First Quarter Report
March 31, 2012

Strength and Stability in a Challenging World






Accord Financial
Keeping Business Liquid

Keeping Business Liquid

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2012 together with comparative figures for the same period of 2011. The unaudited financial statements have not been reviewed by the Company's auditors, but have been reviewed and approved by its Audit Committee and Board of Directors.

Factoring volume in the first quarter of 2012 decreased 9% to $437 million compared to last year on lower non-recourse volume. Revenue declined by $1,187,000 or 17% to $5,680,000 compared to $6,867,000 last year on the reduced volume, as well as lower average funds employed and somewhat reduced yields in our recourse factoring business. Our interest and overhead cost decreased by $251,000 or 6% to $3,811,000 compared to last year's first quarter. The provision for credit and loan losses increased by $158,000 to $604,000 mainly because higher reserves were required on an 11% rise in funds employed in the quarter.

Net earnings for the first quarter of 2012 declined 45% to $883,000 compared with $1,598,000 last year. Earnings per share for the current quarter came in at 10 cents, compared to the 18 cents earned last year. Net earnings from our Canadian operations declined to $625,000 this quarter compared to $994,000 last year on lower revenue. Net earnings in our U.S. operations declined to $258,000 compared to $604,000 last year on lower revenue and a higher provision for credit and loan losses.

The Company's gross factored receivables and loans (our funds employed) were $101 million at March 31, 2012, 7% lower than the $108 million last March 31. After bottoming out at $91 million at December 31, 2011, our funds employed grew by 11% in the first quarter of 2012. Equity increased to $46 million at March 31, 2012 compared to $44 million last March 31. This is equivalent to a book value per share of $5.40 versus $4.89 a year ago; since last March 31 the Company has repurchased and cancelled 438,470 shares under its issuer bid. Outstanding shares totalled 8,515,898 at March 31, 2012.

Considering our earnings for the first quarter were just more than half of last year's, why am I smiling? Now that's a great question. The answer has to do with "direction, momentum and confidence". Regular readers of my letter will recall that for the last two years your Company has been buffeted by unusually aggressive competition from Canadian credit insurers and U.S. banks. This greatly impacted our ability to hold on to some of our clients in our non-recourse business and in our U.S. recourse business. The attraction of lower cost services and loans was too much to resist for many of our clients despite their acknowledgment of our superior attention to their needs.

This is the primary reason our earnings dropped this year from $1,598,000 to $883,000. We certainly understood that we were going to start 2012 from a low level of revenue and that is exactly what happened. Nevertheless, our expectations for the first quarter were just about what we achieved and that is satisfying to me.

You will note I explained my positive outlook despite the earnings decline from last year by referencing "direction, momentum and confidence". Let's start with "direction". It's up! Our fee income increased month over month this quarter, while funds employed rose 11% in the first quarter. The fee increase was about evenly divided between the addition of new clients and some clients experiencing rapid sales growth in their own businesses. Our Canadian and U.S. recourse businesses have both been enjoying excellent new business activity and their pipeline of prospective transactions is growing. Also, our non-recourse business finally seems to have seen the bottom in terms of client departures.

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

Moving on to "momentum", it's clear to me we have that going for us too. This comes from a combination of new product introductions and enhanced marketing initiatives in all three of our businesses. I have spoken of some of these in past letters when a number of action plans were more plan than action. Now we are in the exciting phase – actual implementation. We are generating more buzz from our referral sources than ever before and it is building every month. I will update you on pieces of this in my second quarter letter.

Finally, we get to that thing called "confidence". That emotion is critical considering what we have lived with the last two years. As a result of strategic analysis and careful planning we can clearly see how we are developing the skills and products to make Accord more attractive to the markets we serve. I just love the feedback we are getting from our referral sources and it is translating into what could be an outstanding year in terms of the addition of new clients.

Yes, I wish we had been able to start the year from a larger base and, yes, because of that our earnings may not generate favorable comparative analysis for a little while. Nevertheless because we have positive "direction, momentum and confidence", I am . . . smiling!

At a recent Board of Directors meeting, the regular quarterly dividend of 7.5 cents per share was declared, payable June 1, 2012 to shareholders of record May 15, 2012.

Tom Henderson
President and Chief Executive Officer

Toronto, Ontario
May 2, 2012

Accord's Financial Services

Non-recourse factoring

In over 30 years of operations, Accord has emerged as a major player in Canadian non-recourse factoring providing credit protection and collection services to clients in a wide variety of industries. The industries we serve range from the old-world economy to the technology of today. We have one of the top-ranked credit departments in the country with an immense amount of experience and expertise.

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

Our international credit team specializes in cross-border business, simplifying the financing and management of international receivables for clients. Our unique AccordOctet program provides import financing for North American companies sourcing goods in China, while our alliance with Factors Chain International facilitates seamless credit and collection services through a network of more than 250 factoring companies in over 65 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 Position ("MD&A")

Quarter ended March 31, 2012 compared with quarter ended March 31, 2011

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial position for the quarter ended March 31, 2012 compared with the quarter ended March 31, 2011 and, where presented, the quarter ended March 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 May 2, 2012, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements and notes thereto for the quarters ended March 31, 2012 and 2011 (the "Statements"), which are included as part of this 2012 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2011 audited consolidated financial statements and notes thereto included in the Company's 2011 Annual Report.

