FIRST QUARTER REPORT MARCH 31, 2013

FOCUSING ON OUR STRENGTHS

CREATING OPPORTUNITIES

MOVING FORWARD

ACCORD FINANCIAL

Keeping Business Liquid

Message from the President and CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2013 together with comparative figures for 2012. 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.

Net earnings for the first quarter of 2013 rose 41% to $1,246,000 compared with $883,000 last year. Earnings per share for this year's first quarter increased 50% to 15 cents compared to the 10 cents earned last year. Net earnings in our U.S. operations rose to $735,000 compared to $258,000 last year on higher revenue and a lower provision for credit and loan losses. Net earnings from our Canadian operations declined to $511,000 this quarter compared to $625,000 last year mainly due to lower revenue.

Factoring volume in the first quarter of 2013 increased by 3% to $448 million compared to 2012 on higher recourse factoring volume. Revenue rose by $267,000 or 5% to $5,947,000 compared to $5,680,000 last year on higher gross factored receivables and loans (our funds employed), as well as increased factoring volume. Our interest cost rose by $63,000 or 16% compared to last year's first quarter as borrowings increased to finance the rise in funds employed. The provision for credit and loan losses decreased $324,000 to $280,000 on lower reserves and net charge-offs, while overheads (general and administrative costs and depreciation) declined 3% to $3,328,000.

The Company's funds employed were $109 million at March 31, 2013, 8% higher than the $101 million last March 31. Equity increased to $49 million at March 31, 2013 compared to $46 million last March 31. This is equivalent to a book value per share of $5.91 versus $5.40 a year ago; since last March 31 the Company has repurchased and cancelled 294,400 shares under its issuer bids. Outstanding shares totalled 8,221,498 at March 31, 2013.

Our much improved results are primarily attributable to the performance at our U.S. recourse factoring and finance business. That unit started 2012 at a low point in business activity and progressed handsomely during the course of the year. We are now seeing the benefits of year-over-year net earnings improvements as a result.

As this year's second-quarter gets under way we are noticing two significant trends. First, new inquiry activity at our recourse factoring and finance businesses is at an elevated level and for that we are grateful. I believe it points to the fact that the Accord brand is becoming increasingly well known and respected. Second, is that we are seeing an unusual level of new entrants into the recourse factoring and finance space both in Canada and in the U.S. These new entrants are extremely well funded, being backed by various hedge funds and private equity groups in the U.S. and, to a lesser extent, by wealthy family interests in Canada. Some of these new competitors seem to be employing business models that are not sustainable. However, while they stick around they are putting pressure on margins and loan advance rates and, as a result, we are seeing our margins drift slightly downward. Accord, however, will continue to work pro-actively to maximize its margins.

What accounts for all this capital flowing in to our industry? In my opinion this is just another result of loose monetary policies

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by central banks around the world led by the U.S. Federal Reserve Bank. Global economies are going to pay the price for this in the form of dealing with asset bubbles that are easy to see developing already. One particular bubble is growing quickly and here I refer to the U.S. housing market. Yes, here we go again.

Business cycles are getting shorter and at Accord we are learning to live with them and to do so successfully. There are two reasons why we have an advantage over our competitors when it comes to the need to respond to rapidly changing economic cycles. First, is our entrepreneurial history and common sense instincts, and, second, we do not have a bloated management structure. These attributes enable us to change course as circumstances dictate. Expect your Company to be very busy this year successfully building the reputation of the Accord brand, keeping its portfolio sound and delivering improved financial results.

At a recent Board of Directors meeting, a regular quarterly dividend of 8 cents per share was declared, payable June 3, 2013 to shareholders of record May 15, 2013.

Tom Henderson
President and Chief Executive Officer

Toronto, Ontario
May 1, 2013

Accord's Financial Services

Non-recourse factoring

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

Recourse factoring

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

Asset-based lending

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

International trade financing

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

AccordOctet™
Safe. Secure. And surprisingly simple.

A Member of
Factors Chain International

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

Quarter ended March 31, 2013 compared with quarter ended March 31, 2012

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter ended March 31, 2013 compared with the quarter ended March 31, 2012 and, where presented, the quarter ended March 31, 2011. 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 1, 2013, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters ended March 31, 2013 and 2012, which are included as part of this 2013 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2012 audited consolidated financial statements and notes thereto included in the Company's 2012 Annual Report.

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

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

Non-IFRS Financial Measures

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

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

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

iii) (a) Debt (bank indebtedness and notes payable) expressed as a percentage of equity; and (b) equity expressed as a percentage of total assets. 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.

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended		Revenue	Net Earnings	Basic and Diluted Earnings Per Common Share
2013	**March 31**	**$ 5,947**	**$ 1,246**	**$ 0.15**
2012	December 31	$ 7,139	$ 2,524	$ 0.31
	September 30	6,749	1,725	0.21
	June 30	6,323	1,243	0.15
	March 31	5,680	885	0.10
Fiscal 2012		$ 25,891	$ 6,377	$ 0.76*
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
Fiscal 2011		$ 28,408	$ 7,585	$ 0.85*

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

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, collection services, credit investigation and guarantees, and supply chain financing for importers. The Company's financial services are discussed in more detail in its 2012 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 17(a) to the Statements.

