Annual Report 2012

Focusing on our Strengths

Creating Opportunities

Moving Forward

ACCORD FINANCIAL

Keeping Business Liquid

This year's Annual Report looks at Accord Financial's core competencies and potential opportunities and the ways it proposes to move its business forward in response to challenging economic and competitive environments.

Focusing on our Strengths

Accord leverages its core competencies, including brand recognition, international presence, strong and experienced management and staff, quick decision making and response time, superior client service, long-term relationships, and innovative financial solutions to take advantage of opportunities and further enhance stakeholder value.

Creating Opportunities

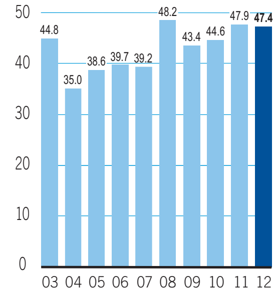
Accord is continually looking to develop new markets and financial products, exploring new market verticals and examining cross-company opportunities. It seeks to grow organically, as well as by acquisition, and improve operational effectiveness. By creating opportunities, Accord targets increased stakeholder value.

Moving Forward

Accord focuses on recognizing and capitalizing on business opportunities that can create value. In turn, this results in further opportunities for growth.

Management's Roundtable discusses several future opportunities with a clear focus on creating value. In addition, the Chairman and President's Letters to the Shareholders, Management's Discussion and Analysis and Consolidated Financial Statements, and notes thereto, provide you with further insights into Accord.

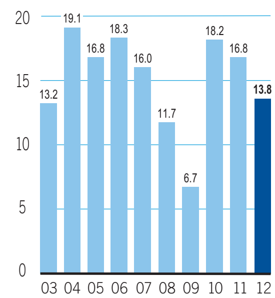
Accord is keeping business liquid.



Equity

(in millions of dollars)

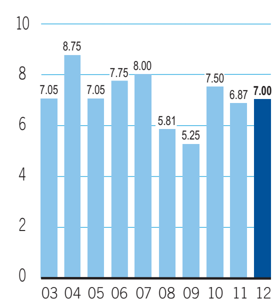
Equity totalled $47.4 million at December 31, 2012. Book value per share of $5.76 was a record high.



Return on Average Equity

(as a percent per annum of average equity)

Return on average equity was a reasonable 13.8% in 2012.



Share Price

(close at December 31 in dollars)

Accord's share price closed 2012 at $7.00, up from $6.87 last year-end.

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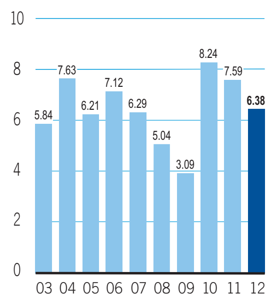
Three Year Financial Highlight Summary

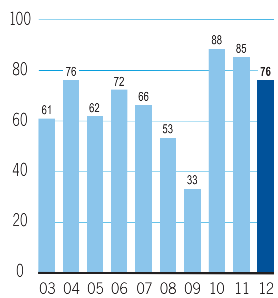
	2012	2011	2010
Operating Data Years ended December 31 (in thousands of dollars except where indicated)			
Factoring volume (in millions)	**$ 1,865**	$ 1,914	$ 2,120
Revenue	**25,891**	28,408	31,406
Net earnings	**6,377**	7,585	8,243
Return on average equity	**13.8%**	16.8%	18.2%
Financial Position Data At December 31 (in thousands of dollars)			
Total assets	**$ 124,592**	$ 98,492	$ 113,124
Equity	**47,395**	47,855	44,560
Common Share Data (per common share)			
Earnings per share - basic and diluted	**$ 0.76**	$ 0.85	$ 0.88
Dividends paid	**0.31**	0.30	0.28
Share price - high	**7.15**	8.25	8.14
- low	**6.50**	6.50	5.25
- close at December 31	**7.00**	6.87	7.50
Book value at December 31	**5.76**	5.49	4.92



Net Earnings

(in millions of dollars)

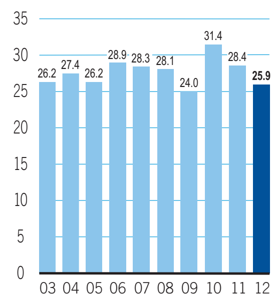
Net earnings came in at $6.38 million in 2012, 16% below the $7.59 million achieved in 2011.



Diluted Earnings per Share

(in cents)

Diluted earnings per share were 76 cents in 2012, 11% lower than the 85 cents earned in 2011.



Revenue

(in millions of dollars)

Revenue was $25.9 million in 2012, 7% below last year's $28.4 million on lower factoring volume and yields.

Chairman's Letter to the Shareholders

Reflecting on my letter to you of March 2012, I noted how similar the present economic conditions are compared with one year ago. Some of the issues with which we had to concern ourselves then have receded somewhat now, but they haven't completely disappeared. Probably the most important reality Accord had to confront in 2012 was competition. In the U.S. market, competition was as intense as ever. Many banks with asset-based loan divisions, in normal times, restrict their activity to borrowers in the $10 million plus area. But these aren't normal times. And the scramble for new clients has seen some banks dipping down below this threshold, and offering rates usually available only to much larger and better rated companies. Accord has had to contend with this phenomenon since the under $10 million loans are our sweet spot. While our rates are certainly not as low as the banks, we compete with speed of execution, fewer covenants and restrictions, and more flexible conditions.

In Canada, our non-recourse factoring business volume and revenue declined sharply from prior years, although operations were profitable. Our Canadian lending business had a good year in spite of competition, and recorded a twelve percent increase in bottom-line results.

Let me review with you the two main services that Accord provides to its clientele. The first is non-recourse factoring, wherein we underwrite the credit for clients' customers. The major benefit of non-recourse factoring for our clients is the reduction, and in most cases, the elimination of customer credit risk, with the resulting enhancement of their balance sheets and borrowing capacity. A side benefit is the assumption by Accord of the administrative effort to track and collect the clients' receivables. This service is particularly valuable to Canadian companies exporting abroad, as well as foreign companies shipping into Canada. Accord is a long time member of Factors Chain International, an association of factoring companies around the world. The members, in effect, are our correspondents, and Accord acts as an import factor for members' clients shipping to Canada and the U.S. Conversely, they act for us when Accord's clients ship abroad. Our international business accounted for 28% of Accord's non-recourse volume in 2012.

The second service that Accord provides is financing. Clients that avail themselves of this service use accounts receivable, inventory and equipment as collateral to obtain working capital funding from Accord. It is typically used by companies in transition and unable to tap bank funding, companies growing too quickly for the banks' comfort level, and companies that were requested to find funding facilities elsewhere for a variety of reasons, including an unacceptable leverage ratio following a change of ownership.

The Company continued and renewed its normal course issuer bid and we repurchased 497,500 shares for cancellation in 2012 at a cost of $3,402,464, or an average of $6.84 per share. The number of common shares outstanding at year-end was 8,221,498, down from 8,718,998 at Dec. 31, 2011 and 9,065,571 at Dec. 31, 2010. Our shares closed the year at $7.00 in trading on the Toronto Stock Exchange. Our current annual dividend is 32 cents per common share and, at year-end, this provides a yield of 4.6% per annum.

The Year Ahead

We don't expect to see dramatic improvements in the U.S. economy for 2013; therefore the conditions we have to contend with to grow our business will still present challenges and opportunities for us. The situation in the Canadian market is somewhat better, but the GDP growth rate is still low. We will be re-doubling our efforts to expand our business in the U.S. and Canada, which, among other things, will include new financial services and products and improved marketing techniques.

I note that on this exact date 35 years ago, February 28, we received our federal charter. We have been profitable every year since 1982. The life span of most companies in our industry is less than 35 years, and not many have had an unbroken string of profitable operations of over 30 years. **We have built a strong enterprise and an internationally recognized brand**.

My thanks go to our President, Tom Henderson, who has led his management team with great skill. I'm grateful as well to our operating managers who faced headwinds all year and still produced more than satisfactory results. And I must not forget our directors and shareholders who continue to give us support. Tom and I look forward to seeing you at our Annual Meeting, May 1, 2013.

Ken Hitzig
Chairman of the Board

Toronto, Ontario
Feb. 28, 2013

Message from the President and CEO

Well, I am pleased with the way 2012 turned out for your Company. We finished the year on a high note unlike the end of 2011 which saw declines in top line revenues at our U.S. business and our Canadian non-recourse factoring business. That year, as you will recall, we were adversely impacted by the aggressive posture of many U.S. banks and by the credit insurers operating in Canada.

Although these competitors have not gone into hiding for sure, they have taken a more balanced approach to the risk/reward equation. This fact, coupled with our improved marketing techniques and expense control has allowed our earnings performance to improve steadily throughout the year.

Our Canadian and U.S. lending businesses added a near record number of new clients in 2012, while departing clients have been fewer than in recent years. This resulted in our hitting a new record for funds employed in 2012, which at year-end, stood at $110 million versus $91 million at the close of business in 2011. Unfortunately, I expect that funds employed will not stay at the year-end figure for long. In fact, it will drop noticeably in the first quarter, partly for seasonal reasons, and partly because we expect a number of clients to graduate to bank facilities. In addition, our largest client closed its doors in January, although we expect a full recovery of the loan. Our task will be to rebuild our funds employed as early in the year as possible.

The volume of receivables processed declined from $1.91 billion in 2011 to $1.86 billion in 2012. Non-recourse volume declined by 28%, while recourse volume rose by 12%. This, along with a reduction in recourse factoring yields, resulted in revenue falling by 9% to $25.9 million. Interest cost declined by 7% to $1.9 million. Our net interest "spread" declined by 9% to $24.0 million. General and administrative ("G&A") expenses, including depreciation, remained unchanged at $13.7 million. The provision for credit and loan losses fell to $213,000 from $886,000 a year ago, a reduction of 76%.

Net earnings for 2012 were 16% lower at $6,377,000 or 76 cents per share compared to $7,585,000 or 85 cents per share last year. Return on average equity declined from 17% in 2011 to 14% in 2012.

Earnings per share declined by only 11% because the Company was successful in buying back shares under its issuer bids in 2012 and late 2011. The number of common shares outstanding at year-end was 8,221,498, down from 8,718,998 a year earlier. Total dividends paid amounted to 31 cents per share in 2012 compared with 30 cents in 2011.

Revenue from operations in Canada decreased to $17.6 million in 2012 compared with $19.7 million in 2011 largely due to the reduction in volume and revenue in our non-recourse business. Net earnings from Canadian operations declined by 27% to $3,452,000 in 2012 compared with $4,715,000 in 2011.

In our U.S. operation, revenue declined to $8.3 million, down 5% from the previous year on weakened yields.

Our net earnings, however, rose 2% from $2,870,000 in 2011 to $2,925,000 in 2012 on the lack of an impairment charge in 2012 on the assets held for sale.

Within all three of our operating units progress was made on a number of fronts including marketing and operating initiatives. I will refrain from commenting on all that. Instead, I want to let you know that management participated in an unusual off-site meeting in November. We convened over a weekend with two of our directors and an invited guest with business enterprise valuation experience. The meeting was titled *Enterprise Value Enhancement* and the focus was on increasing the value of your Company over the longer term. Like many companies, we seem to be preoccupied with short-term opportunities, problems, next year's budget and the like. We decided to meet and not talk about those items except in passing. Instead, the focus was on the Accord we would like to be a part of three to five years down the road. Nothing earthshaking was expected. Those expectations were well met. However, I am hoping that we will now spend some portion of our energy thinking much more strategically than ever before. Please refer to our Management's Roundtable Discussion on this subject that starts on page 6 of this report.

The year just ended saw your Company continuing to operate in a period of global uncertainty amid less than robust GDP increases in our two primary markets, Canada and the U.S. These markets were impacted as usual by the ongoing Euro-Zone crisis, Iran's nuclear intentions, Mid-East tensions and U.S. elections along with concerns over the fiscal cliff. I have no doubt that these and some unforeseen global events will impact us all in 2013. Rest assured Accord will stick to its knitting with discipline no matter what goes on outside our door.

