractual arrangements or financial covenants are anticipated. There will, however, certainly be changes in the financial statement presentation and note disclosure requirements as stipulated by IFRS.

The Company will start preparing its 2010 IFRS compliant figures for comparative purposes shortly. The Company does not envisage any significant change in its internal control over financial reporting and its disclosure and control procedures as it does not anticipate any major changes in its accounting policies and business processes at this time. The Company's Board and Audit Committee have been regularly briefed about the progress made in transitioning to IFRS. IFRS skills are being upgraded on a continuous and ongoing basis.

Risks and Uncertainties That Could Affect Future Results

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 15 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.

Economy

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

Credit risk

The Company is in the business of factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled approximately $234 million at June 30, 2010. Operating results may be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 15(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (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 Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Please refer to note 15(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources are held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the weakening of the U.S. dollar against the Canadian dollar adversely affect its operating results when its U.S. subsidiary's results are translated 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 or loss component of shareholders' equity to a loss position. Please refer to notes 13 and 15(c)(i) to the Statements.

Potential acquisitions and investments

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

Personnel significance

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

Outlook

The Company's principal objective is managed growth – putting quality new business on the books while maintaining high underwriting standards. Marketing initiatives and alliances continue. We are seeing increased deal flow in our recourse factoring business and our profile is increasing as the credit and capital markets continue to remain depressed. Meanwhile, our non-recourse subsidiary is achieving record factoring volumes as international business and the demand for its credit guarantee services rises in the current economic climate. Record factoring volume has favorably impacted revenue and net earnings in the first half of 2010, although it is noted that low interest rates continue to have an adverse effect on revenue.

The quality of the Company's portfolio has steadily improved and non-earning loans are a much smaller percentage of the Company's total portfolio than they were a year ago. As a result, charge-offs have declined. Many large industry players have had trouble securing funding and smaller finance companies are exiting the industry as a result of adverse economic and credit conditions, although others have successfully de-leveraged their balance sheets and are now beginning to be active in the marketplace again. Accord, with its substantial capital and borrowing capacity, is well positioned to capitalize on these 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
Vice President,
Chief Financial Officer
July 27, 2010

Consolidated Balance Sheets (unaudited)

	June 30 2010	June 30 2009	December 31 2009
			(Audited)
Assets			
Factored receivables and loans, net (note 4)	$ 101,678,970	$ 74,148,831	$ 89,906,633
Assets held for sale (note 5)	4,822,266	6,342,364	4,996,716
Cash	3,231,468	3,278,832	339,267
Other assets	472,637	215,860	302,742
Income taxes receivable	—	353,763	284,886
Future income taxes, net	631,456	567,337	576,375
Capital assets	481,986	609,192	520,129
Goodwill	1,023,823	1,118,453	1,010,744
	$ 112,342,606	$ 86,634,632	$ 97,937,492
Liabilities			
Bank indebtedness	$ 47,319,717	$ 22,158,089	$ 36,798,397
Due to clients	3,972,915	4,167,667	4,517,282
Accounts payable and other liabilities	3,015,860	2,591,881	3,266,477
Income taxes payable	597,985	—	—
Deferred income	879,339	665,560	746,273
Notes payable	10,040,552	10,105,337	9,253,501
	65,826,368	39,688,534	54,581,930
Shareholders' equity			
Capital stock (note 8(a))	6,907,456	6,934,703	6,908,481
Contributed surplus	42,840	42,840	42,840
Retained earnings	46,475,453	43,876,626	43,783,131
Accumulated other comprehensive loss (note 13)	(6,909,511)	(3,908,071)	(7,378,890)
	46,516,238	46,946,098	43,355,562
	$ 112,342,606	$ 86,634,632	$ 97,937,492
Common shares outstanding	9,407,571	9,445,371	9,408,971

Notice to Reader

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

Consolidated Statements of Earnings (unaudited)