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

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

Non-IFRS Financial Measures

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

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

b) (i) Equity expressed as a percentage of total assets; and (ii) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages provide information on trends in the Company's financial position and leverage.

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

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, collection services, credit investigation and guarantees. The Company's financial services are summarized on page 1 of this report and discussed in more detail in its 2011 Annual Report. Its clients operate in a wide variety of industries, details of which are set out in note 16(a) to the Statements.

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

Quarterly Financial Information

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

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

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

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

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

Results of Operations

Quarter ended March 31, 2012 compared with quarter ended March 31, 2011

Net earnings for the quarter ended March 31, 2012 declined by $715,000 or 45% to $883,000 compared to $1,598,000 earned in the first quarter of 2011 and were also 45% below 2010's first quarter net earnings of $1,609,000. Net earnings decreased compared to 2011 and 2010 principally as a result of lower revenue and a somewhat higher provision for credit and loan losses. Earnings per common share for the current quarter decreased by 44% to 10 cents from the 18 cents earned in the first quarter of 2011, while they were 41% lower than the 17 cents earned in the first quarter of 2010.

Factoring volume decreased by 9% to $437 million compared to $482 million in the first quarter of 2011. Non-recourse factoring volume declined by 31%, while recourse volume rose by 6%. Non-recourse volume declined on the departure of numerous clients subsequent to March 31, 2011 as a number of previously risky retail customers improved to credit-worthy status. This saw the credit insurers re-enter the market offering aggressive rates for these accounts when the risk dissipated and the Company lost a number of significant clients as a result.

Revenue declined by 17% or $1,187,000 to $5,680,000 in the current quarter compared with $6,867,000 last year and was 9% lower than the $6,979,000 in the first quarter of 2010. Revenue principally declined compared to 2011 and 2010 as a result of the decline in non-recourse factoring volume, and lower factored receivables and loans (collectively, "Loans" or "funds employed") and somewhat reduced yields in our recourse factoring business.

Total expenses for the first quarter of 2012 decreased by $93,000 to $4,415,000 compared to $4,508,000 last year. General and administrative expenses ("G&A") declined by $148,000, while interest expense decreased by $106,000. The provision for credit and loan losses rose by $158,000, while depreciation was slightly higher.

Interest expense fell by 21% to $390,000 in the first quarter compared to $496,000 last year principally as a result of an 18% decrease in average borrowings (bank indebtedness and notes payable). Borrowings declined mainly on lower funds employed.

G&A comprise personnel expenses, which represent the majority of the Company's expenses, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A decreased by 4% to $3,389,000 in the current quarter compared to $3,537,000 last year primarily as a result of reduced employee profit sharing and a lower stock-based compensation expense relating to the Company's outstanding share appreciation rights ("SARs"). The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by 35% to $604,000 in the first quarter of 2012 compared to $446,000 last year. For the quarters ended March 31, 2012 and 2011, the provision comprised:

	Quarter ended March 31	
(in thousands)	**2012**	2011
Net charge-offs	**$ 387**	$ 359
Reserves charge related to increase in total allowances for losses	**217**	87
	$ 604	$ 446

Net charge-offs increased by 8% to $387,000 this quarter, while the reserves expense rose 149% to $217,000 on the requirement for higher allowances for losses. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies. The Company continues to employ a conservative approach to determining its allowances for losses and providing for charge-offs.

Income tax expense decreased by 50% to $381,000 in the current quarter compared to $760,000 in the first quarter of 2011 on a 46% decline in pre-tax earnings. The Company's effective corporate income tax rate declined to 30.1% in the first quarter of 2012 compared to 32.2% last year largely as a result of a reduced Canadian federal income tax rate.

Canadian operations reported a 37% decrease in net earnings in the first quarter of 2012 compared to 2011 (see note 15 to the Statements). Net earnings declined by $369,000 to $625,000 on lower revenue. Revenue declined by 15% or $741,000 to $4,066,000. Expenses decreased by $187,000 to $3,213,000. Interest expense decreased by $68,000 to $370,000, while G&A were $58,000 lower at $2,567,000 for reasons noted above. The provision for credit and loan losses declined $64,000 to $250,000. Depreciation rose $3,000 to $26,000. Income tax expense decreased by 45% to $228,000 on a 39% decline in pre-tax earnings and a reduced Canadian federal income tax rate in 2012.

U.S. operations reported a 57% decline in net earnings in the first quarter of 2012 compared to 2011. Net earnings fell by $346,000 to $258,000 on lower revenue and a higher provision for loan losses. Revenue declined by $437,000 or 21% to $1,623,000 on lower funds employed and somewhat lower yields. Expenses increased by $103,000 or 9% to $1,212,000 as the provision for loan losses rose $223,000 to $355,000. G&A were $90,000 lower at $823,000, while interest expense decreased by half to $29,000. Depreciation was $5,000. Income tax expense declined by $194,000 or 56% to $153,000 on a 57% decline in pre-tax earnings.

Review of Financial Position

Equity at March 31, 2012 totalled $45,987,000, a decrease of $1,868,000 from $47,855,000 at December 31, 2011 but $2,204,000 above the $43,783,000 at March 31, 2011. Book value per common share was $5.40 at March 31, 2012 slightly below the $5.49 at December 31, 2011 but 10% higher than the $4.89 a year earlier. The increase in equity since March 31, 2011 resulted from a rise in retained earnings and an improved accumulated other comprehensive loss ("AOCL") balance. The decrease in equity during the first three months of 2012 principally resulted from lower retained earnings and AOCL. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 13 of this First Quarter Report.