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

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

Results of Operations

Quarter ended March 31, 2013 compared with quarter ended March 31, 2012

Net earnings for the quarter ended March 31, 2013 rose by $363,000 or 41% to $1,246,000 compared to $883,000 earned in the first quarter of 2012 but were 22% below 2011's first quarter net earnings of $1,598,000. Net earnings increased compared to 2012 as a result of a lower provision for credit and loan losses, higher revenue and reduced general and administrative expenses ("G&A"). Net earnings decreased compared to the first quarter of 2011 on lower revenue. Earnings per common share for the current quarter increased by 50% to 15 cents from the 10 cents earned in the first quarter of 2012, although they were 17% below the 18 cents earned in the first quarter of 2011. ROE in the current quarter was 10.7% compared to 7.8% in last year's first quarter and 14.7% in the first quarter of 2011.

Factoring volume increased by 3% to $448 million compared to $437 million in the first quarter of 2012. Recourse factoring volume rose by $26 million, while non-recourse volume declined by $15 million. Recourse factoring volume rose principally in our U.S. operation. Non-recourse volume continued to suffer from the impact of the terminations of a number of clients in 2012, although the rate of decline appears to have slowed.

Revenue rose by 5% or $267,000 to $5,947,000 in the current quarter compared with $5,680,000 last year but was 13% below the $6,867,000 in the first quarter of 2011. Revenue rose compared to 2012 as a result of higher funds employed and increased recourse factoring volume, while it declined compared to 2011 on lower non-recourse volume and somewhat reduced yields in our recourse factoring business.

Total expenses for the first quarter of 2013 decreased by $354,000 to $4,061,000 compared to $4,415,000 last year. The provision for credit and loan losses, G&A and depreciation decreased by $325,000, $88,000 and $4,000, respectively. Interest expense increased by $63,000.

Interest expense rose by 16% to $453,000 in the first quarter of 2013 compared to $390,000 last year as a result of higher bank indebtedness which mainly increased to finance higher funds employed.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A decreased by 3% to $3,301,000 in the current quarter compared to $3,389,000 last year primarily as a result of lower personnel costs. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by 54% to $280,000 in the first quarter of 2013 compared to $604,000 last year. The provision comprised:

	Quarter ended March 31	
(in thousands)	**2013**	2012
Net charge-offs	**$ 327**	$ 387
Reserves (recovery) expense related to (decrease) increase in total allowances for losses	**(47)**	217
	$ 280	$ 604

Net charge-offs decreased by 16% to $327,000 in the current quarter compared to $387,000 last year, while there was a reserves recovery of $47,000 this year compared to a reserves expense of $217,000 last year. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of factored receivables and loans ("Loans" or "funds employed") and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

Income tax expense increased by 68% to $640,000 in the current quarter compared to $381,000 in the first quarter of 2012 on a 49% increase in pre-tax earnings and a rise in the Company's effective income tax rate resulting from an increased proportion of U.S. earnings. The Company's effective corporate income tax rate increased to 33.9% in the first quarter of 2013 compared to 30.1% last year.

Canadian operations reported an 18% decrease in net earnings in the first quarter of 2013 compared to 2012 (see note 16 to the Statements). Net earnings declined by $114,000 to $511,000 on lower revenue. Revenue declined by 8% or $334,000 to $3,732,000. Expenses decreased by $189,000 to $3,024,000. G&A expenses were $155,000 lower at $2,412,000 on reduced personnel costs, while interest expense decreased by $101,000 to $269,000. Depreciation declined by $5,000. The provision for credit and loan losses rose by $72,000 to $322,000. Income tax expense decreased 14% to $197,000 on a 17% decline in pre-tax earnings.

U.S. operations reported a 185% increase in net earnings in the first quarter of 2013 compared to 2012. Net earnings rose by $477,000 to $735,000 on higher revenue and a lower provision for loan losses. Revenue rose by $592,000 or 37% to $2,215,000 on higher funds employed and increased factoring volume. Expenses decreased by $175,000 or 14% to $1,037,000 on a $397,000 reduction in the provision for loan losses, which declined to a recovery of $42,000. Interest expense increased by $155,000 to $184,000, while G&A expenses were $66,000 higher at $889,000. Depreciation expense rose slightly to $6,000. Income tax expense rose by $290,000 or 190% to $443,000 on a 187% rise in pre-tax earnings.

Review of Financial Position

Equity at March 31, 2013 totalled $48,612,000, $1,216,000 above the $47,396,000 at December 31, 2012 and $2,625,000 higher than the $45,987,000 at March 31, 2012. Book value per common share was $5.91 at March 31, 2013 compared to $5.76 at December 31, 2012 and $5.40 a year earlier. The increase in equity since December 31, 2012 and March 31, 2012 resulted from a rise in retained earnings and an improvement in the accumulated other comprehensive loss ("AOCL") balance. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 13 of this report.