Three and six months ended June 30	Three months 2010	Three months 2009	Six months 2010	Six months 2009
Revenue				
Factoring commissions, discounts, interest and other income	$ 8,069,232	$ 5,677,356	$ 15,048,156	$ 11,748,251
Expenses				
Interest	408,583	245,205	793,899	545,609
General and administrative	3,638,635	3,544,143	7,209,978	7,018,862
Provision for credit and loan losses	509,904	1,082,462	1,068,863	1,413,771
Depreciation	42,246	50,363	74,807	101,665
	4,599,368	4,922,173	9,147,547	9,079,907
Earnings before income tax expense	3,469,864	755,183	5,900,609	2,668,344
Income tax expense	1,158,000	261,000	1,978,000	894,000
Net earnings	$ 2,311,864	$ 494,183	$ 3,922,609	$ 1,774,344
Earnings per common share (note 9)				
Basic	$ 0.25	$ 0.05	$ 0.42	$ 0.19
Diluted	$ 0.25	$ 0.05	$ 0.42	$ 0.19
Weighted average number of common shares (note 9)				
Basic	9,408,695	9,408,027	9,408,833	9,418,288
Diluted	9,408,695	9,408,027	9,408,833	9,426,276

Consolidated Statements of Comprehensive Income (unaudited)

Three and six months ended June 30	Three months 2010	Three months 2009	Six months 2010	Six months 2009
Net earnings	$ 2,311,864	$ 494,183	$ 3,922,609	$ 1,774,344
Other comprehensive income (loss): unrealized foreign exchange income (loss) on translation of self-sustaining foreign operation	1,561,148	(3,052,027)	469,379	(1,730,003)
Comprehensive income (loss)	$ 3,873,012	$ (2,557,844)	$ 4,391,988	$ 44,341

Consolidated Statements of Retained Earnings (unaudited)

Six months ended June 30	2010	2009
Retained earnings at January 1	$ 43,783,131	$ 43,543,490
Net earnings	3,922,609	1,774,344
Dividends paid	(1,223,166)	(1,225,078)
Premium on shares repurchased for cancellation (note 8(b))	(7,121)	(216,130)
Retained earnings at June 30	$ 46,475,453	$ 43,876,626

Consolidated Statements of Cash Flows (unaudited)

	Three months		Six months	
Three and six months ended June 30	2010	2009	2010	2009
Cash provided by (used in)				
Operating activities				
Net earnings	$ 2,311,864	$ 494,183	$ 3,922,609	$ 1,774,344
Items not affecting cash				
Allowance for losses, net of charge-offs and recoveries	92,422	(269,196)	152,979	55,153
Deferred income	(60,225)	(195,189)	128,846	(156,640)
Depreciation	42,246	50,363	74,807	101,665
Future income tax (recovery)	(40,353)	(344,281)	(47,391)	(362,360)
	2,345,954	(264,120)	4,231,850	1,412,162
Changes in operating assets and liabilities				
Factored receivables and loans, gross	(5,551,032)	15,106,559	(11,011,783)	17,600,509
Due to clients	1,498,323	(313,361)	(575,692)	(390,197)
Income taxes payable/receivable	321,673	(200,070)	870,230	(59,181)
Other assets	(52,579)	52,154	(166,171)	4,031
Accounts payable and other liabilities	25,399	301,612	(208,586)	(671,418)
Addition to assets held for sale	—	—	(51,748)	—
Sale of assets held for sale	20,400	—	32,753	—
	(1,391,862)	14,682,774	(6,879,147)	17,895,906
Investing activities				
Additions to capital assets, net	(20,606)	(65,323)	(36,142)	(78,405)
Financing activities				
Bank indebtedness	2,575,404	(12,372,644)	10,224,852	(13,418,306)
Notes payable issued (redeemed), net	544,524	476,307	781,940	(815,617)
Issuance of shares	—	193,550	—	193,550
Repurchase and cancellation of shares	(8,146)	(74,711)	(8,146)	(245,943)
Dividends paid	(611,583)	(611,902)	(1,223,166)	(1,225,078)
	2,500,199	(12,389,400)	9,775,480	(15,511,394)
Effect of exchange rate changes on cash	53,676	(41,449)	32,010	(20,998)
Increase in cash	1,141,407	2,186,602	2,892,201	2,285,109
Cash at beginning of period	2,090,061	1,092,230	339,267	993,723
Cash at end of period	$ 3,231,468	$ 3,278,832	$ 3,231,468	$ 3,278,832
Supplemental cash flow information				
Interest paid	$ 434,029	$ 210,865	$ 763,783	$ 455,053
Income taxes paid	$ 896,348	$ 797,460	$ 1,192,625	$ 1,333,114