Total assets were $107,326,000 at March 31, 2012 compared to $98,309,000 at December 31, 2011 and $114,990,000 at March 31, 2011. Total assets largely comprised Loans (funds employed). Excluding inter-company balances, identifiable assets located in the United States were 44% of total assets at March 31, 2012, 37% at December 31, 2011 and 43% at March 31, 2011.

Gross Loans, before the allowance for losses thereon, totalled $100,936,000 at March 31, 2012, 11% above the $90,626,000 at December 31, 2011 but 7% lower than the $108,358,000 at March 31, 2011. As detailed in note 5, the Company's Loans comprised:

(in thousands)	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Factored receivables	**$ 84,741**	$ 76,133	$ 91,577
Loans to clients	**16,195**	14,493	16,781
Factored receivables and loans, gross	**100,936**	90,626	108,358
Less allowance for losses	**1,693**	1,502	1,801
Factored receivables and loans, net	**$ 99,243**	$ 89,124	$106,557

The Company's factored receivables increased by 11% to $84,741,000 at March 31, 2012 compared to $76,133,000 at December 31, 2011 but were 7% lower than the $91,577,000 at March 31, 2011. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, rose by 12% to $16,195,000 at March 31, 2012 compared to $14,493,000 at December 31, 2011 but were 3% lower than the $16,781,000 last March 31. Net of the allowance for losses thereon, Loans increased by 11% to $99,243,000 at March 31, 2012 compared to $89,124,000 at December 31, 2011 but were 7% lower than the $106,557,000 at March 31, 2011. The Company's Loans principally represent advances made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 120 clients at March 31, 2012. Four clients each comprised over 5% of gross Loans at March 31, 2012, of which the largest client comprised 11%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These non-recourse or managed receivables totalled $105 million at March 31, 2012 compared to $102 million at December 31, 2011 and $149 million at March 31, 2011. Managed receivables comprise the receivables of approximately 140 clients at March 31, 2012. The 25 largest clients comprised 63% of non-recourse volume in the first quarter of 2012. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At March 31, 2012, the 25 largest customers accounted for 38% of the total managed receivables, of which the largest five comprised 24%. 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, increased by 7% to $206 million at March 31, 2012 compared to $193 million at December 31, 2011 but was 20% lower than the $257 million at March 31, 2011.

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, by the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. The Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables.

Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables that the Company guarantees payment, 3.0% were past due more than 60 days at March 31, 2012. In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, typically 75 to 90 days from invoice date, and are usually charged back to clients, thereby limiting the Company's credit risk on such older receivables.

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

The Company also minimizes credit risk by limiting the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, charging back or making receivables ineligible for lending purposes as they become older, and taking cash collateral in certain cases. The Company will also confirm the validity of the receivables that it purchases. In its non-recourse factoring business, each customer is provided with a credit limit up to which the Company will guarantee that customer's total receivables. As noted above, all customer credit in excess of $2.5 million is approved by the Company's Credit Committee on a case-by-case basis. At March 31, 2012, the Company had 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 credit environment. Note 16(a) to the Statements provides details of the Company's credit exposure by industrial segment.

After the customary detailed quarter-end review of the Company's $206 million portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for. 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. The allowance for losses on Loans increased by 13% to $1,693,000 at March 31, 2012 compared to $1,502,000 at December 31, 2011 on an 11% rise in funds employed in the first quarter. The allowance was 6% below the $1,801,000 at March 31, 2011. The allowance for losses on the guarantee of managed receivables increased to $768,000 at March 31, 2012 compared to $751,000 at December 31, 2011 but was 33% lower than the $1,138,000 at March 31, 2011 on the 30% decline in managed receivables since that date. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. The allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in both allowance for losses accounts for the first quarters of 2012 and 2011 is set out in note 5 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased to $1,227,000 at March 31, 2012 compared with $2,854,000 at December 31, 2011 and $2,135,000 at March 31, 2011. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. However, due to the large volume of cash being processed daily it is necessary that a certain amount of cash be held to fund daily requirements. Fluctuations in cash balances are normal.

Assets held for sale are stated at their net realizable value and totalled $3,315,000 at March 31, 2012 compared to $3,380,000 at December 31, 2011 and $3,548,000 last March 31. They comprise certain assets securing a defaulted loan upon which the Company's U.S. subsidiary foreclosed and obtained title in 2009. The assets continue to be marketed for sale and will be sold as market conditions permit. During the current quarter, there were no additions to or sale of the assets. In the three months ended March 31, 2011 there were additions of $158,598 relating to improvements made to assist in the sale thereof, while assets of $2,145 were disposed of. No impairment charges were booked against the assets during the first quarter of 2012 and 2011. The decrease in net realizable value since March 31, 2011 principally relates to impairment charges booked in the second quarter of 2011. The net realizable value of the assets at the above dates was determined by professional appraisals.

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

Total liabilities increased by $10,885,000 to $61,339,000 at March 31, 2012 compared to $50,454,000 at December 31, 2011 but were $9,868,000 lower than the $71,207,000 at March 31, 2011. The increase compared to last year-end principally resulted from higher bank indebtedness.