Total assets were $117,171,000 at March 31, 2013 compared to $124,592,000 at December 31, 2012 and $107,326,000 at March 31, 2012. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located in the United States were 51% of total assets at March 31, 2013 and December 31, 2012 compared to 44% at March 31, 2012.

Gross Loans, before the allowance for losses thereon, totalled $108,825,000 at March 31, 2013, just below the $109,883,000 at December 31, 2012 but 8% higher than the $100,936,000 at March 31, 2012. As detailed in note 4, the Company's Loans comprised:

(in thousands)	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2012
Factored receivables	**$ 92,659**	$ 93,703	$ 84,741
Loans to clients	**16,166**	16,180	16,195
Factored receivables and loans, gross	**108,825**	109,883	100,936
Less allowance for losses	**1,366**	1,406	1,693
Factored receivables and loans, net	**$ 107,459**	$ 108,477	$ 99,243

The Company's factored receivables decreased slightly to $92,659,000 at March 31, 2013 compared to $93,703,000 at December 31, 2012 but were 9% higher than the $84,741,000 at March 31, 2012. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, were $16,166,000 at March 31, 2013 compared to $16,180,000 at December 31, 2012 and $16,195,000 last March 31. Net of the allowance for losses thereon, funds employed decreased slightly to $107,459,000 at March 31, 2013 compared to $108,477,000 at December 31, 2012 but were 8% higher than the $99,243,000 at March 31, 2012. The Company's funds employed principally represent loans made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 130 clients at March 31, 2013. Three clients each comprised over 5% of gross funds employed at March 31, 2013, of which the largest client comprised 10%.

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 $94 million at March 31, 2013 compared to $87 million at December 31, 2012 and $105 million at March 31, 2012. Managed receivables comprise the receivables of approximately 135 clients at March 31, 2013. The 25 largest clients comprised 64% of non-recourse volume in the first quarter of 2013. 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, 2013, the 25 largest customers accounted for 39% 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 3% to $203 million at March 31, 2013 compared to $197 million at December 31, 2012 but was just below the $206 million at March 31, 2012.

As described in note 17(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as funding other assets such as inventory and equipment. Credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of $1,000,000, the Company's President and the Chairman of its Board. Credit in excess of $2,500,000 is approved by the Company's Credit Committee, which comprises three independent members of its Board. The Company monitors and controls its risks and exposures through financial, credit and legal systems and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject. Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. The Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables.

The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables that the Company guarantees payment, 2.4% were past due more than 60 days at March 31, 2013. 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, 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, 2013, 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 economic and credit environment. Note 17(a) to the Statements provides details of the Company's credit exposure by industrial segment.

After the customary detailed quarter-end review of the Company's 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 decreased by 3% to $1,366,000 at March 31, 2013 compared to $1,406,000 at December 31, 2012 as Loans declined slightly in the first quarter. The allowance was 19% below the $1,693,000 at March 31, 2012 as, following a review of historic charge-offs, the Company revised its estimate of the allowance for losses to reflect improved charge-off experience. The allowance for losses on the guarantee of managed receivables increased to $212,000 at March 31, 2013 compared to $207,000 at December 31, 2012 but was substantially lower than the $768,000 at March 31, 2012. The decrease since last March 31 followed a review of charge-off experience relating to the Company's managed receivables resulting in a revision to the allowance for losses formula, as well as a 10% decline in managed receivables since March 31, 2012. 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 quarter of 2013 and 2012 is set out in note 4 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash totalled to $3,014,000 at March 31, 2013 compared with $9,899,000 at December 31, 2012 and $1,227,000 at March 31, 2012. Cash was higher at December 31, 2012 as a result of a year-end loan repayment to AFL, which funds were only re-lent to another subsidiary at the beginning of January, 2013 to reduce the subsidiary's bank indebtedness. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Assets held for sale are stated at their net realizable value and totalled $3,377,000 at March 31, 2013 compared to $3,307,000 at December 31, 2012 and $3,315,000 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 quarters ended March 31, 2013 and 2012, there were no impairment charges taken against the assets, or additions thereto or dispositions thereof. The net realizable value of the assets at March 31, 2013 and 2012 and December 31, 2012 was estimated based upon professional appraisals of the assets. The different balances reported in the Company's consolidated statements of financial position at the above dates relates to the translation of the assets held for sale balance of US$3,324,000 into Canadian dollars at different prevailing period-end exchange rates.

Changes in deferred tax assets, income taxes receivable, other assets, capital assets and goodwill since December 31, 2012 and March 31, 2012 were not significant.

Total liabilities decreased by $8,637,000 to $68,559,000 at March 31, 2013 compared to $77,196,000 at December 31, 2012 but were $7,220,000 higher than the $61,339,000 at March 31, 2012. The decrease compared to last year-end principally resulted from the repayment of bank indebtedness from surplus cash on hand, while it was higher than last March 31 due to bank borrowings largely utilized to finance higher funds employed.