Notes to Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2010 and 2009

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 interim unaudited consolidated financial statements (the "Statements") are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. Accordingly, they do not include all of the information and footnotes required for compliance with GAAP in Canada for annual audited financial statements. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2009. The accounting policies adopted for the preparation of these Statements are the same as those applied for the Company's audited financial statements for the fiscal year ended December 31, 2009.

The preparation of these Statements and the accompanying unaudited notes requires management to make estimates and assumptions that affect the amounts reported (see note 3(b)). In the opinion of management, these Statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual amounts could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

3. Significant accounting policies

a) *Basis of consolidation*

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, Accord Financial Ltd. ("AFL") and Accord Financial Inc. ("AFIC") in Canada and Accord Financial, Inc. ("AFIU") in the United States. Intercompany balances and transactions are eliminated upon consolidation.

b) *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 periods. 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.

c) *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 end of the initial discount period. Interest charges on loans are recognized as revenue on an accrual basis. Other revenue, such as due diligence and documentation fees, is recognized as revenue when earned.

d) *Allowances for losses*

The Company maintains a separate allowance for losses on both its factored receivables and loans and its guarantee of managed receivables. The Company maintains these allowances for losses at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic trends, condition of the loan and customer receivable portfolios and typical industry loss experience.

Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on factored receivables and loans are charged to the allowance for losses when collectibility 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.

e) 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.

f) 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.

g) Assets held for sale

Assets acquired on realizing security on defaulted loans are held for sale and are stated at the lower of cost or net realizable value (fair value less costs of disposal).

4. Factored receivables and loans

(in thousands)	June 30, 2010	June 30, 2009	Dec. 31, 2009
Factored receivables	$ 88,156	$ 56,862	$ 73,833
Loans to clients	15,209	20,096	17,602
Factored receivables and loans, gross	103,365	76,958	91,435
Allowance for losses	1,686	2,809	1,528
Factored receivables and loans, net	$ 101,679	$ 74,149	$ 89,907

The Company's allowance for losses on factored receivables and loans at June 30, 2010 comprised only a general allowance. At June 30, 2009 the allowance for losses comprised a general allowance of $1,241,000 and specific allowances against a number of non-performing loans of $1,568,000. The non-performing loans at June 30, 2009 totalled $6,210,756, net of the specific allowances. Subsequent to June 30, 2009, charge-offs were taken against the non-performing loans which existed at that date and at June 30, 2010 there were no specific allowances outstanding.

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 June 30, 2010, the gross amount of these managed receivables was $131,140,999 (2009 - $140,244,133). At that date, management provided an amount of $1,094,000 (2009 - $876,000) as a general allowance for losses on the guarantee of these managed receivables, which represented the estimated fair value of these guarantees. As these managed receivables are off-balance sheet, this allowance is included in the total of accounts payable and other liabilities.

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients. 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 15(a).