Our Annual General Meeting of Shareholders takes place this year on May 1st in Toronto at the Toronto Board of Trade at 4:15 PM. Please consider attending. Our Chairman, Ken Hitzig, executive staff, directors and I would be happy to greet you and answer any questions you have about your Company.

Sincerely,

Tom Henderson
President & Chief Executive Officer
March 1, 2013

Management's Roundtable Discussion

Below are excerpts from a recent management meeting at which senior officers discussed important issues concerning the Company's activities. Present were:
***Ken Hitzig**, Chairman of the Board of Directors;*
***Tom Henderson**, President and Chief Executive Officer of Accord Financial Corp. and Accord Financial, Inc.;*
***Simon Hitzig**, President of Accord Financial Ltd.; and*
***Fred Moss**, President of Accord Financial Inc.*
Ken Hitzig acted as moderator.

Ken: *Our Roundtable this year will focus on issues emanating from the Enterprise Value Enhancement sessions held over a two-day period at Niagara-on-the-Lake in November. I will turn to Tom to explain to our readers the overall purpose and results of these sessions. Tom?*

Tom: These sessions were not a planning meeting for 2013. They were designed to look ahead three to five years. The idea was to push Accord in new directions in order to significantly boost profitability and, by extension, the ultimate valuation of the Company.

Ken: *Accord has been in business for 35 years. It's fair to say we have built an enterprise with many intangible assets. Tom, can you comment on this?*

Tom: We have many. Here are a few: strong, experienced management and staff; close client relationships; good reputation; quick decision making capabilities, and execution; established international presence; diversified client base; a low expense - high yield business model; and most importantly, a recognizable brand.

Ken: *What you're implying is that we haven't fully taken advantage of these intangible assets.*

Tom: That's correct. We had three key messages presented at the Roundtable. Firstly, that we have assessed and understand our core strengths upon which we will build. Secondly, that we ensure that all resources are pointed toward our objectives. And thirdly, that we can implement and create ongoing accountability for the plan.

Ken: *Simon, Accord Financial Ltd. has under-utilized assets. How do you intend to take advantage of these assets?*

Simon: We have very experienced credit and collection people, and we have a database of tens of thousands of customers. Of course, all of this is used in our traditional non-recourse factoring business. The challenge we have is the business we are in is very mature. We are primarily involved in the retail trade, that is, we factor sales into the retail sector. But that sector of the economy is undergoing serious structural changes and that has had an impact on us. We have to change our business model to adapt to these changes.

Ken: *Can you elaborate on that?*

Simon: The traditional model of our society had a level of manufacturers and importers who sold their products to distributors (in some cases) and to retailers. The manufacturing sector has declined, while the import sector expanded. The retailers have seen structural changes as well. Most retailers were either department and chain stores, or independent stores, "Main Street", so to speak. Shopping malls and big box stores have had a devastating effect on Main Street. In Canada in particular, many department stores have gone out of business, and the ones that remain are no longer the "undoubted" credits they were. Our database, while still large, has been shrinking for years.

Ken: *What changes have you in mind?*

Simon: Currently, we are providing our services to suppliers to the retail trade. Those suppliers are a dwindling number of manufacturers and distributors, and importers. We are now shifting our focus to the importers and overseas suppliers. We have recently launched the Octet program, which specializes in Asia-North America trade. We've had teething problems with the launch, but the opportunity is enormous.

Ken: *Let's move on to our lending business. Fred, you're the head of Accord Financial Inc. in Canada. What did you get out of the Niagara sessions, besides the wine and the food?*

Fred: The wine and the food were great; we should have stayed an extra day or so. I take pride in knowing that we have provided an expanded menu of financial services across a wide range of industries. We have funded companies in the transport business, restaurants, telecom, bakeries, bottled water, and poultry distribution. However, we have discovered that there are some gaps in the market place that we haven't covered. For example, we have not achieved great penetration geographically in Quebec or Ontario, even though we currently have many clients in these two provinces. Southern Ontario and Quebec is the industrial heartland of the country. We really haven't scratched the surface of the market.

Ken: *You have the personnel and infrastructure to handle almost anything. What's holding you back?*

Fred: This is a marketing issue. We are creating a plan of attack to address the potential in Ontario and Quebec. We're also going to pay more attention to Western Canada.

Ken: *Tom, your U.S. operation is functioning smoothly and reported very good results for 2012. Where do you see this business going down the road?*

Tom: One of our objectives going forward will be to expand to sectors of the economy in which we have little presence. The list of potential areas includes retail financing and rediscounting. Of course this year we hope to attract clientele using the Octet program which is really quite versatile. Another objective is to attract more equity sponsors to our capabilities. We like that source of business because when they see how we deliver results for them they tend to bring us repeat business.

Ken: *I gather all these things will come together in the next three to five years. These are ambitious goals. What do you see in the near term, say, in 2013 – 2014?*

Tom: The economic conditions in North America are still fragile. The numbers coming out of government do not point to robust growth for 2013. Nevertheless, the improvement, however small, will benefit our industry, including Accord. Competition in the U.S. market will continue to press down on rates, and we feel it every day. Most banks generally do not look at potential loans under $10 million. But there are always one or two that will dip down into our space, quoting unrealistic rates in order to expand their loan portfolio.

Ken: *How do you cope with that?*

Tom: We tell the prospect we'd like to do business with him and to call us when the bank cannot respond to their needs. Many of these bank deals come to an early end for a variety of reasons and we like to make sure they don't lose our phone number.

Fred: We have a similar situation in Canada, but with a twist. It's largely not the banks that challenge us, but other competitors. They offer high advance rates and low interest rates on some deals that we have to walk away from. But, as I said earlier, we'll be expanding our marketing effort across the country, and this should give us an edge.

Tom: We made some major structural changes in our marketing approach a year or two ago. Among other things, we have made some very good connections in the private equity field. These are paying off now, and will only get better in the near future.

Ken: *What is the advantage you offer to a private equity sponsor?*

Tom: Speed. We can go from initial contact to due diligence, to legal documentation to closing and financing usually in under three weeks.

Our speed of execution enables the private equity sponsor to get the deal "off the street". They have done the deal and moved on to the next one before their competitors even know about it.

Simon: I'd like to mention that our international business accounted for 28% of Accord Financial Ltd.'s volume in 2012 and it's quite profitable. As I mentioned earlier, we are introducing the Octet program to facilitate trade between Asia and North America. We're calling it AccordOctet. But we also know that trade between South America and North America is growing rapidly and it's very promising for Accord. We already do substantial volume there.

Ken: *I think our investors will be pleased to know that Accord will be expanding its reach over the next three to five years, and our share price will hopefully rise accordingly. Gentlemen, thank you for your time, and go to it!*

Accord's Financial Services

Non-recourse factoring

Accord is one of North America's most experienced firms dedicated to providing complete receivables management services. For 35 years we've served small- and medium-sized businesses with cost-effective, risk-free credit guarantees and collection services. With complete coverage of North America, and strong alliances worldwide, we have the expertise and connections to deliver superior results across all industries.

Recourse factoring

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

Asset-based lending

Combined with its factoring services, Accord provides financing against assets such as accounts receivable, inventory and equipment.

International trade financing

Since 1978, Accord has been a leader in cross-border trade, simplifying the financing and management of international receivables. Our unique AccordOctet program provides import financing for North American companies sourcing goods anywhere in the world, while our alliance with Factors Chain International facilitates seamless credit and collection services through a network of more than 260 factoring companies in over 70 countries worldwide.

AccordOctet™
Safe. Secure. And surprisingly simple.

A Member of
Factors Chain International

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

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the year ended December 31, 2012 compared with the year ended December 31, 2011 and, where presented, the year ended December 31, 2010. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at February 19, 2013, should be read in conjunction with the Company's 2012 audited consolidated financial statements (the "Statements") and notes thereto, the Ten Year Financial Summary (see page 26), and the Chairman's Letter and President's Message to the Shareholders, all of which form part of this 2012 Annual Report.

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Please refer to the Critical Accounting Policies and Estimates section below and note 2 to the Statements regarding the Company's use of accounting estimates in the preparation of its financial statements in accordance with IFRS.

Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

i) Return on average equity ("ROE") - this is a profitability measure that presents the net earnings available to common shareholders as a percentage of the average equity employed to earn the income. The Company includes all components of equity to calculate the average thereof.

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

iii) Profitability, yield and efficiency ratios - Table 1 on page 14 presents certain profitability measures. In addition to ROE, the return on average assets is also presented. This is the Company's net earnings expressed as a percentage of average assets. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and general and administrative expenses ("G&A") expressed as a percentage of average assets. These ratios are presented over a three year period, which enables readers to see at a glance trends in the Company's profitability, yield and operating efficiencies.

iv) Financial condition and leverage - Table 2 on page 16 presents the following percentages: (a) tangible equity (equity less goodwill and deferred tax assets) expressed as a percentage of total assets; (b) equity expressed as a percentage of total assets; and (c) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages, presented over the last three years, provide information on trends in the Company's financial condition and leverage.

v) Credit quality - Table 3 on page 18 presents information on the quality of the Company's total portfolio, namely, its factored receivables and loans (collectively, "Loans" or "funds employed") and managed receivables. It presents the Company's year-end allowances for losses as a percentage of its total portfolio and its annual net charge-offs. It also presents the net charge-offs expense as a percentage of total factoring volume. The percentage of managed receivables past due is also presented in Table 3.

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

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, collection services, credit investigation and guarantees, and supply chain financing for importers. The Company's financial services are discussed earlier in this Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 16(a) to the Statements.

The Company, founded in 1978, operates three finance 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 and asset-based lending by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as financing other tangible assets, such as inventory and equipment; and (ii) non-recourse factoring by AFL, which principally involves providing credit guarantees and collection services on a non-recourse basis, generally without financing.

Selected Annual Information

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

	2012	2011	2010
Revenue	**$ 25,891**	$ 28,408	$ 31,406
Net earnings	**6,377**	7,585	8,243
Basic and diluted earnings per share	**0.76**	0.85	0.88
Dividends per share	**0.31**	0.30	0.28
Total assets	**$124,592**	$ 98,492	$113,124

Results of Operations

Years ended December 31 (in thousands unless otherwise stated)	2012	% of Revenue	2011	% of Revenue	% change from 2011 to 2012
Factoring volume (millions)	**$ 1,865**		$ 1,914		**-3%**
Revenue					
Interest and other income	**$ 25,891**	**100.0%**	$ 28,408	100.0%	**-9%**
Expenses					
Interest	**1,911**	**7.4%**	2,047	7.2%	**-7%**
General and administrative	**13,615**	**52.6%**	13,558	47.7%	**—**
Provision for credit and loan losses	**213**	**0.8%**	886	3.1%	**-76%**
Impairment of assets held for sale	**—**	**—**	462	1.6%	**-100%**
Depreciation	**126**	**0.5%**	130	0.5%	**-3%**
	15,865	**61.3%**	17,083	60.1%	**-7%**
Earnings before income tax expense	**10,026**	**38.7%**	11,325	39.9%	**-11%**
Income tax expense	**3,649**	**14.1%**	3,740	13.2%	**-2%**
Net earnings	**$ 6,377**	**24.6%**	$ 7,585	26.7%	**-16%**
Basic and diluted earnings per common share (cents)	**76**		85		**-11%**

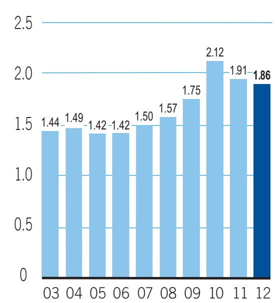
Results of Operations

***Fiscal 2012:** Year ended December 31, 2012 compared with year ended December 31, 2011*

The Company's 2012 net earnings declined by $1,208,000 or 16% to $6,377,000 from $7,585,000 in 2011 and were 23% below 2010's record net earnings of $8,243,000. Net earnings decreased compared to 2011 principally as a result of lower revenue, which was partly offset by a decline in expenses. Net earnings decreased compared to 2010 as a result of lower revenue. 2012's earnings per common share ("EPS") declined by 11% to 76 cents from the 85 cents earned in 2011. EPS were 14% below the record 88 cents earned in 2010. The Company's ROE declined to 13.8% in 2012 compared to 16.8% last year and 18.2% in 2010.