Amounts due to clients decreased by $621,000 to $2,898,000 at March 31, 2012 compared to $3,519,000 at December 31, 2011 and were $1,400,000 lower than the $4,298,000 at March 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 increased by $12,671,000 or 47% to $39,893,000 at March 31, 2012 compared with $27,222,000 at December 31, 2011 but was $12,975,000 lower than the $52,868,000 at March 31, 2011. The increase since December 31, 2011 principally resulted from higher funds employed. The Company had approved credit lines with a number of banks totalling $115 million at March 31, 2012 and was in compliance with all loan covenants thereunder. 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 totalled $1,997,000 at March 31, 2012 compared to $3,723,000 at December 31, 2011 and $2,706,000 last March 31. The decrease since December 31, 2011 principally resulted from payment of the Company's 2011 employee profit sharing liability in February 2012. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables.

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

Notes payable increased to $14,873,000 at March 31, 2012 compared to $14,611,000 at December 31, 2011 and $9,771,000 at March 31, 2011. The increase in notes payable since last March 31 principally related to the receipt of $4,750,000 from a related party. Please see Related Party Transactions section below and note 12 to the Statements.

Capital stock decreased to $6,253,000 at March 31, 2012 compared to $6,402,000 at December 31, 2011 and $6,575,000 at March 31, 2011. There were 8,515,898 common shares outstanding at March 31, 2012 compared to 8,718,998 at December 31, 2011 and 8,954,368 a year earlier. The consolidated statements of changes in equity on page 13 of this report provides details of changes in the Company's issued and outstanding common shares and capital stock. Details of the Company's issuer bids are provided in note 8(a) to the Statements. During the quarter ended March 31, 2012, the Company repurchased and cancelled 203,100 common shares acquired under the bids at a cost of $1,397,600 (for an average price of $6.88). Since March 31, 2011, the Company has repurchased 438,470 shares under its bids (at an average price of $6.82). The Company's repurchase of shares is accretive to its earnings per share calculations. At the date of this MD&A, May 2, 2012, 8,515,898 common shares were outstanding.

Retained earnings totalled $41,420,000 at March 31, 2012 compared to $42,424,000 at December 31, 2011 and $39,851,000 at March 31, 2011. In the first quarter of 2012, retained earnings decreased by $1,004,000 which comprised dividends paid of $639,000 (7.5 cents per common share) and the premium paid on the shares repurchased under the Company's issuer bids of $1,248,000 less net earnings of $883,000. Please see the consolidated statements of changes in equity on page 13 of this report for details of changes in retained earnings in the first quarter of 2012 and 2011.

The Company's AOCL account solely comprises the cumulative unrealized foreign exchange loss arising on the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary. The AOCL balance was in a loss position of $1,729,000 at March 31, 2012 compared to a loss position of $1,013,000 at December 31, 2011 and $2,686,000 at March 31, 2011. These balances represent the cumulative translation losses arising as a result of the weakening of the U.S. dollar against the Canadian dollar since January 1, 2010, the date the Company transitioned to IFRS and reset its AOCL balance to zero. Please refer to note 13 to the Statements and the consolidated statements of changes in equity on page 13 of this report, which details movements in the AOCL account during the first quarter of 2012 and 2011. The $715,000 increase in loss position in the first three months of 2012 resulted from the decrease in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar declined from $1.017

at December 31, 2011 to $0.9975 at March 31, 2012. This reduced the Canadian dollar equivalent book value of the Company's net investment in its U.S. subsidiary of approximately US$37 million by $715,000.

Liquidity and Capital Resources

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

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

(as a percentage)	**Mar. 31, 2012**	Dec. 31, 2011	Mar. 31, 2011
Equity / Assets	**43%**	49%	38%
Debt* / Equity	**119%**	87%	143%

**bank indebtedness & notes payable*

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

The Company had bank credit lines totalling $115 million at March 31, 2012 and had borrowed almost $40 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $1,227,000 at March 31, 2012 compared to $2,135,000 at March 31, 2011. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flows for the quarter ended March 31, 2012 compared with the quarter ended March 31, 2011

Cash inflow from net earnings before changes in operating assets and liabilities totalled $1,636,000 in the first quarter of 2012 compared to $2,743,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash outflow from operating activities of $12,450,000 in the first quarter of 2012 compared to $6,587,000 last year. The net cash outflow in the current quarter largely resulted from financing a $10,931,000 increase in gross Loans. In the first quarter of 2011, the net cash outflow principally resulted from financing gross Loans of $5,419,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 14 of this report.

Net cash inflow from financing activities totalled $10,947,000 in the current quarter compared to $4,216,000 last year. The net cash inflow in the current quarter resulted from bank borrowings of $12,708,000 and notes payable issued, net, of $275,000. Partly offsetting these inflows were outflows of $1,397,000 relating to the repurchase of shares under the Company's issuer bids and dividend payments of $639,000. In the first quarter of 2011, bank indebtedness rose by $8,612,000. Partly offsetting this inflow were outflows of $3,363,000 relating to the repurchase of shares under the Company's issuer bids, dividend payments of $673,000 and the redemption of $360,000 of notes payable, net.

Cash outflows from investing activities and the effect of exchange rate changes on cash were not significant in the quarters ended March 31, 2012 and 2011.

Overall, there was a net cash outflow of $1,627,000 in the current quarter compared to $2,406,000 in the first quarter of 2011.