5. Assets held for sale

During May 2009, the Company obtained title to certain long-lived assets securing a defaulted loan. The assets are recorded at their net realizable value as of June 30, 2010, which was based on a recent independent appraisal of, and unaccepted offers received for, the assets. The assets are currently being actively marketed for sale and will be sold as market conditions permit. During the three and six months ended June 30, 2010, assets held for sale totalling $227,980 (2009 - nil) and $240,333 (2009 - nil), respectively, were disposed of. No impairment charge was booked in respect of the assets in the three and six months ended June 30, 2010 and 2009. During the three and six months ended June 30, 2009, the defaulted loan was written down by $1,127,000 to the net realizable value of the assets at the date title was obtained. The amount of this write-down was included in the provision for credit and loan losses.

6. Income taxes

The Company provides for income taxes in its interim unaudited consolidated financial statements based on the estimated effective tax rate for the full fiscal year in those jurisdictions in which it operates.

7. Stock-based compensation

The Company accounts for stock-based compensation, including stock option and share appreciation rights (“SARs”) grants, 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. The Company has not granted any stock options since May 2004 and at June 30, 2010, 42,000 options expiring on July 5, 2010 remained outstanding with an exercise price of $7.25. The Company has a SARs plan whereby SARs are granted to directors and key managerial employees of the Company. The following SARs were outstanding and vested at June 30:

SARs grant price	Grant Date	2010	2009
$7.25	May 7, 2008	72,500	95,000
$6.03	July 28, 2009	77,500	100,000
$5.50	May 7, 2010	155,000	—
SARs outstanding		305,000	195,000
SARs vested		185,000	112,500

(share price at close of business on June 30, 2010 - $6.25)

Changes in the fair value of outstanding SARs are calculated at the balance sheet date and are recorded in general and administrative expenses ("G&A"), with corresponding entry to accounts payable and other liabilities. Stock-based compensation expense of $73,533 was recorded in G&A for the three and six months ended June 30, 2010 (2009 - nil) in respect of the outstanding SARs. This amount also represents the intrinsic value of the outstanding SARs at June 30, 2010.

8. Capital stock

a) *Issued and outstanding*

The common shares issued and outstanding are as follows:

	2010	
	Number	Amount
Balance at January 1	9,408,971	$ 6,908,481
Shares repurchased for cancellation	(1,400)	(1,025)
Balance at June 30	9,407,571	$ 6,907,456

	2009	
	Number	Amount
Balance at January 1	9,438,171	$ 6,731,581
Issued on exercise of stock options	49,000	193,550
Shares repurchased for cancellation	(41,800)	(29,813)
Transfer from contributed surplus	—	39,385
Balance at June 30	9,445,371	$ 6,934,703

b) *Share repurchase program*

On August 5, 2008, the Company received approval from the Toronto Stock Exchange ("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 terminated on August 7, 2009. Under the 2008 Bid, the Company repurchased and cancelled 183,500 shares at an average price of $6.10 per share for total consideration of $1,120,171. This amount was applied to reduce share capital by $130,877 and retained earnings by $989,294.

On August 5, 2009, the Company received approval from the TSX to commence a new normal course issuer bid (the "2009 Bid") for up to 471,118 of its common shares at prevailing market prices on the TSX. The 2009 Bid commenced on August 8, 2009 and will terminate on August 7, 2010 or the date on which a total of 471,118 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2009 Bid will be cancelled. To June 30, 2010, the Company had repurchased and cancelled 14,800 common shares acquired under the 2009 Bid at an average price of $5.32 per common share for total consideration of $78,764. This amount was applied to reduce share capital by $10,843 and retained earnings by $67,921.

During the six months ended June 30, 2010, the Company repurchased and cancelled 1,400 shares acquired under the 2009 Bid at an average price of $5.82 per common share for a total consideration of $8,146, which was applied to reduce the share capital by $1,025 and retained earnings by $7,121. During the six months ending June 30, 2009, the Company repurchased and cancelled 41,800 common shares acquired under the 2008 Bid at an average price of $5.88 per common share for a total consideration of $245,943, which was applied to reduce share capital by $29,813 and retained earnings by $216,130.