Factoring volume in 2012 decreased by 3% to $1,865 million compared to $1,914 million in 2011. Non-recourse factoring volume declined by 28%, while recourse volume rose by 12%. Non-recourse volume continued to decline this year on the departure of a number of clients as certain perceived risky retail customers improved to credit-worthy status. This resulted in credit insurers re-entering the market offering aggressive rates for these accounts and some significant clients left the Company. In addition, the Company suspended credit coverage on a significant retail customer in the second half of 2011 resulting in the further loss of business. Recourse volume rose largely as a result of AFIU adding a number of significant new clients in 2012. International volume, mostly cross-border business between Canada and the U.S., increased to $408 million from $402 million in 2011. International volume comprised 22% of the Company's total volume in 2012, up slightly from 21% in 2011.

Revenue declined by $2,517,000 or 9% to $25,891,000 in 2012 compared to $28,408,000 in 2011 and was 18% lower than the record $31,406,000 achieved in 2010.



Factoring Volume

(in billions of dollars)

Factoring volume declined 3% to $1.86 billion from $1.91 billion in 2011.

Revenue declined compared to 2011 and 2010 principally as a result of lower non-recourse factoring volume and somewhat lower recourse factoring yields.

Interest expense declined by $136,000 or 7% to $1,911,000 in 2012 from $2,047,000 last year as a result of lower borrowing rates. Average borrowings during 2012 were relatively unchanged.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. In 2012, G&A rose by $57,000 to $13,615,000 from $13,558,000 last year. G&A expenses increased primarily as a result of a rise in stock-based compensation expense related to the Company's share appreciation rights ("SARs") and somewhat higher marketing costs. The Company continues to manage its controllable expenses closely. On lower revenue, G&A totalled 53% of revenue in 2012 compared to 48% in 2011.

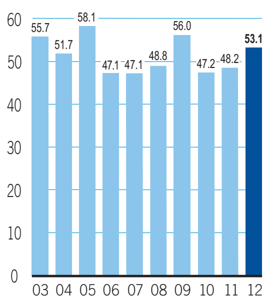
The provision for credit and loan losses declined by $673,000 or 76% to $213,000 in 2012 from $886,000 last year. The provision for credit and loan losses comprised:

Year ended Dec. 31 (in thousands)	2012	2011
Net charge-offs	$ 837	$ 1,513
Reserves recovery related to decrease in total allowances for losses	(624)	(627)
	$ 213	$ 886

The provision for credit and loan losses as a percentage of revenue decreased to 0.8% in 2012 from 3.1% in 2011 on lower net charge-offs. Net charge-offs decreased by 45% to $837,000 compared to $1,513,000 in 2011, while there was a reserves recovery of $624,000 this year compared to a recovery of $627,000 last year. During 2012, following a review of charge-off experience, the Company revised its estimates of the allowances for losses to reflect improved charge-off experience. As a result of this review, the Company reduced its total allowances for losses by $837,000 and booked a similar reserves recovery. The impact of this change was to increase net earnings by $490,000. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

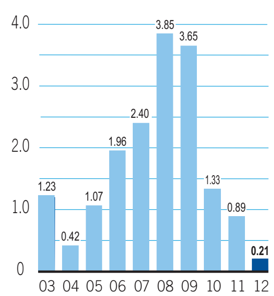
There was no impairment charge taken against the assets held for sale in 2012 (2011 - $462,000). See note 5 to the Statements and the discussion below. The net realizable value of the assets held for sale was determined by professional appraisals of the assets.

Income tax expense decreased by $91,000 or 2% to $3,649,000 in 2012 compared to $3,740,000 last year on an 11% decrease in pre-tax earnings. A one-time withholding tax expense of $496,000 was incurred by the Company in 2012 on a dividend of $9,920,000 received from its U.S. subsidiary, AFIU. This reduced net earnings by the same amount. The Company's effective corporate income tax rate for 2012 increased



Operating Expenses
(G&A and depreciation as a percentage of revenue)

Operating expenses rose to 53.1% of revenue in 2012 from 48.2% last year as revenue declined.



Provision for Credit and Loan Losses
(in millions)

The provision declined by 76% to a ten year low $0.21 million in 2012 compared to $0.89 million in 2011.

to 36.4%, compared to 33.0% last year as a result of this withholding tax expense. Excluding the one-time withholding tax expense, the Company's effective income tax rate would have declined to 31.4% on lower Canadian federal and Ontario income tax rates this year.

Table 1 – Profitability, Yield and Efficiency Ratios

(as a percentage)	2012	2011	2010
Return on Average Assets	**5.7**	7.2	7.8
Return on Average Equity	**13.8**	16.8	18.2
Net Revenue/Average Assets	**21.5**	24.9	28.1
Operating Expenses/ Average Assets	**12.3**	13.0	14.0

Table 1 highlights the Company's profitability in terms of returns on its average assets and equity. In 2012, on lower net earnings, these percentages declined to 5.7% and 13.8%, respectively. Net revenue as a percentage of average assets declined to 21.5% compared to 24.9% in 2011 as revenue decreased for reasons noted above, while average assets increased by 5%. The ratio of operating expenses to average assets decreased to 12.3% in 2012 compared with 13.0% last year on the increase in average assets.

Canadian operations

Net earnings from Canadian operations decreased by $1,263,000 or 27% to $3,452,000 in 2012 compared to $4,715,000 last year as a result of lower revenue. Please see note 18 to the Statements.

Revenue declined by $2,085,000 or 11% to $17,632,000 in 2012 compared to 19,717,000 last year as a result of the 28% decline in non-recourse volume and somewhat lower funds employed in the Company's Canadian recourse factoring business. Interest expense declined by $191,000 or 11% to $1,625,000 on lower average borrowings and rates in 2012. The provision for credit and loan losses decreased by $1,016,000 or 91% to $99,000 as a result of lower net charge-offs and a higher reserves recovery. G&A increased by $330,000 or 3% to $10,401,000 on higher personnel and stock-based compensation expenses. Depreciation was $5,000 lower at $105,000. Income tax expense increased by $60,000 to $1,950,000 in 2012 as a result of the above noted $496,000 withholding tax expense, which offset the impact of an 18% decline in pre-tax earnings and lower Canadian federal and Ontario income tax rates this year.

U.S. operations

Net earnings from U.S. operations increased by $55,000 or 2% to $2,925,000 in 2012 compared to $2,870,000 last year on the absence of an impairment charge this year, as well as lower G&A and income tax expense. In U.S. dollars, net income also rose by 2% to US$2,938,000.

Revenue declined by $417,000 or 5% to $8,278,000 from $8,695,000 last year on lower factoring yields and miscellaneous fees. Interest expense increased by $70,000 or 30% to $305,000 compared to $235,000 last year on higher borrowings used to finance increased funds employed. The provision for loan losses increased by $343,000 to an expense of $114,000 compared to a recovery of $229,000 last year. AFIU had no charge-offs in 2012. G&A declined by $273,000 or 8% to $3,214,000. There was no impairment charge against the assets held for sale in 2012 compared to the $462,000 charged last year. Income tax expense declined 8% to $1,699,000 from $1,850,000 in 2011.

Fourth quarter 2012: *Quarter ended December 31, 2012 compared with quarter ended December 31, 2011*

Net earnings for the quarter ended December 31, 2012 increased by $181,000 or 8% to $2,525,000 compared with $2,344,000 last year. Net earnings increased principally as a result of a larger recovery of credit and loan losses. EPS rose to 31 cents compared to the 27 cents earned last year.

Factoring volume rose by 13% to $511 million in the quarter compared to $453 million in the fourth quarter of 2011. The Company's recourse factoring volume rose by 25%, while its non-recourse volume declined by 15% for reasons explained above.

Summary of Quarterly Financial Results*

(in thousands of dollars unless otherwise stated)	2012				2011			
Quarters ended	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Factoring volume (millions)	$ 511	$ 474	$ 443	$ 437	$ 453	$ 524	$ 455	$ 482
Revenue								
Interest and other income	$ 7,139	$ 6,749	$ 6,323	$ 5,680	$ 7,371	$ 7,342	$ 6,828	$ 6,867
Expenses								
Interest	558	494	469	390	484	524	543	496
General and administrative	3,649	3,293	3,284	3,389	3,533	3,294	3,194	3,538
Provision for credit and loan losses	(1,455)	342	722	604	(312)	181	570	446
Impairment of assets held for sale	—	—	—	—	—	—	462	—
Depreciation	31	32	32	31	40	31	30	29
	2,783	4,161	4,507	4,414	3,745	4,030	4,799	4,509
Earnings before income tax expense	4,356	2,588	1,816	1,266	3,626	3,312	2,029	2,358
Income tax expense	1,832	863	573	381	1,281	1,064	635	760
Net earnings	$ 2,524	$ 1,725	$ 1,243	$ 885	$ 2,345	$ 2,248	$ 1,394	$ 1,598
Basic and diluted earnings per common share (cents)	31	21	15	10	27	25	16	18

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

Revenue declined by $232,000 or 3% to $7,139,000 compared to $7,371,000 in last year's fourth quarter largely as result of lower non-recourse factoring volume and a decline in yields and miscellaneous fees in the Company's recourse factoring business.

Interest expense rose by $74,000 or 15% to $558,000 in the fourth quarter compared to $484,000 last year on higher bank borrowings used to finance increased funds employed.

G&A for the fourth quarter increased by $116,000 or 3% to $3,649,000 compared to $3,533,000 last year. G&A rose principally as a result of higher employee profit sharing.

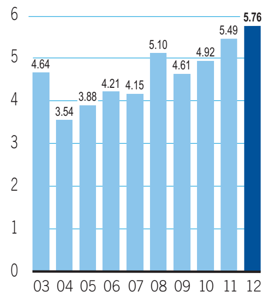
There was a recovery of credit and loan losses of $1,455,000 in the fourth quarter of 2012 compared to a recovery of $312,000 last year largely as a result of a significant reserves recovery. As noted above, $837,000 of the reserves recovery resulted from a revision of the formulae used to estimate the Company's allowances for losses. The recovery of credit and loan losses comprised:

Quarter ended Dec. 31 (in thousands)	2012	2011
Net (recoveries) charge-offs	$ (297)	$ 409
Reserves recovery related to decrease in total allowances for losses	(1,158)	(721)
	$ (1,455)	$ (312)

Income tax expense increased by $551,000 to $1,832,000 compared to $1,281,000 last year on the one-time withholding tax expense of $496,000 and a 20% rise in pre-tax earnings.

Review of Financial Position

Equity at December 31, 2012 decreased by $460,000 or 1% to $47,395,000 compared to $47,855,000 last year-end. Book value per share, however, rose to a record high $5.76 at December 31, 2012 compared to $5.49 a year earlier, as common shares outstanding declined by 6%. The decrease in equity in 2012 resulted from an increase in accumulated other comprehensive loss ("AOCL") and lower capital stock. The components of equity are discussed below. Please also see the consolidated statement of changes in equity on page 32 of this Annual Report.



Book Value per Share
(in dollars)

Book value per share rose to a record high $5.76 at December 31, 2012. It was 5% higher than the $5.49 last year-end.

Total assets increased to $124,592,000 at December 31, 2012 compared to $98,492,000 last year-end and $113,124,000 at December 31, 2010. Total assets largely comprised net Loans, which rose by $19,353,000 or 22% to $108,477,000 in 2012. As detailed in the Ten Year Financial Summary, total assets have grown significantly in the last ten years as a result of growth in the Company's recourse factoring and asset-based lending business.