Amounts due to clients decreased by $19,000 to $3,855,000 at March 31, 2013 compared to $3,874,000 at December 31, 2012 but were $957,000 higher than the $2,898,000 at March 31, 2012. 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 decreased by $6,741,000 to $47,831,000 at March 31, 2013 compared with $54,572,000 at December 31, 2012 but was $7,937,000 higher than the $39,894,000 at March 31, 2012. Surplus cash on hand at December 31, 2012 was utilized to reduce bank indebtedness in January 2013. The Company had approved credit lines with a number of banks totalling $116 million at March 31, 2013 and was in compliance with all loan covenants thereunder at the above dates. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Accounts payable and other liabilities totalled $1,688,000 at March 31, 2013 compared to $2,874,000 at December 31, 2012 and $1,997,000 last March 31. The decrease since December 31, 2012 principally resulted from payment of the Company's 2012 employee profit sharing liability in February 2013. 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, 2012 and March 31, 2012 were not significant.

Notes payable decreased to $13,570,000 at March 31, 2013 compared to $14,492,000 at December 31, 2012 and $14,873,000 at March 31, 2012 as a result of note redemptions. Please see Related Party Transactions section below and note 8 to the Statements.

Capital stock totalled $6,037,000 at March 31, 2013 and December 31, 2012 compared to $6,253,000 at March 31, 2012. There were 8,221,498 common shares outstanding at March 31, 2013 and December 31, 2012 compared to 8,515,898 last March 31. The consolidated statements of changes in equity on page 13 of this report provide details of changes in the Company's issued and outstanding common shares and capital stock in the first quarter of 2013 and 2012. Details of the Company's issuer bids are provided in note 9(c). Since March 31, 2012, the Company has repurchased 294,400 shares under its issuer bids. The Company's repurchase of common shares is accretive to earnings per share. At the date of this MD&A, May 1, 2013, 8,221,498 common shares were outstanding.

Retained earnings totalled $43,759,000 at March 31, 2013 compared to $43,171,000 at December 31, 2012 and $41,420,000 at March 31, 2012. In the first quarter of 2013, retained earnings increased by $588,000. This comprised net earnings of $1,246,000 less dividends paid of $658,000 (8 cents per common share). 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 2013 and 2012.

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 accumulated loss positions of $1,226,000 at March 31, 2013, $1,854,000 at December 31, 2012 and $1,729,000 at March 31, 2012. These balances represent the cumulative translation losses arising as a result of fluctuations in the U.S. dollar against the Canadian dollar since January 1, 2010, the date the Company transitioned to IFRS and reset its AOCL balance to zero. 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 2013 and 2012. The $628,000 decrease in loss position in the first three months of 2013 resulted from an increase in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar strengthened from $0.995 at December 31, 2012 to $1.016 at March 31, 2013. This increased the Canadian dollar equivalent book value of the Company's net investment in its U.S. subsidiary of approximately US$30 million by $628,000 in the first quarter.

Liquidity and Capital Resources

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

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

(as a percentage)	**Mar. 31, 2013**	Dec. 31, 2012	Mar. 31, 2012
Debt* / Equity	**126%**	146%	119%
Equity / Assets	**41%**	38%	43%

**bank indebtedness & notes payable*

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

The Company had bank credit lines totalling $116 million at March 31, 2013 and had borrowed $48 million against these facilities. Funds generated through operating activities and the 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 $3,014,000 at March 31, 2013 compared to $9,899,000 at December 31, 2012. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flow for the quarter ended March 31, 2013 compared with the quarter ended March 31, 2012

Cash inflow from net earnings before changes in operating assets and liabilities totalled $1,937,000 in the first quarter of 2013 compared to $1,636,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash inflow from operating activities of $2,026,000 in the first quarter of 2013 compared to an outflow of $12,450,000 last year. The net cash inflow in the current quarter largely resulted from collection of gross Loans of $2,235,000 and net earnings of $1,246,000.

In the first quarter of 2012, the net cash outflow principally resulted from financing gross Loans of $10,931,000. 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 outflow from financing activities totalled $8,939,000 in the current quarter compared to an inflow of $10,947,000 last year. The net cash outflow in the current quarter resulted from repayment of bank indebtedness of $7,344,000, notes payable redemptions, net, of $937,000 and a dividend payment of $658,000. The net cash inflow in the first quarter of 2012 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 a dividend payment of $639,000.

Cash flows from investing activities and the effect of exchange rate changes on cash were not significant in the quarters ended March 31, 2013 and 2012.

Overall, there was a net cash outflow of $6,885,000 in the current quarter compared to $1,627,000 in the first quarter of 2012.

Contractual Obligations and Commitments at March 31, 2013

	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	$ 334	$ 677	$ 421	$ —	**$ 1,432**
Purchase obligations	147	18	—	—	**165**
Total	$ 481	$ 695	$ 421	$ —	**$ 1,597**

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, 2013 decreased to $13,570,000 compared with $14,492,000 at December 31, 2012 and $14,873,000 at March 31, 2012. Of these notes payable, $12,254,000 (December 31, 2012 – $13,150,000; March 31, 2012 – $13,579,000) was owing to related parties and $1,316,000 (December 31, 2012 – $1,342,000; March 31, 2012 – $1,294,000) to third parties. Interest expense on these notes totalled $101,000 in the quarter ended March 31, 2013 compared to $104,000 last year.