9. Earnings per 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 period 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 period, which, in the Company's case, consist entirely of stock options. The following is a reconciliation of common shares used in the calculations:

Three months ended June 30	2010	2009
Basic weighted average number of common shares outstanding	9,408,695	9,408,027
Effect of dilutive stock options	—	—
Diluted weighted average number of common shares outstanding	9,408,695	9,408,027

Six months ended June 30	2010	2009
Basic weighted average number of common shares outstanding	9,408,833	9,418,288
Effect of dilutive stock options	—	7,988
Diluted weighted average number of common shares outstanding	9,408,833	9,426,276

All 42,000 outstanding options were excluded from the calculation of diluted shares outstanding in the three and six months ended June 30, 2010, because they were anti-dilutive for earnings per common share purposes. The same options were also excluded in the three and six months ended June 30, 2009.

10. 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 June 30, 2010, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $1,629,943 (2009 - $1,416,103). These amounts have been considered in determining the allowance for losses on factored receivables and loans.

11. Segmented information

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

Three months ended June 30, 2010

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 59,746	$ 52,597	$ —	$112,343
Revenue	$ 4,997	$ 3,072	$ —	$ 8,069
Expenses				
Interest	329	79	—	408
General and administrative	2,685	954	—	3,639
Provision for credit and loan losses	133	377	—	510
Depreciation	37	5	—	42
	3,184	1,415	—	4,599
Earnings before income tax expense	1,813	1,657	—	3,470
Income tax expense	558	600	—	1,158
Net earnings	$ 1,255	$ 1,057	$ —	$ 2,312

Three months ended June 30, 2009

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 49,120	$ 39,609	$ (2,094)	$ 86,635
Revenue	$ 3,703	$ 1,975	$ (1)	$ 5,677
Expenses				
Interest	230	16	(1)	245
General and administrative	2,575	969	—	3,544
Provision for credit and loan losses	142	941	—	1,083
Depreciation	41	9	—	50
	2,988	1,935	(1)	4,922
Earnings before income tax expense	715	40	—	755
Income tax expense	230	31	—	261
Net earnings	$ 485	$ 9	$ —	$ 494

Six months ended June 30, 2010

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 59,746	$ 52,597	$ —	$112,343
Revenue	$ 9,741	$ 5,307	$ —	$ 15,048
Expenses				
Interest	672	122	—	794
General and administrative	5,342	1,867	—	7,209
Provision for credit and loan losses	521	548	—	1,069
Depreciation	65	10	—	75
	6,600	2,547	—	9,147
Earnings before income tax expense	3,141	2,760	—	5,901
Income tax expense	980	998	—	1,978
Net earnings	$ 2,161	$ 1,762	$ —	$ 3,923

Six months ended June 30, 2009

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 49,120	$ 39,609	$ (2,094)	$ 86,635
Revenue	$ 7,761	$ 3,988	$ (1)	$ 11,748
Expenses				
Interest	500	47	(1)	546
General and administrative	5,018	2,001	—	7,019
Provision for credit and loan losses	427	987	—	1,414
Depreciation	83	18	—	101
	6,028	3,053	(1)	9,080
Earnings before income tax expense	1,733	935	—	2,668
Income tax expense	553	341	—	894
Net earnings	$ 1,180	$ 594	$ —	$ 1,774

12. Financial instruments

The Company has entered into a forward foreign exchange contract with a financial institution which must be exercised by the Company between August 3, 2010 and August 31, 2010 and which obligates the Company to sell Canadian dollars and buy US$1,000,000 at an exchange rate of 1.0012. This contract was entered into by the Company on behalf of a client and a similar forward foreign exchange contract was entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$1,000,000 to the client. The favorable and unfavorable fair value 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 foreign exchange gain or loss to the Company as a result of entering into these contracts.

As at June 30, 2009, the Company had entered into forward foreign exchange contracts with a financial institution that matured between July 2, 2009 and September 30, 2009 and obliged the Company to sell Canadian dollars and buy US$285,000 at exchange rates ranging from 1.1114 to 1.2151. 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$285,000 to the client. The favorable and unfavorable fair values of these contracts were recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively. There was no foreign exchange gain or loss to the Company as a result of entering into these contracts.