Contractual Obligations and Commitments at March 31, 2012

	Payments due in				
(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	**Total**
Operating lease obligations	$ 294	$ 520	$ 515	$ 36	**$ 1,365**
Purchase obligations	171	8	—	—	**179**
Total	$ 465	$ 528	$ 515	$ 36	**$ 1,544**

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 March 31, 2012 increased by $262,000 to $14,873,000 compared with $14,611,000 at December 31, 2011 and were $5,102,000 higher than the $9,771,000 at March 31, 2011. Of the notes payable at March 31, 2012, $13,579,000 (December 31, 2011 – $13,324,000; March 31, 2011 – $8,381,000) was owing to related parties and $1,294,000 (December 31, 2011 – $1,287,000; March 31, 2011 – $1,390,000) to third parties. Interest expense on these notes totalled $104,000 in the quarter ended March 31, 2012 compared to $61,000 last year. Interest expense rose this year as a result of the increased balance payable and somewhat higher average interest rates.

Financial Instruments

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

At March 31, 2012, the Company had an outstanding forward foreign exchange contract with a financial institution that is exercisable between August 2, 2012 and August 31, 2012 and which obliges the Company to sell Canadian dollars and buy US$1,000,000 at an exchange rate of 1.0054. This contract was entered into on behalf of a client and a similar contract was entered into between the Company and the client to sell US$1,000,000 to and buy Canadian dollars from the client, thereby offsetting most risks to the Company. These contracts are discussed further in note 11 to the Statements.

Critical Accounting Policies and Estimates

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

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

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

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

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

Risks and Uncertainties That Could Affect Future Results

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 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 in Canada and the United States. Economic weakness in either of the Company's markets can affect its ability to do new business as quality prospects become limited, although in a weak economy competition may be lessened, which could result in the Company seeing more prospects. Further, the Company's clients and their customers are often adversely affected by economic slowdowns and this can lead to increases in its provision for credit and loan losses.

Credit risk

The Company is in the business of factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled $206 million at March 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 (impacting interest revenue) and lenders (impacting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Please refer to note 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 also caused a significant decrease in the value of the Company's net Canadian dollar investment in its U.S. subsidiary, which reduced the accumulated other comprehensive income or loss component of equity to a large loss position until this was reset to zero upon transition to IFRS on January 1, 2010. Please see the discussion on AOCL above and refer to notes 13 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 medical benefits, as it continuously seeks to align the interests of employees and shareholders.

Outlook

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

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

Given this experience, the Company started 2012 at a lower level of business activity. However, in the first quarter of 2012, the Company's funds employed in its recourse factoring business increased by 11% and the pipeline of prospective transactions is growing. It is this positive "momentum" that should see improved results from our recourse factoring subsidiaries as the year progresses. AFL, our non-recourse factoring operation, is still suffering from last year's loss of clients and it may take some time for its results to improve, although it has initiatives in place which it hopes will increase its business activity.

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

Stuart Adair

Stuart Adair
Vice President, Chief Financial Officer
May 2, 2012

Consolidated Statements of Financial Position (unaudited)

	March 31, 2012	December 31, 2011	March 31, 2011
Assets			
Cash	**$ 1,227,184**	$ 2,854,168	$ 2,134,916
Factored receivables and loans, net (note 5)	**99,243,255**	89,124,431	106,557,454
Income taxes receivable	**574,926**	253,147	102,075
Other assets	**183,142**	145,896	218,142
Assets held for sale (note 6)	**3,315,445**	3,380,258	3,548,022
Deferred tax, net	**1,385,773**	1,135,561	1,099,542
Capital assets	**436,951**	437,326	397,416
Goodwill (note 7)	**959,293**	978,046	932,462
	$ 107,325,969	$ 98,308,833	$ 114,990,029
Liabilities			
Due to clients	**$ 2,898,461**	$ 3,519,322	$ 4,298,518
Bank indebtedness	**39,893,422**	27,222,021	52,867,814
Accounts payable and other liabilities	**1,996,632**	3,723,300	2,705,680
Income taxes payable	**798,293**	621,110	495,150
Notes payable (note 12)	**14,872,641**	14,610,651	9,770,703
Deferred income	**879,750**	757,326	1,069,434
	61,339,199	50,453,730	71,207,299
Equity			
Capital stock	**6,252,752**	6,401,876	6,574,696
Contributed surplus	**42,840**	42,840	42,840
Retained earnings	**41,419,805**	42,423,832	39,851,291
Accumulated other comprehensive loss (note 13)	**(1,728,627)**	(1,013,445)	(2,686,097)
	45,986,770	47,855,103	43,782,730
	$ 107,325,96	$ 98,308,833	$ 114,990,029

Notice to Reader

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

Consolidated Statements of Earnings (unaudited)

Three months ended March 31	2012	2011
Revenue		
Factoring commissions, discounts, interest and other income	$ 5,679,624	$ 6,867,277
Expense		
Interest	390,362	495,634
General and administrative	3,389,254	3,537,506
Provision for credit and loan losses	604,474	446,401
Depreciation	31,318	29,268
	4,415,408	4,508,809
Earnings before income tax expense	1,264,216	2,358,468
Income tax expense	381,000	760,000
Net earnings	$ 883,216	$ 1,598,468
Basic and diluted earnings per common share	$ 0.10	$ 0.18
Basic and diluted weighted average number of common shares	8,535,243	9,002,340

Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2012	2011
Net earnings	$ 883,216	$ 1,598,468
Other comprehensive loss: unrealized foreign exchange loss on translation of self-sustaining foreign operation	(715,182)	(854,133)
Comprehensive income	$ 168,034	$ 744,335

Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock					
	Number of common shares outstanding	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	—	—	—	1,598,468	(854,133)	744,335
Dividends paid	—	—	—	(673,491)	—	(673,491)
Shares repurchased for cancellation	(111,203)	(81,649)	—	(766,026)	—	(847,675)
Balance at March 31, 2011	8,954,368	$ 6,574,696	$ 42,840	$ 39,851,291	$ (2,686,097)	$ 43,782,730
Balance at January 1, 2012	8,718,998	$ 6,401,876	$ 42,840	$ 42,423,832	$ (1,013,445)	$ 47,855,103
Comprehensive income	—	—	—	883,216	(715,182)	168,034
Dividends paid	—	—	—	(638,767)	—	(638,767)
Shares repurchased for cancellation	(203,100)	(149,124)	—	(1,248,476)	—	(1,397,600)
Balance at March 31, 2012	8,515,898	$ 6,252,752	$ 42,840	$ 41,419,805	$ (1,728,627)	$ 45,986,770

Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2012	2011
Cash provided by (used in)		
Operating activities		
Net earnings	$ 883,216	$ 1,598,468
Adjustments for items not involving cash:		
Allowance for losses, net of charge-offs and recoveries	216,982	87,125
Deferred income	123,860	249,892
Depreciation	31,318	29,268
Loss on disposal of capital assets	—	17,753
Income tax expense	381,000	760,000
	1,636,376	2,742,506
Changes in operating assets and liabilities:		
Factored receivables and loans, gross	(10,930,965)	(5,418,810)
Due to clients	(599,478)	(788,701)
Other assets	(38,139)	(70,923)
Accounts payable and other liabilities	(1,721,313)	(1,237,258)
Addition to assets held for sale	—	(158,598)
Sale of assets held for sale	1,000	3,547
Income tax paid, net	(797,525)	(1,658,713)
	(12,450,044)	(6,586,950)
Investing activities		
Additions to capital assets, net	(31,830)	(7,302)
Financing activities		
Bank indebtedness	12,708,052	8,612,202
Notes issued (redeemed), net	274,875	(360,456)
Repurchase and cancellation of shares	(1,397,600)	(3,362,618)
Dividend paid	(638,767)	(673,491)
	10,946,560	4,215,637
Effect of exchange rate changes on cash	(91,670)	(27,624)
Decrease in cash	(1,626,984)	(2,406,239)
Cash at beginning of period	2,854,168	4,541,155
Cash at end of period	$ 1,227,184	$ 2,134,916
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 364,715	$ 428,232

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

These condensed interim unaudited consolidated financial statements ("Statements") are expressed in Canadian dollars, the Company's functional and presentation currency, and have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2012, as detailed in note 4. These accounting policies are based on IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2011. The accounting policies adopted for the preparation of these Statements are the same as those applied for the Company's audited consolidated financial statements for the fiscal year ended December 31, 2011.

The preparation of the condensed interim unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates that are particularly judgmental are the determination of the allowance for losses relating to factored receivables and loans and to the guarantee of managed receivables, as well as the net realizable value of the assets held for sale (see notes 4(d), 4(n), 5 and 6). Management believes that these estimates are reasonable and appropriate.

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

- Cash
- Assets held for sale
- Derivative financial instruments (a component of other assets and/or accounts payable and other liabilities)
- Share appreciation rights ("SARs") liability*
- Guarantee of managed receivables*

**a component of accounts payable and other liabilities*

The condensed interim unaudited consolidated financial statements for the three months ended March 31, 2012 were approved for issue by the Company's Board of Directors ("Board") on May 2, 2012.

3. Adoption of future accounting policy

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

4. Significant accounting policies

a) Basis of consolidation

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

b) *Revenue recognition*

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

c) *Factored receivables and loans*

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

d) *Allowances for losses*

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

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

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

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

e) *Capital assets*

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

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

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

f) *Goodwill*

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

g) *Income taxes*

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

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

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

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

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

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

h) *Foreign subsidiary*

The assets and liabilities of the Company's self-sustaining foreign subsidiary are translated into Canadian dollars at the exchange rate prevailing at the period-end. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive income or loss and presented in the accumulated other comprehensive income or loss component of equity.

i) *Foreign currency translation*

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

j) *Earnings per common share*

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

k) *Stock-based compensation*

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

l) *Derivative financial instruments*

The Company records derivative financial instruments on its consolidated 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 to either settle on a net basis or to realize the asset and settle the liability simultaneously.