Financial Instruments

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

At March 31, 2013, the Company had an outstanding forward foreign exchange contract with a financial institution that was exercisable between April 1, 2013 and April 15, 2013 and which obliged the Company to sell Canadian dollars and buy US$200,000 at an exchange rate of 1.0044. 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$200,000 to and buy Canadian dollars from the client, thereby offsetting most of the risks to the Company. These contracts are discussed further in note 12 to the Statements.

Critical Accounting Policies and Estimates

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

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including 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 general or 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 clients under their guarantees, net of any estimated recoveries expected from the insolvent customer's estate.

A general or 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 credit and loan loss experience and are reviewed for adequacy on an ongoing basis. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(e) and 4 to the Statements.

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

Risks And Uncertainties That Could Affect Future Results

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 17 to the Statements, which discusses the Company's principal financial risk management practices.

Competition

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

Economic slowdown

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

Credit risk

The Company is in the business of factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled $203 million at March 31, 2013. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 17(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Please refer to note 17(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources are held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the weakening of the U.S. dollar against the Canadian dollar affect its operating results when its U.S. subsidiary's results are translated into Canadian dollars. It has also impacted 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 loss position. Please see the discussion on AOCL above and refer to notes 13 and 17(c)(i) to the Statements.

Potential acquisitions and investments

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

Personnel significance

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

Outlook

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

The Company is cautiously optimistic for 2013. The year started off with higher funds employed than last year's first quarter on strong new business activity at AFIU throughout 2012. The Company continues to see an elevated level of new loan inquiries in its recourse factoring and finance business, particularly in the U.S. However, AFIU's largest client closed its operations early in the current quarter and, AFIC's funds employed have decreased somewhat. Consequently, the Company's recourse factoring business will be under some pressure to build its funds employed back up to the record levels seen in the last quarter of 2012. Further, AFL's non-recourse volume will remain under pressure in 2013 and it may take some time for its results to improve, although it has a number of initiatives in place, such as the recently announced AccordOctet import financing program, which it hopes will increase its business activity.

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

Stuart Adair

Stuart Adair
Vice President, Chief Financial Officer
May 1, 2013

Consolidated Statements of Financial Position (unaudited)

	March 31, 2013	December 31, 2012	March 31, 2012
Assets			
Cash	**$ 3,013,997**	$ 9,899,015	$ 1,227,184
Factored receivables and loans, net (note 4)	**107,458,675**	108,477,165	99,243,255
Income taxes receivable	**270,536**	148,936	574,926
Other assets	**422,844**	112,693	183,142
Assets held for sale (note 5)	**3,376,934**	3,306,803	3,315,445
Deferred tax, net	**1,326,520**	1,340,051	1,385,773
Capital assets	**324,143**	350,503	436,951
Goodwill (note 6)	**977,084**	956,792	959,293
	$ 117,170,733	$ 124,591,958	$ 107,325,969
Liabilities			
Due to clients	**$ 3,855,140**	$ 3,873,705	$ 2,898,461
Bank indebtedness (note 7)	**47,830,681**	54,571,784	39,893,422
Accounts payable and other liabilities	**1,688,120**	2,873,969	1,996,632
Income taxes payable	**1,091,891**	934,551	798,293
Notes payable (note 8)	**13,569,762**	14,491,821	14,872,641
Deferred income	**523,216**	450,638	879,750
	68,558,810	77,196,468	61,339,199
Equity			
Capital stock (note 9)	**6,036,589**	6,036,589	6,252,752
Contributed surplus	**42,840**	42,840	42,840
Retained earnings	**43,758,653**	43,170,345	41,419,805
Accumulated other comprehensive loss (note 13)	**(1,226,159)**	(1,854,284)	(1,728,627)
	48,611,923	47,395,490	45,986,770
	$ 117,170,733	$ 124,591,958	$ 107,325,969

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	2013	2012
Revenue		
Interest and other income (note 4)	$ 5,947,217	$ 5,679,624
Expense		
Interest	453,137	390,362
General and administrative	3,301,003	3,389,254
Provision for credit and loan losses	279,706	604,474
Depreciation	27,343	31,318
	4,061,189	4,415,408
Earnings before income tax expense	1,886,028	1,264,216
Income tax expense	640,000	381,000
Net earnings	$ 1,246,028	$ 883,216
Basic and diluted earnings per common share (note 14)	$ 0.15	$ 0.10
Basic and diluted weighted average number of common shares (note 14)	8,221,498	8,535,243

Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2013	2012
Net earnings	$ 1,246,028	$ 883,216
Other comprehensive gain (loss): unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operation	628,125	(715,182)
Comprehensive income	$ 1,874,153	$ 168,034

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, 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
Dividend 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
Balance at January 1, 2013	**8,221,498**	**$ 6,036,589**	**$ 42,840**	**$ 43,170,345**	**$ (1,854,284)**	**$ 47,395,490**
Comprehensive income	—	—	—	1,246,028	628,125	1,874,153
Dividend paid	—	—	—	(657,720)	—	(657,720)
Balance at March 31, 2013	**8,221,498**	**$ 6,036,589**	**$ 42,840**	**$ 43,758,653**	**$ (1,226,159)**	**$ 48,611,923**

Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2013	2012
Cash provided by (used in)		
Operating activities		
Net earnings	$ 1,246,028	$ 883,216
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	(47,167)	216,982
Deferred income	71,034	123,860
Depreciation	27,343	31,318
Loss on disposal of capital assets	23	—
Deferred tax expense (recovery)	39,896	(269,751)
Current income tax expense	600,104	650,751
	1,937,261	1,636,376
Changes in operating assets and liabilities:		
Factored receivables and loans, gross	2,234,721	(10,930,965)
Due to clients	(53,816)	(599,478)
Other assets	(202,730)	(38,139)
Accounts payable and other liabilities	(1,306,009)	(1,721,313)
Sale of assets held for sale	—	1,000
Income tax paid, net	(583,709)	(797,525)
	2,025,718	(12,450,044)
Investing activities		
Additions to capital assets, net	—	(31,830)
Financing activities		
Bank indebtedness	(7,343,481)	12,708,052
Notes payable (redeemed) issued, net	(937,314)	274,875
Repurchase and cancellation of shares	—	(1,397,600)
Dividend paid	(657,720)	(638,767)
	(8,938,515)	10,946,560
Effect of exchange rate changes on cash	27,779	(91,670)
Decrease in cash	(6,885,018)	(1,626,984)
Cash at beginning of period	9,899,015	2,854,168
Cash at end of period	$ 3,013,997	$ 1,227,184
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 374,095	$ 364,715

Notes to Consolidated Financial Statements (unaudited)

Three months ended March 31, 2013 and 2012

1. Description of the business

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

2. Basis of presentation and statement of compliance

These condensed interim unaudited consolidated financial statements are expressed in Canadian dollars, the Company's functional and presentation currency, and have been prepared in compliance 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, 2013, as detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes for the fiscal year ended December 31, 2012 included in the Company's 2012 Annual Report.

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 3(e), 3(o), 4 and 5). Management believes these estimates are reasonable and appropriate.

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

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

  **a component of accounts payable and other liabilities*

The condensed interim unaudited consolidated financial statements for the three months ended March 31, 2013 were approved for issue by the Company's Board of Directors ("Board") on May 1, 2013.

3. Significant accounting policies

a) *Adoption of new accounting and disclosure policy*

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

b) *Basis of consolidation*

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

c) *Revenue recognition*

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

d) *Factored receivables and loans*

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

e) *Allowances for losses*

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

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

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

Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on factored receivables and loans are charged to the allowance for losses account when collectibility becomes questionable and the 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 once collected. The allowance for losses on factored receivables and loans is recorded at amortized cost, while the allowance for losses on the guarantee of managed receivables is recorded at fair value.

f) *Capital assets*

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

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

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

g) *Goodwill*

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

h) *Income taxes*

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

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

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

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

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

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

i) *Foreign subsidiary*

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

j) *Foreign currency translation*

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

k) *Earnings per common share*

The Company presents basic and diluted earnings per share ("EPS") for its common shares. Basic EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the 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.

l) *Stock-based compensation*

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

m) *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.

n) Financial assets and liabilities

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

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

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

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

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

o) Assets held for sale

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

p) Financial instruments – disclosures

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

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

q) Future accounting policies

A number of new accounting standards and amendments to standards and interpretations are effective in future years, and consequently have not been applied in preparing these consolidated financial statements. These include IFRS 9 — Financial Instruments. IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

4. Factored receivables and loans

	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2012
Factored receivables	**$ 92,658,387**	$ 93,702,696	$ 84,740,893
Loans to clients	**16,166,288**	16,180,469	16,195,362
Factored receivables and loans, gross	**108,824,675**	109,883,165	100,936,255
Less allowance for losses	**1,366,000**	1,406,000	1,693,000
Factored receivables and loans, net	**$ 107,458,675**	$ 108,477,165	$ 99,243,255

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, 2013 and 2012 was as follows:

	2013	2012
Allowance for losses at January 1	**$ 1,406,000**	$ 1,502,000
Provision for credit and loan losses	**184,835**	502,713
Charge-offs	**(243,686)**	(312,874)
Recoveries	**6,684**	10,143
Foreign exchange adjustment	**12,167**	(8,982)
Allowance for losses at March 31	**$ 1,366,000**	$ 1,693,000

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, 2013, the gross amount of these managed receivables was $94,490,742 (December 31, 2012 – $87,257,113; March 31, 2012 – $104,853,321). At March 31, 2013, management provided an amount of $212,000 (December 31, 2012 – $207,000; March 31, 2012 – $768,000) as a collective allowance for losses on the guarantee of these managed receivables, which represented the estimated fair value of the guarantees at those dates. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated 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, 2013 and 2012 was as follows:

	2013	2012
Allowance for losses at January 1	**$ 207,000**	$ 751,000
Provision for credit losses	**94,871**	101,761
Charge-offs	**(143,073)**	(85,474)
Recoveries	**53,202**	713
Allowance for losses at March 31	**$ 212,000**	$ 768,000

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients, as well as financing other assets, such as inventory and equipment. These transactions are conducted under terms that are usual and customary to the Company's factoring and lending activities. The Company controls the credit risk associated with its factored receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 17(a).