Table 2 – Financial Condition and Leverage

(as a percentage)	2012	2011	2010
Tangible Equity/Assets	**36**	47	38
Equity/Assets	**38**	49	39
Debt (bank indebtedness & notes payable)/Equity	**146**	87	123
Receivables and Loans ($000)			
Loans	**109,833**	90,626	104,042
Managed Receivables	**87,257**	102,004	153,861
Total Portfolio	**197,090**	192,630	257,903

Table 2 highlights the Company's financial condition. The first two ratios in the table (36% and 38%), detailing equity as a percentage of assets, declined in 2012 mainly due to higher assets. Meanwhile, the debt to equity ratio increased to 146% in 2012. These ratios indicate the Company's continued financial strength and relatively low degree of leverage.

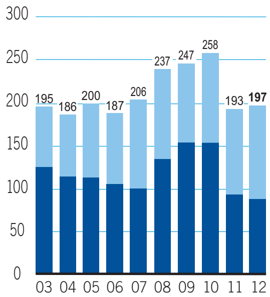
Excluding inter-company balances, 49% of identifiable assets were located in Canada and 51% in the United States at December 31, 2012, while 63% of identifiable assets were located in Canada and 37% in the United States at December 31, 2011 (see note 18 to the Statements).

Gross Loans (funds employed), before the allowance for losses thereon, increased by $19,257,000 or 21% to $109,883,000 at December 31, 2012 compared with $90,626,000 a year earlier. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Dec. 31, 2012	Dec. 31, 2011
Factored receivables	**$ 93,703**	$ 76,133
Loans to clients	**16,180**	14,493
Factored receivables and loans, gross	**109,883**	90,626
Less allowance for losses	**1,406**	1,502
Factored receivables and loans, net	**$108,477**	$ 89,124

The Company's factored receivables increased by 23% to $93,703,000 at December 31, 2012 compared to $76,133,000 last year-end. Loans to clients rose 12% to $16,180,000 at December 31, 2012 compared to $14,493,000 at December 31, 2011. Net of the allowance for losses thereon, Loans increased by $19,353,000 or 22% to $108,477,000 at December 31, 2012 compared with $89,124,000 a year earlier. The Company's Loans principally represent advances made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 130 clients at December 31, 2012. Five clients each comprised over 5% of gross Loans at December 31, 2012, of which the largest client comprised 9%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statement of financial position. These non-recourse or managed receivables totalled $87 million at December 31, 2012 compared to $102 million last year-end. Managed receivables comprise the receivables of approximately 120 clients at December 31, 2012. The 25 largest clients comprised 65% of non-recourse volume in 2012 compared to 60% in 2011. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear



Total Portfolio
Loans and managed receivables
(in millions of dollars)

The Company's total portfolio increased by 2% to $197 million at December 31, 2012 from $193 million a year earlier on higher Loans.

retailers in Canada and the United States. At December 31, 2012, the 25 largest customers accounted for 49% of the total managed receivables, of which the largest five comprised 30%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

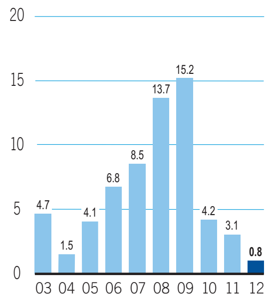
The Company's total portfolio, which comprises both gross Loans and managed receivables, rose 2% to $197 million at December 31, 2012 compared to $193 million last year-end on a 21% increase in gross Loans, which was largely offset by a 14% decline in managed receivables. See the Total Portfolio bar chart above for a ten year history.

As described in note 16(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as funding other assets such as inventory and equipment. Credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1,000,000, the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. The Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables.

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. Of the total managed receivables for which the Company guarantees payment, 4.6% were past due more than 60 days at December 31, 2012 compared to 9.4% last year-end. 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 limiting the Company's credit risk on such older receivables.

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

The Company also minimizes credit risk by limiting the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it



Provision for Credit and Loan Losses

(as a percentage of revenue)

The provision declined to 0.8% of revenue in 2012, the lowest level in the last ten years, from 3.1% last year.

purchases. In its non-recourse factoring business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At December 31, 2012, the Company has guaranteed accounts receivable in excess of $10 million in respect of one customer. As a factoring company, which administers and collects the majority of its clients' receivables, the Company is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. This is particularly important in today's tumultuous economic and credit environment. Note 16(a) to the Statements provides details of the Company's credit exposure by industrial segment.

Table 3 – Credit Quality

(as a percentage unless otherwise stated)	2012	2011	2010
Receivables Turnover (days)	39	44	44
Managed Receivables past due more than 60 days	4.6	9.4	10.5
Reserves*/Portfolio	0.8	1.2	1.1
Reserves*/Net Charge-offs	193	149	276
Net Charge-offs/Volume	0.04	0.08	0.05

*Reserves comprise the total of the allowance for losses on Loans and on the guarantee of managed receivables.

Table 3 highlights the credit quality of the Company's total portfolio, both Loans and managed receivables. Net charge-offs of the Company's managed receivables declined to $397,000 in 2012 compared to $412,000 last year. Net charge-offs of managed receivables were eight basis points of volume in 2012 compared to six basis points in 2011. Net charge-offs in the Company's recourse factoring business totalled $440,000 in 2012 compared to $1,101,000 last year. Overall, the Company's total net charge-offs in 2012, as set out in the Results of Operations section above, declined by 45% to $837,000 compared with $1,513,000 in 2011. Total net charge-offs were four basis points of volume in 2012 compared to eight basis points last year.

After the customary detailed year-end review of the Company's $197 million portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for as necessary. The Company maintains separate allowances for credit and loan losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. During 2012, following a review of charge-off experience, the Company revised its estimates of the allowances for losses to reflect improved charge-off experience. These changes resulted in a reduction in the allowance for losses on Loans of $423,000 and a reduction in the allowance for losses on the guarantee of managed receivables of $414,000 at December 31, 2012. Overall, the allowance for losses on Loans decreased by $96,000 or 6% to $1,406,000 at December 31, 2012 from $1,502,000 last year-end as a result of the change in formulae despite gross Loans increasing by 21% in 2012. The allowance for losses on the guarantee of managed receivables decreased to $207,000 at December 31, 2012 compared to $751,000 at December 31, 2011 on the change in formula and a 14% decline in managed receivables in 2012. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in both allowance for losses accounts for 2012 and 2011 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be adequate.

Cash increased to $9,899,000 at December 31, 2012 compared to $2,854,000 a year earlier. The increase in cash balance largely resulted from a year-end repayment of a loan from AFL, which funds were only re-lent to another subsidiary at the beginning of January, 2013. The Company, nonetheless, endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Assets held for sale are stated at their net realizable value and totalled $3,307,000 at December 31, 2012 compared to $3,380,000 last year-end. They comprise certain assets securing a defaulted loan upon which the Company's U.S. subsidiary foreclosed and obtained title to in 2009. The assets continue to be actively marketed for sale and will be sold as market conditions permit. As noted above, there was no impairment charge in 2012, while a charge of $462,000 was taken against the assets during 2011. During 2012, there were no additions to or disposals of the assets. During 2011, additions to the assets of $309,000 were made relating to improvements made to assist in the sale thereof, while assets held for sale totalling $26,000 were disposed of. The net realizable value of the assets at December 31, 2012 and 2011 was determined by professional appraisals. The different balances reported in the Company's consolidated statements of financial position at those dates relate to the translation of the assets held for sale balance of US$3,324,000 into Canadian dollars at different prevailing year-end exchange rates. Please see note 5 to the Statements.

Income taxes receivable, other assets, deferred tax assets, capital assets and goodwill, and respective changes therein, compared to December 31, 2011 were not significant.

Total liabilities rose by $26,560,000 to $77,196,000 at December 31, 2012 compared to $50,636,000 at December 31, 2011. The increase compared to last year-end principally resulted from a $27,350,000 rise in bank indebtedness.

Amounts due to clients increased by $355,000 to $3,874,000 at December 31, 2012 compared to $3,519,000 at December 31, 2011. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a few days of receipt. Fluctuations in amounts due to clients are not unusual.

Bank indebtedness doubled to $54,572,000 at December 31, 2012 compared with $27,222,000 at December 31, 2011. The increase in 2012 principally resulted from funding the rise in gross Loans and cash. The Company had approved credit lines with a number of banks totalling $115 million at December 31, 2012 and was in compliance with all loan covenants thereunder at the above dates. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Accounts payable and other liabilities declined by $849,000 to $2,874,000 at December 31, 2012 compared to $3,723,000 last year-end. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables which declined by $544,000 in 2012.

Income taxes payable and deferred income, and the respective changes therein in 2012, were not significant.

Notes payable declined by $119,000 to $14,492,000 at December 31, 2012 compared to $14,611,000 last year-end. The decrease in notes payable since December 31, 2011 principally relates to net redemptions during the year. Please see Related Party Transactions section below and note 9(a) to the Statements.

Capital stock decreased by $365,000 to $6,037,000 at December 31, 2012 compared to $6,402,000 at December 31, 2011 as a result of the repurchase of shares under the Company's Issuer Bids. There were 8,221,498 common shares outstanding at December 31, 2011 compared to 8,718,998 a year earlier. The consolidated statements of changes in equity on page 32 of this report provide details of the changes in the Company's issued and outstanding common shares and capital stock over the last two years. Details of the Company's Issuer Bids are provided in note 10(c) to the Statements. During 2012, the Company repurchased and cancelled 497,500 (2011 - 346,573) common shares acquired under its Issuer Bids at a cost of $3,402,000 (for an average price of $6.84 per common share) (2011 - $2,438,000, for an average price of $7.04 per common share). At the date of this MD&A, February 19, 2013, 8,221,498 common shares were outstanding.

Retained earnings rose by $746,000 to $43,170,000 at December 31, 2012 compared to $42,424,000 at December 31, 2011. The increase in 2012 comprised net earnings of $6,376,000 less dividends paid of $2,593,000 (31 cents per common share) and the $3,037,000 premium paid on the shares repurchased under the Company's Issuer Bids. Please see the consolidated statements of changes in equity on page 32 of this report for details of changes in retained earnings in 2012 and 2011.

The Company's AOCL account solely comprises the cumulative unrealized foreign exchange loss arising on the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary. The AOCL balance was in an accumulated loss position of $1,854,000 at December 31, 2012 compared to $1,013,000 at December 31, 2011. These balances represent the cumulative translation losses arising as a result of fluctuations in the U.S. dollar against the Canadian dollar since January 1, 2010, the date the Company transitioned to IFRS and reset its AOCL balance to zero. The $841,000 increase in loss position in 2012 resulted from the decrease in the value of the U.S. dollar against the Canadian dollar. Please refer to note 15 to the Statements and the consolidated statements of changes in equity on page 32 of this report, which details movements in the AOCL account in 2012 and 2011. The U.S. dollar declined from $1.017 at December 31, 2011 to $0.995 at December 31, 2012. This decreased the Canadian dollar equivalent book value of the Company's net investment in its U.S. subsidiary of approximately US$30 million by $841,000 in 2012.

Liquidity and Capital Resources

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

The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its debt to equity and its equity to total assets. These ratios are presented for the last three years as percentages in Table 2. As noted above, the ratios at December 31, 2012 indicate the Company's continued financial strength and overall relatively 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.

Contractual Obligations and Commitments at December 31, 2012

	Payments due in				
(in thousands of dollars)	Less than one year	Two and three years	Four and five years	After five years	**Total**
Operating lease obligations	$ 332	$ 672	$ 503	$ —	**$ 1,507**
Purchase obligations	35	2	—	—	**37**
	$ 367	$ 674	$ 503	$ —	**$ 1,544**

The Company had bank credit lines totalling $115 million at December 31, 2012 and had borrowed $55 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $9,899,000 at December 31, 2012 compared to $2,854,000 at December 31, 2011. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Fiscal 2012 cash flows: *Year ended December 31, 2012 compared with year ended December 31, 2011*

Net cash outflow from operating activities totalled $14,252,000 in 2012 compared with a net cash inflow of $19,108,000 last year. The net cash outflow in 2012 principally resulted from funding an increase in gross Loans of $20,332,000, while the net cash inflow in 2011 principally resulted from reductions in gross Loans of $14,306,000 and net earnings of $7,585,000.