13. Accumulated other comprehensive loss

Accumulated other comprehensive loss comprises the unrealized foreign exchange loss arising on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary, which are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Movements in this balance during the first six months of 2010 and 2009 were as follows:

	2010	2009
Balance at January 1	$ (7,378,890)	$ (2,178,068)
Unrealized foreign exchange income (loss) on translation of self-sustaining foreign operation in the six months ended June 30	469,379	(1,730,003)
Balance at June 30	$ (6,909,511)	$ (3,908,071)

14. 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.

15. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit and Risk Management Committees. 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 to and other financial transactions with clients, its managed receivables and any other counterparty the Company deals with. The carrying amount of these factored receivables and loans and managed receivables represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's factoring and asset-based lending business involves funding or assuming credit risk on the receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. Typically, the Company takes title to the factored receivables and collateral security over the other assets that it lends against and does not lend on an unsecured basis. It does not take title to the managed receivables as it does not lend against them, but it assumes the credit risk from the client in respect of these receivables.

Credit facilities are approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of facilities in excess of $1.0 million, by the Company's President and the Chairman of its Board. Amounts in excess of $2.5 million are also approved by the Company's Credit Committee, which comprises three members of the Company's Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has in place procedures for evaluating and limiting the credit risks to which it is subject. Credit facilities are subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. The Company's primary focus continues to be on the credit worthiness and collectibility of its clients' receivables, as well as valuation of other collateral security.

Monitoring and communicating with our clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables for which the Company guarantees payment, 10% (2009 – 6%) were past due more than 60 days at June 30, 2010. In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its recourse factoring business, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring business it employs a customer credit scoring system to assess the credit risk associated with those client receivables that it guarantees (namely, the 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 appropriately appraised. The Company assesses the financial strength of its clients' customers on a regular and ongoing basis. For a factoring company, the financial strength of its clients' customers is just as important as 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, and charging back or making receivables ineligible for lending purposes as they become older. The Company will also confirm the validity of the receivables that it purchases. In its non-recourse business, exposure to certain customers upon which credit guarantees have been granted may exceed $10 million.

All customer credit in excess of $2.5 million is also approved by the Company's Credit Committee. At June 30, 2010, the Company had guaranteed accounts receivable in excess of $10 million in respect of two customers.

The following table summarizes the Company's credit exposure relating to its factored receivables and loans by industrial sector at June 30, 2010.

Industrial Sector (in thousands)	Gross factored receivables and loans	% of total
Manufacturing	$ 52,531	51
Financial and professional services	20,283	20
Wholesale and distribution	18,878	18
Transportation	5,564	5
Other	6,109	6
	$ 103,365	100

The following table summarizes the Company's credit exposure relating to its managed receivables by industrial sector at June 30, 2010.

Industrial Sector (in thousands)	Managed receivables	% of total
Retail	$ 118,355	90
Other	12,786	10
	$ 131,141	100

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

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totaling approximately $102 million have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At June 30, 2010, the Company had borrowed approximately $47 million (2009 - $22 million) against these facilities. These lines of credit are collateralized primarily by factored receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit as at June 30, 2010 and 2009. Notes payable are due on demand and due to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at June 30, 2010, 80% of these notes were due to related parties and 20% 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 gross factored receivables and loans totalling $103 million at June 30, 2010, which substantially exceeded its total liabilities of $66 million at that date. The Company's factored receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