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

n) *Assets held for sale*

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

o) *Financial instruments – disclosures*

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

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

5. Factored receivables and loans

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Factored receivables	**$ 84,740,893**	$ 76,133,293	$ 91,577,422
Loans to clients	**16,195,362**	14,493,138	16,781,032
Factored receivables and loans, gross	**100,936,255**	90,626,431	108,358,454
Less allowance for losses	**1,693,000**	1,502,000	1,801,000
Factored receivables and loans, net	**$ 99,243,255**	$ 89,124,431	$106,557,454

The Company's allowance for losses on factored receivables and loans at the above noted dates comprised only a collective allowance. The activity in the allowance for losses on factored receivables and loans account during the three months ended March 31, 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	502,713	347,594
Charge-offs	(312,874)	(287,454)
Recoveries	10,143	26,985
Foreign exchange adjustment	(8,982)	(15,125)
Allowance for losses at March 31	$ 1,693,000	$ 1,801,000

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 March 31, 2012, the gross amount of these managed receivables was $104,853,321 (December 31, 2011 – $102,004,001; March 31, 2011 – $148,866,247). At March 31, 2012, management provided an amount of $768,000 (December 31, 2011 – $751,000; March 31, 2011 – $1,138,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the three months ended March 31, 2012 and 2011 was as follows:

	2012	2011
Allowance for losses at January 1	$ 751,000	$ 1,138,000
Provision for credit losses	101,761	98,807
Charge-offs	(85,474)	(126,424)
Recoveries	713	27,617
Allowance for losses at March 31	$ 768,000	$ 1,138,000

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

At March 31, 2012, the Company held cash collateral of $1,238,756 (December 31, 2011 – $2,081,137; March 31, 2011 – $2,272,674) to help it reduce the risk of loss on certain of the Company's factored receivables and loans and managed receivables.

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

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

6. Assets held for sale

The Company obtained title to certain long-lived assets securing a defaulted loan in 2009. During the three months ended March 31, 2012, there were no additions to or sale of the assets. During the three months ended March 31, 2011 there were additions of $158,598 relating to improvements made to assist in the sale thereof, while assets of $2,145 were disposed of. No impairment charges were taken in respect of the assets during the three months ended March 31, 2012 and 2011.

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

7. Goodwill

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

8. Capital stock

a) *Share repurchase program*

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

On August 4, 2011, the Company received approval from the TSX to commence a new normal course issuer bid (the "2011 Bid") for up to 446,845 of its common shares at prevailing market prices on the TSX. The 2011 Bid commenced on August 8, 2011 and will terminate on August 7, 2012 or the date on which a total of 446,845 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2011 Bid will be cancelled. To March 31, 2012, the Company had repurchased and cancelled 421,000 common shares acquired under the 2011 Bid at an average price of $6.78 per common share for total consideration of $2,854,901. This amount was applied to reduce share capital by $309,117 and retained earnings by $2,545,784.

During the three months ended March 31, 2012, the Company repurchased and cancelled 203,100 shares acquired under the 2011 Bid at an average price of $6.88 per common share for a total consideration of $1,397,600. This was applied to reduce share capital by $149,124 and retained earnings by $1,248,476. During the three months ended March 31, 2011, the Company repurchased and cancelled 111,203 shares acquired under the 2010 Bid at an average price of $7.62 per common share for a total consideration of $847,675. This was applied to reduce share capital by $81,649 and retained earnings by $766,026.

b) *Dividends*

Dividends on the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2012 and 2011, dividends per common share of $0.075 were declared and paid totaling $638,767 (2011 – $673,491).

On April 18, 2012, the Company declared a quarterly dividend of $0.075 per common share, payable June 1, 2012 to shareholders of record on May 15, 2012.

9. Stock-based compensation

The Company recorded a stock-based compensation expense of $55,900 (2011 – $129,247) in respect of its outstanding SARs for the three months ended March 31, 2012. The Company's SARs plan is discussed in more detail in notes 11(e) to its audited consolidated financial statements for the fiscal year ended December 31, 2011.

The following SARs were outstanding at:

SARs grant price	Grant Date	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
$ 7.25	May 7, 2008	**57,500**	57,500	65,000
$ 6.03	July 28, 2009	**70,000**	70,000	70,000
$ 5.50	May 7, 2010	**140,000**	140,000	140,000
$ 7.95	May 4, 2011	**152,500**	152,500	—
$ 7.56	July 26, 2011	**5,000**	5,000	—
SARs outstanding		**425,000**	425,000	275,000
SARs vested		**262,500**	262,500	155,000

At March 31, 2012, the Company had accrued $264,633 (December 31, 2011 – $208,733; March 31, 2011 – $419,683) in respect of its liability for outstanding SARs.

10. Contingent liabilities

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

b) At March 31, 2012, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $1,044,313 (December 31, 2011 – $1,122,394; March 31, 2011 – $1,461,967). These amounts were considered in determining the allowance for losses on factored receivables and loans.

11. Derivative financial instruments

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

At December 31, 2011, the Company had no outstanding forward foreign exchange contracts, while at March 31, 2011, it had entered into a forward foreign exchange contract with a financial institution that matured between April 1, 2011 and April 29, 2011 and obliged the Company to sell Canadian dollars and buy US$1,000,000 at an exchange rate of 1.0056. This contract was entered into by the Company on behalf of a client and a similar forward foreign exchange contract was entered into between the Company and the client, whereby the Company bought Canadian dollars from and sold US$1,000,000 to the client.

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

12. Related party transactions (notes payable)

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

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011
Related parties	**$ 13,579,049**	$ 13,323,474	$ 8,380,754
Third parties	**1,293,592**	1,287,177	1,389,949
	$ 14,872,641	$ 14,610,651	$ 9,770,703

Interest expense on the notes payable for the three months ended March 31, 2012 and 2011 was as follows:

	2012	2011
Related parties	**$ 95,986**	$ 50,746
Third parties	**8,028**	10,591
	$ 104,014	$ 61,337

13. Accumulated other comprehensive loss

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

Changes in the AOCL balance during the three months ended March 31, 2012 and 2011 are set out in the consolidated statements of changes in equity.