Net cash inflow from financing activities totalled $21,451,000 in 2012 compared to a net cash outflow of $20,623,000 last year. The 2012 net cash inflow resulted from a $27,550,000 increase in bank indebtedness. Partly offsetting this cash inflow was the repurchase of common shares under the Company's Issuer Bids at a cost of $3,402,000, dividend payments totalling $2,593,000 and the redemption of notes payable, net, of $104,000. The net cash outflow in 2011 resulted from repayment of bank indebtedness of $17,449,000, the repurchase of common shares under the Company's Issuer Bids at a cost of $4,953,000 and dividend payments totalling $2,669,000. Partly offsetting these cash outflows was the issuance of notes payable, net, totalling $4,448,000.

Cash outflows on investing activities and the effect of exchange rate changes on cash were not significant in 2012 and 2011.

Overall, there was a net cash inflow of $7,045,000 in 2012 compared to a net cash outflow of $1,687,000 last year.

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand or, in the case of one note, a week after demand and bear interest at rates at or below the rates charged by the Company's banks. Notes payable at December 31, 2012 decreased by $119,000 to $14,492,000 compared with $14,611,000 at December 31, 2011. Of these notes payable, $13,150,000

(2011 - $13,324,000) or 91% was owing to related parties and $1,342,000 (2011 - $1,287,000) or 9% to third parties. Interest expense on these notes totalled $413,000 in 2012 compared to $349,000 last year. Interest expense increased in 2012 as a result of higher average interest rates. Please refer to note 9(a) to the Statements.

Note 9(b) to the Statements details the remuneration of directors and key management personnel during 2012 and 2011.

Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the allowance for losses on the guarantee of managed receivables and the Company's SARs liability, are recorded at amortized cost. The exceptions noted are recorded at fair value.

Critical Accounting Policies and Estimates

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

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios 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 client's 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 clients under their guarantees, net of any estimated recoveries resulting 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 based upon historic credit and loan loss experience and are reviewed for adequacy on an ongoing basis. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d) and 4 to the Statements.

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

Controls and Procedures

Disclosure controls and procedures

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2012 and has concluded that such disclosure controls and procedures are effective.

Management's annual report on internal control over financial reporting

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

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

ii) the Company's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's internal control over financial reporting and test its effectiveness; and

iii) the Company's management has designed and tested the effectiveness of its internal control over financial reporting as at December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS and advises that there are no material weaknesses in the design of internal control over financial reporting that have been identified by management.

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 16 to the Statements, which discusses the Company's principal financial risk management practices.

Competition

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

Economic slowdown

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

Credit risk

The Company is in the business of factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled $197 million at December 31, 2012. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 16(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to interest rate fluctuations to some degree. Please refer to note 16(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources are held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the weakening of the U.S. dollar against the Canadian dollar affect its operating results when its U.S. subsidiary's results are translated into Canadian dollars. It has also impacted the value of the Company's net Canadian dollar investment in its U.S. subsidiary and reduced the accumulated other comprehensive income or loss component of equity to a loss position. Please see notes 15 and 16(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 health benefits, as it continuously seeks to align the interests of employees and shareholders.

Outlook

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

During 2012, the Company's portfolio increased slightly to $197 million. The Company's recourse factoring business saw its funds employed rise 21% to $110 million on the back of a strong year for AFIU, its U.S. subsidiary. AFIU's funds employed rose 90% in 2012 after having lost a number of significant clients due to competitive pressures in the second half of 2011. AFIC had a good year, although it has recently seen its funds employed decline somewhat. However, AFL, the Company's non-recourse factoring subsidiary, had a challenging year in 2012 as it continued to lose clients for reasons noted above, although the rate of decline has now slowed considerably.

The Company is cautiously optimistic for 2013. However, AFIU's largest client recently closed its operations and, as noted, AFIC's funds employed have decreased somewhat. Consequently, the Company's recourse factoring business will be under some pressure to build its funds employed back up to the record levels seen in the last few months of 2012. Further, AFL's non-recourse volume will remain under pressure in 2013 and it may take some time for its results to improve, although it has a number of initiatives in place, such as the recently announced AccordOctet import financing program, which it hopes will increase its business activity.

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

Stuart Adair

Stuart Adair
Vice President, Chief Financial Officer
February 19, 2013

Accord's Five Key Benchmarks

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

1. Receivables turnover

We try to minimize risk by turning our receivables in as few days as possible. During 2012 the receivables turnover declined to 39 days, compared to 44 days in 2011.

2. Past due receivables

We also try to keep our past due receivables as low as possible. Over the past three years, the percentage of managed receivables past due more than 60 days has ranged from 4.6% to 10.5%. At December 31, 2012, the percentage was 4.6%.

3. Reserves to portfolio

In an effort to minimize financial risk, we try to maximize this measure. Over the past three years, it has been between 0.8% and 1.2%, and was 0.8% at December 31, 2012.

4. Reserves to net charge-offs

Ideally, this percentage should be greater than 50%, which is to say that the year-end reserves would absorb about six months of charge-offs. As a result of the low level of charge-offs in 2012, this percentage rose to 193% at December 31, 2012.

5. Net charge-offs to volume

This is an important benchmark in our business. The long-term industry average ranges from 15 to 20 basis points of volume. The figure in 2012 was only 4 basis points of volume.

Ten Year Financial Summary 2003-2012

All figures are in thousands of dollars except factoring volume, earnings, dividends, book value per share, share price history and return on equity.

	Canadian GAAP							IFRS*		
	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Factoring volume (in millions)	$ 1,439	1,489	1,424	1,417	1,497	1,596	1,748	2,120	1,914	**1,865**
Revenue	$ 26,214	27,418	26,230	28,864	28,346	28,060	24,045	31,406	28,408	**25,891**
Interest	773	1,225	1,762	2,391	2,992	2,871	1,180	1,730	2,047	**1,911**
General and administrative	14,175	13,760	14,892	13,290	13,143	13,491	13,290	14,679	13,558	**13,615**
Provision for credit and loan losses	1,231	422	1,074	1,961	2,402	3,849	3,648	1,325	886	**213**
Impairment of assets held for sale	—	—	—	—	—	—	1,265	1,237	462	**—**
Depreciation	418	416	338	322	209	195	181	159	130	**126**
Provision for settlement of claim	712	—	—	—	—	—	—	—	—	**—**
Total expenses	17,309	15,823	18,066	17,964	18,746	20,406	19,564	19,130	17,083	**15,865**
Earnings before income tax expense	8,905	11,595	8,164	10,900	9,600	7,654	4,481	12,276	11,325	**10,026**
Income tax expense	3,066	3,971	2,861	3,783	3,313	2,613	1,392	4,033	3,740	**3,649**
Earnings before extraordinary gain	5,839	7,624	5,303	7,117	6,287	5,041	3,089	8,243	7,585	**6,377**
Extraordinary gain	—	—	907	—	—	—	—	—	—	**—**
Net earnings	$ 5,839	7,624	6,210	7,117	6,287	5,041	3,089	8,243	7,585	**6,377**
Earnings per common share:										
Basic	$ 0.61	0.78	0.63	0.73	0.66	0.53	0.33	0.88	0.85	**0.76**
Diluted	0.61	0.76	0.62	0.72	0.66	0.53	0.33	0.88	0.85	**0.76**
Dividends per common share	$ 0.16	1.68	0.18	0.20	0.22	0.24	0.26	0.28	0.30	**0.31**
Factored receivables and loans	$ 69,479	71,136	84,270	79,863	103,940	99,990	89,907	102,313	89,124	**108,477**
Other assets	6,005	2,909	5,834	4,816	3,193	3,508	8,030	10,811	9,368	**16,115**
Total assets	$ 75,484	74,045	90,104	84,679	107,133	103,498	97,937	113,124	98,492	**124,592**
Due to clients	$ 4,309	5,532	5,092	4,227	4,897	4,588	4,517	5,113	3,519	**3,874**
Bank indebtedness	20,045	15,608	32,592	26,687	48,207	35,877	36,798	44,596	27,222	**54,572**
Accounts payable and other liabilities	2,932	5,227	5,565	3,940	4,459	3,081	3,267	7,889	4,528	**3,808**
Notes payable	2,482	11,778	7,298	9,195	9,567	10,944	9,254	10,142	14,611	**14,492**
Deferred income	916	908	992	913	806	829	746	824	757	**450**
Total liabilities	30,684	39,053	51,539	44,962	67,936	55,319	54,582	68,564	50,637	**77,196**
Equity	44,800	34,992	38,565	39,717	39,197	48,179	43,355	44,560	47,855	**47,396**
Total liabilities and equity	$ 75,484	74,045	90,104	84,679	107,133	103,498	97,937	113,124	98,492	**124,592**
Shares outstanding at Dec. 31	# 9,650	9,876	9,930	9,443	9,454	9,438	9,409	9,066	8,719	**8,221**
Book value per share at Dec. 31	$ 4.64	3.54	3.88	4.21	4.15	5.10	4.61	4.92	5.49	**5.76**
Share price - high	$ 7.55	11.25	8.80	8.25	9.45	8.39	6.70	8.14	8.25	**7.15**
- low	4.95	6.50	6.70	7.00	7.72	4.75	5.25	5.25	6.50	**6.50**
- close at Dec. 31	7.05	8.75	7.05	7.75	8.00	5.81	5.25	7.50	6.87	**7.00**
Return on average equity (as a %)	13.2	19.1	16.8	18.3	16.0	11.7	6.7	18.2	16.8	**13.8**

* the Company adopted IFRS effective January 1, 2011, with a transition date of January 1, 2010. The financial statement amounts presented above for 2009 and prior years were prepared in accordance with Canadian generally accepted accounting principles.

Corporate Governance

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

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

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

The Company's corporate governance practices are outlined below.

Mandate and Responsibilities of the Board

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

(i) satisfying itself as to the integrity of the Company's President and other executive officers and that they create a culture of integrity within the Company;

(ii) adoption of a strategic planning process – the Board oversees strategic planning initiatives, provides direction to management and monitors its success in achieving those initiatives;

(iii) identification of the principal risks of the Company's business and ensuring that there are systems in place to effectively monitor and manage these risks. In this respect, the Credit Committee of the Board, which comprises three independent members thereof, reviews and approves all credit requests above $2.5 million, including loans to clients and assumption of credit risk;

(iv) appointing and monitoring senior management and planning for succession – the Board evaluates senior management on a regular basis, sets objectives and goals and establishes compensation to attract, retain and motivate skilled and entrepreneurial management;

(v) a communications policy to communicate with shareholders and other stakeholders involved with the Company – the Company has procedures in place to disseminate information, respond to inquiries, and issue press releases covering significant business activities;

(vi) the integrity of the Company's internal control and management information systems – the Audit Committee oversees the integrity of the Company's internal control and management information systems and reports to the Board;

(vii) reviewing the Company's quarterly and annual financial reports, including financial statements, MD&A and related press releases, and overseeing its compliance with applicable audit, accounting and reporting requirements through the functions of its Audit Committee; and

(viii) ensuring strong governance is in place by establishing structures and procedures to allow the Board to function independently of management, establishing Board committees to assist it in carrying out its responsibilities and undertaking regular self-evaluation as to the effectiveness and independence of the Board. The Board's next self-assessment evaluation is expected to be in 2013.

In addition to those matters which must by law be approved by the Board, management seeks Board approval for any transaction which is outside of the ordinary course of business or could be considered to be material to the business of the Company. The frequency of the meetings of the Board, as well as the nature of agenda items, change depending upon the state of the Company's affairs and in light of opportunities or risks which the Company faces. The Board meets at least quarterly to review the business operations and financial performance of the Company, including regular meetings both with, and without, management to discuss specific operational aspects of the Company. Each director is expected to attend all Board meetings and comprehensively review meeting materials provided in advance of each meeting. During 2012 there were four meetings of the Board. Details of director attendances at those meetings are set out in the Company's Management Proxy Circular (the "Circular") dated March 20, 2013, which was mailed to shareholders with this Annual Report and is also filed under the Company's profile with SEDAR at www.sedar.com. There was an "in camera" session at each of the four Board meetings in which non-executive directors met without management.