At March 31, 2013, the Company held cash collateral of $733,253 (December 31, 2012 – $1,939,682; March 31, 2012 – $1,238,756) to help reduce the risk of loss on certain of the Company's factored receivables and loans and managed receivables.

The Company considers the allowances for losses on both its factored receivables and loans and its guarantee of managed receivables critical to its financial results (see note 3(e)). 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.

Interest income earned on factored receivables and loans during the quarter ended March 31, 2013 totalled $4,398,666 (2012 – $4,078,617).

5. 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, 2013 and 2012, there were no impairment charges taken against the assets, or additions thereto or dispositions thereof. The assets are carried in the Company's U.S. operations and the different balances reported in the consolidated statements of financial position relate to the translation of the Company's assets held for sale balance of US$3,324,000 into Canadian dollars at different prevailing period-end exchange rates.

The assets are currently being marketed for sale and will be sold as market conditions permit. The net realizable value of the assets at March 31, 2013 and 2012 and December 31, 2012 was estimated based upon professional appraisals of the assets.

6. Goodwill

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2012, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2013'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 Company's goodwill balance of US$961,697 into Canadian dollars at different prevailing period-end exchange rates.

7. Bank indebtedness

Revolving lines of credit have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. These lines of credit are collateralized primarily by factored receivables and loans to clients. At March 31, 2013, the amounts outstanding under the lines of credit totalled $47,830,681 (December 31, 2012 – $54,571,784; March 31, 2012 – $39,893,422). The Company was in compliance with all loan covenants under these lines of credit at the above dates.

8. 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, 2013	Dec. 31, 2012	Mar. 31, 2012
Related parties	$ 12,254,215	$ 13,149,701	$ 13,579,049
Third parties	1,315,547	1,342,120	1,293,592
	$ 13,569,762	$ 14,491,821	$ 14,872,641

Interest expense on the notes payable for the three months ended March 31, 2013 and 2012 was as follows:

	2013	2012
Related parties	$ 92,887	$ 95,986
Third parties	8,296	8,028
	$ 101,183	$ 104,014

9. Capital stock

a) Authorized

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At March 31, 2013 and 2012 and December 31, 2012, there were no first preferred shares outstanding.

b) Issued and outstanding

The Company's issued and outstanding common shares during the first quarter of 2013 and 2012 are set out in the consolidated statements of changes in equity.

c) Share repurchase program

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

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

During the three months ended March 31, 2013, the Company did not repurchase any shares under the 2012 Bid. 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.

d) Dividends

Dividends on the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2013 a dividend of $0.08 per common share was declared and paid totalling $657,720, while during the three months ended March 31, 2012 a dividend of $0.075 per common share was declared and paid totalling $638,767.

On April 16, 2013, the Company declared a quarterly dividend of $0.08 per common share, payable June 3, 2013 to shareholders of record on May 15, 2013.

10. Stock-based compensation

The Company recorded a stock-based compensation expense of $29,400 (2012 – $55,900) in respect of its outstanding SARs for the three months ended March 31, 2013. The Company's SARs plan is discussed in more detail in note 10(e) to its audited consolidated financial statements for the fiscal year ended December 31, 2012 included in its 2012 Annual Report.

The following SARs were outstanding at:

SARs grant price	Grant Date	**Mar. 31, 2013**	Dec. 31, 2012	Mar. 31, 2012
$ 7.25	May 7, 2008	**57,500**	57,500	57,500
$ 6.03	July 28, 2009	**70,000**	70,000	70,000
$ 5.50	May 7, 2010	**140,000**	140,000	140,000
$ 7.95	May 4, 2011	**152,500**	152,500	152,500
$ 7.56	July 26, 2011	**5,000**	5,000	5,000
SARs outstanding		**425,000**	425,000	425,000
SARs vested		**342,500**	342,500	262,500

At March 31, 2013, the Company had accrued $324,100 (December 31, 2012 – $294,700; March 31, 2012 – $264,633) in respect of its liability for outstanding SARs.

11. Contingent liabilities

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

b) The Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of $1,544,563 at March 31, 2013 (December 31, 2012 – $390,579; March 31, 2012 – $1,044,313). In addition, at March 31, 2013 the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of $250,000 (December 31, 2012 – $250,000; March 31, 2012 – nil). These amounts were considered in determining the allowance for losses on factored receivables and loans.

12. Derivative financial instruments

At March 31, 2013, the Company had entered into a forward foreign exchange contract with a financial institution which must be exercised by the Company between April 1, 2013 and April 15, 2013 and which obliges the Company to sell Canadian dollars and buy US$200,000 at an exchange rate of 1.0044. 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$200,000 to the client.