14. Fair values of financial assets and liabilities

Any financial assets or liabilities recorded at cost are short term in nature and, therefore, their carrying values approximate fair values.

15. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in

Canada and the United States. There were no significant changes to capital assets and goodwill during the periods under review.

Three months ended March 31, 2012

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 60,377	$ 46,949	$ —	$ 107,326
Revenue	$ 4,066	$ 1,623	$ (9)	$ 5,680
Expenses				
Interest	370	29	(9)	390
General and administrative	2,567	823	—	3,390
Provision for credit and loan losses	250	355	—	605
Depreciation	26	5	—	31
	3,213	1,212	(9)	4,416
Earnings before income tax expense	853	411	—	1,264
Income tax expense	228	153	—	381
Net earnings	$ 625	$ 258	$ —	$ 883

Three months ended March 31, 2011

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	$ 65,964	$ 49,026	$ —	$ 114,990
Revenue	$ 4,807	$ 2,060	$ —	$ 6,867
Expenses				
Interest	438	58	—	496
General and administrative	2,625	913	—	3,538
Provision for credit and loan losses	314	132	—	446
Depreciation	23	6	—	29
	3,400	1,109	—	4,509
Earnings before income tax expense	1,407	951	—	2,358
Income tax expense	413	347	—	760
Net earnings	$ 994	$ 604	$ —	$ 1,598

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.

Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due.

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables that the Company guarantees payment, 3.0% were past due more than 60 days at March 31, 2012 (December 31, 2011 – 9.4%; March 31, 2011 – 3.0%). 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 March 31, 2012, the Company had guaranteed accounts receivable in excess of $10 million in respect of one customer.

The following table summarizes the Company's credit exposure relating to its factored receivables and loans by industrial sector at March 31, 2012.

Industrial sector	Gross factored receivables and loans	% of total
	(in thousands)	
Manufacturing	$ 49,001	48
Financial and professional services	24,018	24
Wholesale and distribution	20,910	21
Transportation	3,681	4
Other	3,326	3
	$ 100,936	100

The following table summarizes the Company's credit exposure relating to its managed receivables at March 31, 2012 by industrial sector.

Industrial Sector	Managed receivables	% of total
	(in thousands)	
Retail	$ 96,768	92
Other	8,085	8
	$ 104,853	100

As set out in notes 4(d) and 5 the Company maintains an allowance for credit and loan losses on its factored receivables and loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling $115,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At March 31, 2012 the Company had borrowed $39,893,422 (December 31, 2011 – $27,222,021; March 31, 2011 – $52,867,814) 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 March 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 March 31, 2012, 91% of these notes were due to related parties and 9% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a few days of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At March 31, 2012, the Company had gross factored receivables and loans totalling $100,936,000 (December 31, 2011 – $90,626,000; March 31, 2011 – $108,358,000) which substantially exceeded its total liabilities of $61,339,000 at that date (December 31, 2011 – $50,454,000; March 31, 2011 – $71,207,000). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

c) *Market risk*

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

i) *Currency risk*

The Company is exposed to currency risk primarily in its self-sustaining U.S. subsidiary, which operates exclusively in U.S. dollars, to the full extent of the U.S. subsidiary's net assets of approximately US$37,000,000 at March 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 (note 13). The Company is also subject to foreign currency risk on the earnings of its U.S. subsidiary, which are unhedged. Based on the U.S. subsidiary's results for the three months ended March 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 $10,000. It would also change other comprehensive income or loss and the AOCL component of equity by approximately $370,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At March 31, 2012, the Company's unhedged foreign currency positions in its Canadian operations totalled $452,000 (December 31, 2011 – $80,000; March 31, 2011 – $509,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a one percent change in the value of its unhedged foreign currency positions against the Canadian dollar would not have a material impact on the Company's net earnings.

ii) *Interest rate risk*

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

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

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

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Cash	$ 1,006	$ —	$ —	$ 221	$ 1,227
Factored receivables and loans, net	95,793	2,612	722	116	99,243
Assets held for sale	—	—	—	3,315	3,315
All other assets	—	576	—	2,965	3,541
	96,799	3,188	722	6,617	107,326
Liabilities					
Due to clients	—	—	—	2,898	2,898
Bank indebtedness	12,415	27,478	—	—	39,893
Notes payable	14,873	—	—	—	14,873
All other liabilities	—	16	—	3,659	3,675
Equity	—	—	—	45,987	45,987
	27,288	27,494	—	52,544	107,326
	$ 69,511	$ (24,306)	$ 722	$(45,927)	$ —

Based on the Company's interest rate positions as at March 31, 2012, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $450,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

17. Capital management

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay other debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, at March 31, 2012, these ratios were 119% (December 31, 2011 – 87%; March 31, 2011 – 143%) and 43% (December 31, 2011 – 49%; March 31, 2011 – 38%), respectively, 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 March 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 March 31, 2012. There were no changes in the Company's approach to capital management from the previous year.

18. Subsequent events

At May 2, 2012, there were no subsequent events occurring after March 31, 2012 that required disclosure.

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