Composition of the Board

The Board currently comprises six persons and is chaired by Mr. Ken Hitzig. The biographies of these directors, all of whom are standing for re-election at the May 1, 2013 Annual Meeting, are set out in the Circular. Of the current Board, four directors (Messrs. Robert Beutel, Ben Evans, Robert Sandler, and Stephen Warden) are considered to be independent, since their respective relationships with the Company are independent of management and free from any interest or business which could reasonably be perceived to materially interfere with or compromise each director's ability to act independently in the best interests of the Company, other than interests arising from shareholdings. Mr. Tom Henderson, President and CEO, and Mr. Ken Hitzig, Executive Chairman, are officers of the Company and are, by definition, non-independent directors. All directors stand for re-election annually. Board members may also act as directors of other public companies. These directorships, if any, are set out in each Board member's biography.

The Board has considered its size and believes that between six and eight members is the ideal size of Board for a company of Accord's size to facilitate effective decision making and direct and immediate communication between the directors and management. The size of the Company's Board permits individual directors to involve themselves directly in specific matters where their personal inclination or experience will best assist the Board and management in dealing with specific issues, such as credit review and approval.

The Board has neither a corporate governance committee nor a nominating committee preferring instead to perform these functions directly at the Board level. The Board and its committees have had, and continue to have, varied responsibilities. They include nominating new directors, assessing the effectiveness of the Board, its committees and members individually and as a whole, approving requests of directors to engage outside advisors at the expense of the Company and reviewing the adequacy and form of compensation of directors. The Board itself is responsible for identifying and considering prospective candidates to be appointed or elected by the shareholders to the Board. Nominees must have the required expertise, skills and experience in order to add value to the Board. The Board solicits the names of candidates possessing these qualities from discussions with members of the Board, senior management and other outside sources. A list of candidates is then drawn up and considered by the Board who will interview them to determine their suitability. The Board then decides which candidate(s) will be appointed directly or nominated for election by the shareholders. Directors' compensation is set after giving due consideration to the directors' workload and responsibilities and reviewing compensation paid to directors of similar-sized public companies. Compensation paid to each of the Company's directors in 2012 is set out in the Circular.

Given that there have only been four new directors of the Company in the past ten years, most of whom were familiar with the Company and its business at the time of appointment, no formal orientation and education program for new directors is currently considered necessary. However, as individual circumstances dictate, each new director receives a detailed orientation to the Company, which covers the nature and operations of the Company's business and his responsibilities as a director.

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

Committees of the Board

The Board discharges its responsibilities directly and through three committees: an Audit Committee, a Compensation

Committee and a Credit Committee. The Board's Audit and Credit Committees are comprised of three independent directors, which helps ensure objectivity in matters where management's influence could be prevalent, while the Compensation Committee is comprised of a majority of independent directors.

The Audit Committee is currently composed of Mr. Stephen Warden, Chairman, Mr. Robert Beutel and Mr. Ben Evans. Each member of the Audit Committee is financially literate, that is, they are able to read and understand fundamental financial reports and statements. The Charter of the Audit Committee, available on the Company's website, sets out the Committee's responsibilities which include reviewing quarterly and annual financial reports, principally financial statements, MD&A and related press releases, before they are approved by the Board; making recommendations to the Board regarding the appointment of independent auditors and assuring their independence; meeting with the Company's management at least quarterly; reviewing annual audit findings with the auditors and management; and reviewing the risks faced by the Company, the business environment, the emergence of new opportunities, and the steps management has taken to mitigate exposure to significant risks. During 2012 there were four meetings of the Audit Committee, member attendances at which are set out in the Circular.

The Audit Committee has adopted a corporate Code of Ethics and a "whistleblower policy" whereby any director, officer or employee of the Company or its subsidiaries who is aware of any acts by a director, officer or employee which are in contravention of the standards of business and personal ethics required of them by the Company, or in violation of applicable laws and regulations, is required to bring such matters to the attention of management or directly to the Chairman of the Audit Committee. The Chairman of the Audit Committee advises in each Audit Committee meeting if any matters have been reported to him under the whistleblower policy. All reported matters are investigated and appropriate action taken if warranted. No such matters were brought to the attention of the Audit Committee in 2012. The Company's Code of Ethics and whistleblower policy are available on its website.

The Compensation Committee is currently composed of Mr. Robert Beutel, Mr. Ken Hitzig and Mr. Stephen Warden. The Compensation Committee's mandate includes evaluating the performance of the Company's executives and making recommendations for approval by the Board with respect to their remuneration. The Compensation Committee reviews compensation paid to management of similar-sized companies to ensure that remuneration is consistent with industry standards. The Compensation Committee also considers and makes recommendations with respect to such matters as incentive plans, employee benefit plans and the structure and granting of stock options or share appreciation rights. The Company's 2012 Compensation Discussion and Analysis report to shareholders is included in the Circular. During 2012 there were four meetings of the Compensation Committee, member attendances at which are set out in the Circular.

The Board's Credit Committee is currently composed of Messrs. Robert Beutel, Ben Evans and Robert Sandler. The purpose of the Credit Committee is to manage the Company's credit risk in respect of larger exposures to clients and customers. The Credit Committee reviews and approves all client and customer credit in excess of $2.5 million, including loans to clients and assumption of credit risk.

Expectations of Management

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

The Company's President and CEO, Mr. Tom Henderson, was appointed to that position on May 6, 2009 when the Company's founder, Mr. Ken Hitzig, was appointed Chairman of the Board. Mr. Henderson does not have a formal written position description, however, prior to his appointment, Mr. Henderson met with members of the Board, who outlined their requirements, goals and expectations of him. Mr. Henderson has been in the factoring and specialty finance industry for over 40 years and has been President and CEO of Accord's U.S. subsidiary, Accord Financial, Inc., since 2001. Given the small size of the Company and the ongoing interaction between the Board, its Chairman and Mr. Henderson, Mr. Henderson is aware of the requirements of his position as CEO and no formal written position description is considered necessary.

Management's Report to the Shareholders

The management of Accord Financial Corp. is responsible for the preparation, fair presentation and integrity of the consolidated financial statements, financial information and MD&A contained in this annual report. This responsibility includes the selection of the Company's accounting policies in addition to judgments and estimates in accordance with International Financial Reporting Standards ("IFRS"). The accounting principles which form the basis of the consolidated financial statements and the more significant policies applied are described in note 3 to the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of the CSA's National Instrument 51-102.

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

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

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

Stuart Adair

Stuart Adair
Vice President, Chief Financial Officer
Toronto, Canada
February 19, 2013

Independent Auditors' Report to the Shareholders

We have audited the accompanying consolidated financial statements of Accord Financial Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Accord Financial Corp. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
February 19, 2013
Toronto, Canada

Consolidated Statements of Financial Position

	December 31, 2012	December 31, 2011
Assets		
Cash	**$ 9,899,015**	$ 2,854,168
Factored receivables and loans, net (note 4)	**108,477,165**	89,124,431
Income taxes receivable	**148,936**	253,147
Other assets	**112,693**	145,896
Assets held for sale (note 5)	**3,306,803**	3,380,258
Deferred tax (note 11)	**1,340,051**	1,318,621
Capital assets (note 6)	**350,503**	437,326
Goodwill (note 7)	**956,792**	978,046
	$ 124,591,958	$ 98,491,893
Liabilities		
Due to clients	**$ 3,873,705**	$ 3,519,322
Bank indebtedness (note 8)	**54,571,784**	27,222,021
Accounts payable and other liabilities	**2,873,969**	3,723,300
Income taxes payable	**934,551**	804,170
Notes payable (note 9(a))	**14,491,821**	14,610,651
Deferred income	**450,638**	757,326
	77,196,468	50,636,790
Equity		
Capital stock (note 10)	**6,036,589**	6,401,876
Contributed surplus	**42,840**	42,840
Retained earnings	**43,170,345**	42,423,832
Accumulated other comprehensive loss (note 15)	**(1,854,284)**	(1,013,445)
	47,395,490	47,855,103
	$ 124,591,958	$ 98,491,893
Common shares outstanding	**8,221,498**	8,718,998

See accompanying notes to consolidated financial statements.

On behalf of the Board

Ken Hitzig,
Chairman of the Board

Tom Henderson,
President & Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2012	2011
Revenue		
Interest and other income (note 4)	$ 25,890,527	$ 28,408,075
Expenses		
Interest	1,910,708	2,046,776
General and administrative	13,614,707	13,558,483
Provision for credit and loan losses	213,028	885,706
Impairment of assets held for sale (note 5)	—	462,026
Depreciation	126,487	130,482
	15,864,930	17,083,473
Earnings before income tax expense	10,025,597	11,324,602
Income tax expense (note 11)	3,649,000	3,740,000
Net earnings	$ 6,376,597	$ 7,584,602
Basic and diluted earnings per common share (note 12)	$ 0.76	$ 0.85
Basic and diluted weighted average number of common shares (note 12)	8,403,725	8,894,246

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2012	2011
Net earnings	$ 6,376,597	$ 7,584,602
Other comprehensive (loss) income: unrealized foreign exchange (loss) income on translation of self-sustaining foreign operation (note 15)	(840,839)	818,519
Comprehensive income	$ 5,535,758	$ 8,403,121

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Capital stock					
	Number of outstanding shares	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2011	9,065,571	$ 6,656,345	$ 42,840	$ 39,692,340	$ (1,831,964)	$ 44,559,561
Comprehensive income	—	—	—	7,584,602	818,519	8,403,121
Dividends paid	—	—	—	(2,669,088)	—	(2,669,088)
Shares repurchased for cancellation	(346,573)	(254,469)	—	(2,184,022)	—	(2,438,491)
Balance at December 31, 2011	8,718,998	6,401,876	42,840	42,423,832	(1,013,445)	47,855,103
Comprehensive income	—	—	—	6,376,597	(840,839)	5,535,758
Dividends paid	—	—	—	(2,592,907)	—	(2,592,907)
Shares repurchased for cancellation	(497,500)	(365,287)	—	(3,037,177)	—	(3,402,464)
Balance at December 31, 2012	8,221,498	$ 6,036,589	$ 42,840	$ 43,170,345	$ (1,854,284)	$ 47,395,490

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Net earnings	**$ 6,376,597**	$ 7,584,602
Items not affecting cash:		
Allowances for losses, net of charge-offs and recoveries	**(624,277)**	(627,754)
Impairment of assets held for sale	**—**	462,026
Deferred income	**(304,143)**	(69,199)
Depreciation	**126,487**	130,482
Loss on disposal of capital assets	**6,177**	18,509
Deferred tax recovery	**(50,193)**	(45,106)
Income tax expense	**3,699,193**	3,785,106
	9,229,841	11,238,666
Changes in operating assets and liabilities		
Factored receivables and loans, gross	**(20,331,937)**	14,306,166
Due to clients	**364,665**	(1,637,633)
Other assets	**32,073**	4,967
Accounts payable and other liabilities	**(225,981)**	137,364
Addition to assets held for sale	**—**	(309,333)
Sale of assets held for sale	**190,440**	26,288
Income tax paid, net	**(3,510,614)**	(4,658,776)
Net cash (used in) provided by operating activities	**(14,251,513)**	19,107,709
Investing activities		
Additions to capital assets, net	**(46,843)**	(146,974)
Financing activities		
Bank indebtedness	**27,550,510**	(17,449,040)
Notes payable (redeemed) issued, net	**(103,967)**	4,448,112
Repurchase and cancellation of shares	**(3,402,464)**	(4,953,434)
Dividends paid	**(2,592,907)**	(2,669,088)
	21,451,172	(20,623,450)
Effect of exchange rate changes on cash	**(107,969)**	(24,272)
Increase (decrease) in cash	**7,044,847**	(1,686,987)
Cash at beginning of period	**2,854,168**	4,541,155
Cash at end of period	**$ 9,899,015**	$ 2,854,168
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	**$ 1,878,051**	$ 2,016,034

See accompanying notes to consolidated financial statements.