At December 31, 2012, the Company had no outstanding forward foreign exchange contracts, while at March 31, 2012, it had entered into a forward foreign exchange contract with a financial institution that matured between August 2, 2012 and August 31, 2012 and obliged 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 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 the three months ended March 31, 2013 and 2012 there were no movements between the three-level fair value hierarchy described in note 3(p).

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, 2013 and 2012 are set out in the consolidated statements of changes in equity.

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

There were no dilutive common share equivalents outstanding during the three months ended March 31, 2013 and 2012. Accordingly, basic and diluted EPS are the same for both periods.

15. Fair values of financial assets and liabilities

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

16. Segmented information

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

Three months ended March 31, 2013

(in thousands)	**Canada**	**United States**	**Inter-company**	**Total**
Identifiable assets	**$ 57,595**	**$ 59,576**	**$ —**	**$ 117,171**
Revenue	**$ 3,732**	**$ 2,215**	**$ —**	**$ 5,947**
Expenses				
Interest	**269**	**184**	**—**	**453**
General and administrative	**2,412**	**889**	**—**	**3,301**
Provision for credit and loan losses	**322**	**(42)**	**—**	**280**
Depreciation	**21**	**6**	**—**	**27**
	3,024	**1,037**	**—**	**4,061**
Earnings before income tax expense	**708**	**1,178**	**—**	**1,886**
Income tax expense	**197**	**443**	**—**	**640**
Net earnings	**$ 511**	**$ 735**	**$ —**	**$ 1,246**

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

17. Financial risk management

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

a) Credit risk

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

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

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, 2.4% were past due more than 60 days at March 31, 2013 (December 31, 2012 – 4.6%; March 31, 2012 – 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, 2013, the Company had guaranteed accounts receivable in excess of $10 million in respect of one customer.

The Company's credit exposure relating to its factored receivables and loans by industrial sector was as follows:

	March 31, 2013	
Industrial sector (in thousands)	**Gross factored receivables and loans**	**% of total**
Manufacturing	**$ 45,867**	**42**
Financial and professional services	**28,899**	**27**
Wholesale and distribution	**21,915**	**20**
Other	**12,144**	**11**
	$ 108,825	**100**

	March 31, 2012	
Industrial sector (in thousands)	Gross factored receivables and loans	% of total
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 Company's credit exposure relating to its managed receivables by industrial sector was as follows:

	March 31, 2013	
Industrial Sector (in thousands)	**Managed receivables**	**% of total**
Retail	**$ 88,292**	**93**
Other	**6,199**	**7**
	$ 94,491	**100**

	March 31, 2012	
Industrial Sector (in thousands)	Managed receivables	% of total
Retail	$ 96,768	92
Other	8,085	8
	$ 104,853	100

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

b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling $116,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At March 31, 2013, the Company had borrowed $47,830,681 (December 31, 2012 – $54,571,784; March 31, 2012 – $39,893,422) 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 at the above dates. 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. At March 31, 2013, 90% of these notes were due to related parties and 10% 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, 2013, the Company had gross factored receivables and loans totalling $108,825,000 (December 31, 2012 – $109,883,000; March 31, 2012 – $100,936,000) which substantially exceeded its total liabilities of $68,559,000 at that date (December 31, 2012 – $77,196,000; March 31, 2012 – $61,339,000). 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$30,000,000 at March 31, 2013. 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, 2013, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $29,000. It would also change other comprehensive income or loss and the AOCL component of equity by approximately $300,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At March 31, 2013, the Company's unhedged foreign currency positions in its Canadian operations totalled $16,000 (December 31, 2012 – $129,000; March 31, 2012 – $452,000). The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies on a spot or forward basis to address short-term imbalances. The impact of a one percent change in the value of its unhedged foreign currency positions against the Canadian dollar would not have a material impact on the Company's net earnings.

ii) Interest rate risk

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

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

The following table shows the interest rate sensitivity gap at March 31, 2013:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Cash	$ 3,014	$ —	$ —	$ —	$ 3,014
Factored receivables and loans, net	104,786	3,249	451	(1,027)	107,459
Assets held for sale	—	—	—	3,377	3,377
All other assets	—	271	—	3,050	3,321
	107,800	3,520	451	5,400	117,171
Liabilities					
Due to clients	—	—	—	3,855	3,855
Bank indebtedness	33,195	14,636	—	—	47,831
Notes payable	13,570	—	—	—	13,570
All other liabilities	—	1,092	—	2,211	3,303
Equity	—	—	—	48,612	48,612
	46,765	15,728	—	54,678	117,171
	$ 61,035	$ (12,208)	$ 451	$ (49,278)	$ —

Based on the Company's interest rate positions as at March 31, 2013, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $490,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

18. Capital management

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

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, these ratios were 126% (December 31, 2012 – 146%; March 31, 2012 – 119%) and 41% (December 31, 2012 – 38%; March 31, 2012 – 43%), respectively, at March 31, 2013 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, 2013, 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, 2013. There were no changes in the Company's approach to capital management from the previous year.

19. Subsequent events

At May 1, 2013, there were no subsequent events occurring after March 31, 2013 that required disclosure.

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