c) *Market risk*

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

i) *Currency risk*

The Company is exposed to currency risk primarily in its self-sustaining U.S. subsidiary, which operates exclusively in U.S. dollars, to the full extent of the U.S. subsidiary's net assets of approximately US$32 million at June 30, 2010. The Company's investment in its U.S. subsidiary is not hedged as it is long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary into Canadian dollars at 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. See note 13. The Company is also subject to foreign currency risk on the earnings of its U.S. subsidiary, which are unhedged. Based on the U.S. subsidiary's results for the six months ended June 30, 2010, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $35,000. It would also change other comprehensive income or loss and the accumulated other comprehensive income or loss component of shareholders' equity by approximately $320,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time-to-time to hedge its currency risk when there is no economic hedge. At June 30, 2010, the Company's unhedged foreign currency positions in its Canadian operations totalled $276,000 (2009 - $379,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis when necessary to address short-term imbalances. The impact of a one percent change in the value of the Canadian dollar on its unhedged foreign currency position would not have a material impact on the Company's net earnings.

ii) *Interest rate risk*

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

The Company's agreements with its clients (impacting interest revenue) and lenders (impacting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's factored receivables and loans substantially exceed its borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, 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 summarizes the interest rate sensitivity gap at June 30, 2010.

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Factored receivables and loans, net	$101,018	$ —	$ 943	$ (282)	$101,679
Assets held for sale	—	—	—	4,822	4,822
Cash	1,352	—	—	1,879	3,231
All other assets	—	—	—	2,611	2,611
	102,370	—	943	9,030	112,343
Liabilities					
Bank indebtedness	35,290	12,030	—	—	47,320
Due to clients	—	—	—	3,973	3,973
Notes payable	10,041	—	—	—	10,041
All other liabilities	—	—	—	4,493	4,493
Shareholders' equity	—	—	—	46,516	46,516
	45,331	12,030	—	54,982	112,343
	$ 57,039	$(12,030)	$ 943	$(45,952)	$ —

Based on the Company's interest rate positions as at June 30, 2010, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $460,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

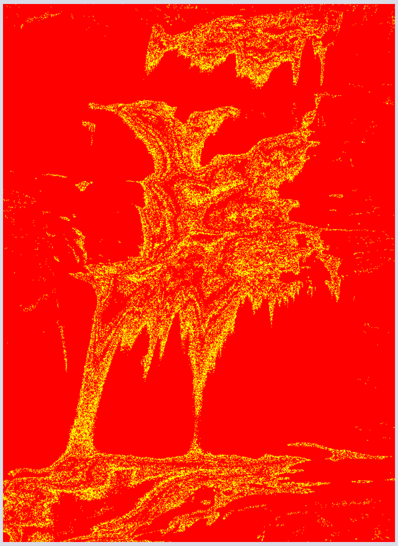
16. Capital disclosures

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 other debt. The Company monitors the ratio of its equity to total assets, principally factored receivables and loans, and its debt to shareholders' equity. As a percentage, the ratios totalled 41% (2009 - 54%) and 123% (2009 - 69%), respectively, at June 30, 2010 indicating the Company's continued financial strength and overall low degree of leverage. The Company's debt, and leverage, will usually rise with an increase in factored receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at June 30, 2010, AFIC is required to maintain a debt to TNW ratio of less than 4.0, while AFIU is required to maintain a minimum TNW of US$18 million and a ratio of total liabilities to TNW of less than 3.0. The Company was fully compliant with its banking covenants at June 30, 2010 and 2009. There were no changes in the Company's approach to capital management from the previous year.

17. International financial reporting standards ("IFRS")

The CICA will transition financial reporting for Canadian public entities to IFRS effective for fiscal years beginning on or after January 1, 2011. The impact of the transition on the Company's consolidated financial statements has largely been determined. The Company has completed the diagnostic assessment phase by identifying the differences between GAAP and IFRS. Given the present IFRS framework applicable at this time, the Company has identified first time adoption exemptions applicable to the Company and the financial statement and note disclosures that are required. Based on the current information available, no changes in the Company's accounting policies or business processes are anticipated when transitioning to IFRS. However, the Company will review new International Accounting Standards that are introduced in the future to determine if they have any impact on the Company.



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