1. Description of the business

Accord Financial Corp. (the "Company") is incorporated by way of Articles of Continuance under the Ontario Business Corporations Act and, through its subsidiaries, is engaged in providing asset-based financial services, including factoring, financing, credit investigation, guarantees and receivables collection to industrial and commercial enterprises, principally in Canada and the United States. The Company's registered office is at 77 Bloor Street West, Toronto, Ontario, Canada.

2. Basis of presentation and statement of compliance

These consolidated financial statements are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental are the determination of the allowance for losses relating to factored receivables and loans and to the guarantee of managed receivables, as well as the net realizable value of assets held for sale (see notes 3(d), 3(n), 4 and 5). Management believes that these estimates are reasonable and appropriate.

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

- Cash
- Assets held for sale
- Share appreciation rights ("SARs") liability*
- Guarantee of managed receivables*

**a component of accounts payable and other liabilities*

The consolidated financial statements for the year ended December 31, 2012 were approved for issue by the Company's Board of Directors ("Board") on February 19, 2013.

3. Significant accounting policies

(a) Basis of consolidation

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

(b) Revenue recognition

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's recourse and non-recourse factoring businesses and is measured at the fair value of the consideration received. Discount fees are calculated as a discount percentage of the gross amount of the factored invoice. For receivables purchased in its recourse factoring business, discount fees are recognized as revenue over the initial discount period, while, for non-recourse receivables, a certain portion of the factoring commissions charged are recognized over the period that costs are incurred collecting the receivables. In its recourse factoring business, additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. Interest charged on factored receivables and loans is recognized as revenue using the effective interest method. Other revenue, such as due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(c) Factored receivables and loans

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

(d) Allowances for losses

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

The Company maintains these allowances for losses at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations, including current economic trends, condition of the loan and customer receivable portfolios and typical industry loss experience.

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

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

(e) Capital assets

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

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

Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in income or expense. The Company reviews capital assets on a regular basis to determine that their carrying values have not been impaired.

(f) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but is reviewed at each reporting date to determine whether there is any indication of impairment. If its carrying value exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

(g) Income taxes

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

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

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

(h) Foreign subsidiary

The assets and liabilities of the Company's self-sustaining foreign subsidiary are translated into Canadian dollars at the exchange rate prevailing at the statement of financial position 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 or loss and presented in the accumulated other comprehensive income or loss component of equity.

(i) *Foreign currency translation*

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

(j) *Earnings per common share*

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

(k) *Stock-based compensation*

The Company accounts for SARs and stock options issued to employees using fair value-based methods. The Company utilizes the Black-Scholes option pricing model to calculate the fair value of the SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

(l) *Derivative financial instruments*

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

(m) *Financial assets and liabilities*

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

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

(n) *Assets held for sale*

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

(o) *Financial Instruments - Disclosures*

The financial instruments presented on the consolidated statements of financial position at fair value are further classified according to a fair value hierarchy that prioritizes the quality and reliability of information used in estimating fair value. The fair values for each of the three levels are based on:

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

(p) *Future accounting policies*

A number of new accounting standards and amendments to standards and interpretations are effective in future years, and consequently have not been applied in preparing these consolidated financial statements. These include:

IFRS 9 Financial Instruments — IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 13 Fair Value Measurements — IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. The Company intends to adopt IFRS 13 prospectively in its consolidated financial statements for the annual period beginning on January 1, 2013. This is not expected to have any material impact on the Company's consolidated financial statements.

4. Factored receivables and loans

	2012	2011
Factored receivables	**$ 93,702,696**	$ 76,133,293
Loans to clients	**16,180,469**	14,493,138
Factored receivables and loans, gross	**109,883,165**	90,626,431
Less allowance for losses	**1,406,000**	1,502,000
Factored receivables and loans, net	**$108,477,165**	$ 89,124,431

The Company's allowance for losses on factored receivables and loans at December 31, 2012 and 2011 comprised only a collective allowance. The activity in the allowance for losses on factored receivables and loans account during 2012 and 2011 was as follows:

	2012	2011
Allowance for losses at January 1	**$ 1,502,000**	$ 1,729,000
Provision for credit and loan losses	**359,865**	860,228
Charge-offs	**(489,904)**	(1,208,130)
Recoveries	**49,761**	107,148
Foreign exchange adjustment	**(15,722)**	13,754
Allowance for losses at December 31	**$ 1,406,000**	$ 1,502,000

The Company has entered into agreements with clients, whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At December 31, 2012, the gross amount of these managed receivables was $87,257,113 (2011 - $102,004,001). At December 31, 2012, management provided an amount of $207,000 (2011 - $751,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statement of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during 2012 and 2011 was as follows:

	2012	2011
Allowance for losses at January 1	$ 751,000	$ 1,138,000
Provision for credit losses	(146,837)	25,478
Charge-offs	(406,176)	(481,845)
Recoveries	9,013	69,367
Allowance for losses at December 31	$ 207,000	$ 751,000

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted under terms that are usual and customary to the Company's factoring and lending activities. The Company controls the credit risk associated with its factored receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 16(a).

At December 31, 2012, the Company held cash collateral of $1,939,682 (2011 - $2,081,137) to help reduce the risk of loss on certain of the Company's factored receivables and loans and managed receivables.

The Company considers the allowances for losses on both its loans and its guarantee of managed receivables critical to its financial results (see note 3(d)). As noted above, the Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover estimated losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios and typical industry loss experience. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

In establishing its collective allowances, the Company applies percentage formulae to its factored receivables and loans and managed receivables. The formulae are reviewed for adequacy on an ongoing basis.

During 2012, following a review of charge-off experience, the Company revised its estimates of the allowances for losses to reflect improved charge-off experience. These changes in estimates were applied prospectively and resulted in a reduction in the allowance for losses on factored receivables and loans of $423,000 and a reduction in the allowance for losses on the guarantee of managed receivables of $414,000 at December 31, 2012, respectively. These changes increased net earnings by $490,000 in 2012.

Interest income earned on factored receivables and loans in 2012 totalled $19,199,260 (2011 - $20,421,120).

5. Assets held for sale

The Company obtained title to certain long-lived assets securing a defaulted loan in 2009. During 2012, no impairment charge (2011 - $462,026) was taken against the assets as their net realizable value was similar to book value. During 2012, there were no additions to or disposal of the assets. During 2011, there were additions of $309,333 principally relating to improvements made to assist in the sale thereof, while assets of $26,288 were disposed of. The assets are carried in the Company's U.S. operations and the difference in balances reported in the consolidated statements of financial position at December 31, 2012 and 2011, relates to the translation of the assets held for sale balance of US$3,324,000 into Canadian dollars at different prevailing year-end exchange rates.

The assets are currently being marketed for sale and will be sold as market conditions permit. The net realizable value of the assets at December 31, 2012 and 2011 was estimated based upon professional appraisals of the assets.

6. Capital assets

	Dec. 31, 2012	Dec. 31, 2011
Cost	**$ 1,993,547**	$ 2,019,975
Less accumulated depreciation	**1,643,044**	1,582,649
	$ 350,503	$ 437,326

7. Goodwill

During 2012 and 2011, the Company conducted annual impairment reviews and determined there was no impairment to the carrying value of goodwill. The goodwill is carried in the Company's U.S. operations and the difference in the goodwill balances reported in the consolidated statements of financial position relates to the translation of the Company's goodwill balance of US$961,697 into Canadian dollars at different prevailing year-end exchange rates.

8. Bank indebtedness

Revolving lines of credit have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. These lines of credit are collateralized primarily by factored receivables and loans to clients. At December 31, 2012, the amounts outstanding under these lines of credit totalled $54,571,784 (2011 - $27,222,021). The Company was in compliance with all loan covenants under these lines of credit at December 31, 2012 and 2011.

9. Related party transactions

(a) Notes payable

Notes payable are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. The notes are unsecured, due on demand, or in the case of one note, a week after requesting repayment, and bear interest at bank prime rate or lower.

Notes payable were as follows:

	Dec. 31, 2012	Dec. 31, 2011
Related parties	**$ 13,149,701**	$ 13,323,474
Third parties	**1,342,120**	1,287,177
	$ 14,491,821	$ 14,610,651

Interest expense on the notes payable was as follows:

	2012	2011
Related parties	**$ 379,604**	$ 312,659
Third parties	**32,901**	36,117
	$ 412,505	$ 348,776

(b) Compensation of directors and key management personnel

The remuneration of directors and key management personnel[1] during 2012 and 2011 was as follows:

	2012	2011
Salaries and directors' fees	**$ 2,067,392**	$ 1,943,862
Share-based payments[2]	**57,833**	(53,062)
	$ 2,125,225	$ 1,890,800

[1] Key management personnel comprise the Chairman of the Company's Board, its President and Chief Executive Officer, the Presidents of AFL and AFIC, and the Company's Chief Financial Officer

[2] Share-based payments represent the expense or recovery related to the Company's SARs grants. Please see note 10.

10. Capital stock, dividends, share appreciation rights, stock option plans and stock-based compensation

(a) Authorized

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At December 31, 2012 and 2011, there were no first preferred shares outstanding.

(b) Issued and outstanding

The Company's issued and outstanding common shares during 2012 and 2011 are set out in the consolidated statements of changes in equity.

(c) Share repurchase program

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

On August 4, 2011, the Company received approval from the TSX to commence a normal course issuer bid (the "2011 Bid") for up to 446,845 of its common shares at prevailing market prices on the TSX. The 2011 Bid commenced on August 8, 2011 and terminated on August 7, 2012. Under the 2011 Bid, the Company repurchased and cancelled 446,800 shares acquired at an average price of $6.78 per share for a total consideration of $3,030,599. This amount was applied to reduce share capital by $328,060 and retained earnings by $2,702,539.

On August 3, 2012, the Company received approval from the TSX to commence a new normal course issuer bid (the "2012 Bid") for up to 424,594 of its common shares at prevailing market prices on the TSX. The 2012 Bid commenced on August 8, 2012 and will terminate on August 7, 2013 or the date on which a total of 424,594 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2012 Bid will be cancelled. To December 31, 2012, the Company had repurchased and cancelled 268,600 common shares acquired under the 2012 Bid at an average price of $6.81 per common share for a total consideration of $1,829,166. This amount was applied to reduce share capital by $197,218 and retained earnings by $1,631,948.

During the year ended December 31, 2012, the Company repurchased and cancelled 497,500 shares acquired under its issuer bids at an average price of $6.84 per common share for a total consideration of $3,402,464. This amount was applied to reduce share capital by $365,287 and retained earnings by $3,037,177. During the year ended December 31, 2011, the Company repurchased and cancelled 346,573 common shares acquired under its issuer bids at an average price of $7.04 per common share for a total consideration of $2,438,491. This amount was applied to reduce share capital by $254,469 and retained earnings by $2,184,022.

(d) Dividends

Dividends in respect of the Company's common shares are declared in Canadian dollars. During 2012, dividends per common share of $0.31 (2011 - $0.30) were declared and paid totalling $2,592,907 (2011 - $2,669,088).

On January 28, 2013, the Company declared a quarterly dividend of $0.08 per common share, payable March 1, 2013 to shareholders of record on February 15, 2013.

(e) Share appreciation rights

The Company has established a SARs plan, whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be granted in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company at the time of grant. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the TSX for the 10 days that the shares were traded immediately preceding the date of grant, or other 10 day trading period that the Company's Board may determine. Employees can sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant. Directors have no minimum holding period but can only exercise their SARs within the 90 day period after they cease to be members of the Board, failing which they will automatically be exercised on the ninetieth day after.

During 2012, no SARs were granted by the Company to directors and employees. During 2011, 152,500 SARs were granted by the Company to directors and employees at a strike price of $7.95, while a further 5,000 were granted at a strike price of $7.56. No SARs were exercised during 2012 (2011 - 7,500).

The Company's outstanding and vested SARs were as follows:

Exercise price	Grant date	**Dec. 31, 2012**	Dec. 31, 2011
$7.25	May 7, 2008	**57,500**	57,500
$6.03	July 28, 2009	**70,000**	70,000
$5.50	May 7, 2010	**140,000**	140,000
$7.95	May 4, 2011	**152,500**	152,500
$7.56	July 26, 2011	**5,000**	5,000
SARs outstanding		**425,000**	425,000
SARs vested		**342,500**	262,500

(f) Stock option plans

The Company has established an employee stock option plan. Under the terms of the plan, an aggregate of 1,000,000 common shares has been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries. According to the terms of the plan, these options vest over a period of three years provided certain minimum earnings criteria is met.

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

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date. Although the Company may still grant stock options to employees and directors it has not done so since May 2004. No stock options were outstanding at December 31, 2012 and 2011.

(g) Stock-based compensation

The Company recorded a stock-based compensation expense of $86,008 in respect of its outstanding SARs in 2012, while it recorded a stock-based compensation recovery of $75,927 in 2011. There has been no stock-based compensation in respect of stock options since 2007.

At December 31, 2012, the Company had accrued $294,700 (December 31, 2011 - $208,733) in respect of its liability for outstanding SARs.

11. Income taxes

The Company's income tax expense comprises:

	2012	2011
Current income tax expense	**$ 3,699,193**	$ 3,785,106
Deferred tax recovery	**(50,193)**	(45,106)
Income tax expense	**$ 3,649,000**	$ 3,740,000

During 2012, the Company's statutory tax rate decreased to 26.5% (2011 - 28.25%) as a result of previously announced and enacted changes to tax legislation. The Company's income tax expense varies from the amount that would be computed using the Canadian statutory income tax rate due to the following:

	2012	**%**
Income taxes computed at statutory rates	**$ 2,656,783**	**26.50**
Increase resulting from:		
Withholding tax paid on dividend from AFIU	**496,000**	**4.95**
Higher effective tax rate on income of subsidiaries	**490,920**	**4.90**
Other	**5,297**	**0.05**
Income tax expense	**$ 3,649,000**	**36.40**

	2011	%
Income taxes computed at statutory rates	$ 3,199,200	28.25
Increase resulting from:		
Higher effective tax rate on income of subsidiaries	446,040	3.94
Other	94,760	0.84
Income tax expense	$ 3,740,000	33.03

The tax effects that give rise to the net deferred tax assets at December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred tax assets:		
Impairment of assets held for sale	$ 1,066,035	$ 1,089,716
Allowances for losses	234,143	221,382
SARs liability	82,123	53,068
Other	222,858	183,060
	1,605,159	1,547,226
Deferred tax liabilities:		
Goodwill	(237,781)	(217,638)
Capital assets	(13,000)	(7,000)
Other	(14,327)	(3,967)
	(265,108)	(228,605)
	$ 1,340,051	$ 1,318,621

At December 31, 2012, deferred tax liabilities for temporary differences associated with investments in domestic and foreign subsidiaries were not recognized as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

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

There were no dilutive common share equivalents outstanding during 2012 and 2011 as there were no stock options outstanding. Accordingly, basic and diluted EPS are the same for both years.

13. Contingent liabilities

(a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the defence. This involves analyzing potential outcomes and assuming various litigation and settlement strategies. It is the opinion of the Company's management, based upon the advice of its counsel, that the aggregate liability from all such litigation will not materially affect the financial position of the Company.

(b) The Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $390,579 at December 31, 2012 (2011 - $1,122,394). In addition, at December 31, 2012 the Company was contingently liable with respect to letters of guarantee issued on behalf of clients in the amount of $250,000 (2011 - nil). These amounts have been considered in determining the allowance for losses on factored receivables and loans.

14. Lease commitments

The Company is committed under operating leases, principally office space leases, which expire between 2013 and 2017. The minimum rentals payable under these long-term operating leases, exclusive of certain operating costs and property taxes for which the Company is responsible, are as follows:

2013	$ 331,694
2014	333,860
2015	338,192
2016	340,358
2017	162,879
	$ 1,506,983

15. Accumulated other comprehensive loss

Accumulated other comprehensive loss ("AOCL") solely comprises the unrealized foreign exchange loss (commonly referred to as cumulative translation adjustment loss) arising on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary, which are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Changes in the AOCL balance during 2012 and 2011 are set out in the consolidated statements of changes in equity.

16. Financial risk management

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

(a) *Credit risk*

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

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

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from the invoice date. Of the total managed receivables that the Company guarantees payment, 4.6% were past due more than 60 days at December 31, 2012 (2011 - 9.4%). In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its recourse factoring business, which assesses, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring business it employs a customer credit scoring system to assess the credit risk associated with the managed receivables that it guarantees. Credit risk is primarily managed by ensuring that, as far as possible, the receivables factored are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. For a factoring company, the financial strength of its clients' customers is often more important than the financial strength of the clients themselves. The Company also minimizes credit risk by limiting the maximum amount that it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases.

In its non-recourse business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. All customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At December 31, 2012, the Company had guaranteed accounts receivable in excess of $10 million in respect of one customer.

The Company's credit exposure relating to its factored receivables and loans by industrial sector at December 31, 2012 and 2011 was as follows:

	2012	
Industrial sector (in thousands)	Gross factored receivables and loans	% of total
Manufacturing	$ 53,812	49
Financial and professional services	26,491	24
Wholesale and distribution	17,303	16
Transportation	2,940	3
Other	9,337	8
	$ 109,883	100

	2011	
Industrial sector (in thousands)	Gross factored receivables and loans	% of total
Manufacturing	$ 41,876	46
Financial and professional services	22,401	25
Wholesale and distribution	17,460	19
Transportation	5,666	6
Other	3,223	4
	$ 90,626	100

The Company's credit exposure relating to its managed receivables by industrial sector at December 31, 2012 and 2011 was as follows:

	2012	
Industrial sector (in thousands)	Managed receivables	% of total
Retail	$ 79,413	91
Other	7,844	9
	$ 87,257	100

	2011	
Industrial sector (in thousands)	Managed receivables	% of total
Retail	$ 94,443	93
Other	7,561	7
	$ 102,004	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 its guarantee of managed receivables.

The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling $115,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At December 31, 2012, the Company had borrowed $54,571,784 (2011 - $27,222,021) 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 December 31, 2012. Notes payable are due on demand, or in the case of one note, a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at December 31, 2012 and 2011, 91% of these notes were due to related parties and 9% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At December 31, 2012, the Company had gross factored receivables and loans totalling $109,883,000 (2011 - $90,626,000), which substantially exceeded its total liabilities of $77,196,000 at that date (2011 - $50,637,000). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

All assets and liabilities other than capital assets, deferred tax and goodwill are expected to be settled within twelve months at the values as stated in the statement of financial position.

(c) Market risk

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

(i) Currency risk

The Company is exposed to currency risk primarily in its self-sustaining U.S. subsidiary, which operates exclusively in U.S. dollars, to the full extent of the U.S. subsidiary's net assets of approximately US$30,000,000 at December 31, 2012. The Company's investment in its U.S. subsidiary is not hedged as it is long term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary into Canadian dollars each period end. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the AOCL component of equity (see note 15). 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 year ended December 31, 2012, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $29,000. It would also change other comprehensive income or loss and the AOCL component of equity by approximately $300,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At December 31, 2012, the Company's unhedged foreign currency positions in its Canadian operations totalled $129,000 (2011 - $80,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a one percent change in the value of its unhedged foreign currency positions against the Canadian dollar would not have a material impact on the Company's net earnings.

(ii) Interest rate risk

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

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's factored receivables and loans substantially exceed its borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, that exists between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's equity.

The following table shows the interest rate sensitivity gap at December 31, 2012:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Cash	$ 9,899	$ —	$ —	$ —	$ 9,899
Factored receivables and loans, net	105,790	1,492	2,172	(977)	108,477
Assets held for sale	—	—	—	3,307	3,307
All other assets	—	149	—	2,760	2,909
	115,689	1,641	2,172	5,090	124,592
Liabilities					
Due to clients	—	—	—	3,874	3,874
Bank indebtedness	33,167	21,405	—	—	54,572
Notes payable	14,492	—	—	—	14,492
All other liabilities	—	935	—	3,324	4,259
Equity	—	—	—	47,395	47,395
	47,659	22,340	—	54,593	124,592
	$ 68,030	$ (20,699)	$ 2,172	$(49,503)	$ —

17. Capital disclosure

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, these ratios were 146% (2011 - 87%) and 38% (2011 - 49%), respectively, at December 31, 2012 indicating the Company's continued financial strength and relatively low degree of leverage. The Company's debt, and leverage, will usually rise with an increase in factored receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at December 31, 2012, AFIC is required to maintain a debt to TNW ratio of less than 4.0, while AFIU is required to maintain a minimum TNW of US$25,000,000 and a ratio of total liabilities to TNW of less than 3.0. The Company was fully compliant with its banking covenants at December 31, 2012. There were no changes in the Company's approach to capital management from the previous year.

18. 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.

2012 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	$ 60,808	$ 63,784	$ —	$ 124,592
Revenue	$ 17,632	$ 8,278	$ (19)	$ 25,891
Expenses				
Interest	1,625	305	(19)	1,911
General and administrative	10,401	3,214	—	13,615
Provision for credit and loan losses	99	114	—	213
Depreciation	105	21	—	126
	12,230	3,654	(19)	15,865
Earnings before income tax expense	5,402	4,624	—	10,026
Income tax expense	1,950	1,699	—	3,649
Net earnings	$ 3,452	$ 2,925	$ —	$ 6,377

2011 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	$ 62,234	$ 40,906	$ (4,831)	$ 98,309
Revenue	$ 19,717	$ 8,695	$ (4)	$ 28,408
Expenses				
Interest	1,816	235	(4)	2,047
General and administrative	10,071	3,487	—	13,558
Provision for credit and loan losses	1,115	(229)	—	886
Impairment of assets held for sale	—	462	—	462
Depreciation	110	20	—	130
	13,112	3,975	(4)	17,083
Earnings before income tax expense	6,605	4,720	—	11,325
Income tax expense	1,890	1,850	—	3,740
Net earnings	$ 4,715	$ 2,870	$ —	$ 7,585

19. 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.

20. Subsequent events

At February 19, 2013, there were no subsequent events occurring after December 31, 2012 that required disclosure.

Corporate Information

Board of Directors

Ken Hitzig, Toronto, Ontario [2]

Robert J. Beutel, Toronto, Ontario [1, 2, 3]

Ben Evans, Stamford, Connecticut [1, 3]

Tom Henderson, Greenville, South Carolina

Robert S. Sandler, White Plains, New York [3]

Stephen D. Warden, Oakville, Ontario [1, 2]

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

Officers

Ken Hitzig, Chairman of the Board

Tom Henderson, President & CEO

Stuart Adair, Vice President,
Chief Financial Officer

Jim Bates, Secretary

Robert J. Beutel, Assistant Secretary

Fred Moss, Vice President

Simon Hitzig, Vice President

Subsidiaries

Accord Financial Ltd.
Simon Hitzig, President

Accord Financial Inc.
Fred Moss, President

Accord Financial, Inc.
Tom Henderson, President

Auditors

KPMG LLP

Legal Counsel

Stikeman Elliott

Bankers

The Bank of Nova Scotia

Branch Banking and Trust

The Toronto-Dominion Bank

Canadian Imperial Bank of Commerce

Stock Exchange Listing

Toronto Stock Exchange Symbol: ACD

Registrar & Transfer Agent

Computershare Trust Company of Canada

Annual Meeting

The Annual Meeting of Shareholders
will be held
Wednesday, May 1st, 2013
at 4:15 pm at
The Toronto Board of Trade
First Canadian Place
Toronto, Ontario

ACCORD FINANCIAL
Keeping Business Liquid

77 Bloor Street West
Toronto, Ontario
Canada M5S 1M2
Tel (800) 967-0015
Fax (416) 961-9443
www.accordfinancial.com

Keeping Business Liquid

In Canada

Accord Financial Corp.	(800) 967-0015
Accord Financial Ltd.	(800) 967-0015
Accord Financial Inc.	(800) 231-2977

In the U.S.

Accord Financial, Inc.	(800) 231-2757

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