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MESSAGE FROM THE PRESIDENT AND CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and nine months ended September 30, 2013 together with comparative figures for the same period of 2012. These 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 third quarter of 2013 declined to \$1,378,000 compared with \$1,725,000 in the same quarter of 2012. Earnings per share ("EPS") were 17 cents this quarter compared with 21 cents last year. Third quarter net earnings declined mainly as a result of lower revenue, a higher stock-based compensation expense related to the Company's share appreciation rights ("SARs"), and an increased provision for credit and loan losses. Positively, this SARs expense largely resulted from an increase in the Company's share price on the Toronto Stock Exchange in the third quarter. Excluding the non-operating SARs expense of \$185,000 (2012 – \$19,000), net earnings in the third quarter would have declined to \$1,500,000 (2012 – \$1,738,000). EPS would have been lower at 18 cents compared to 21 cents last year. Also positively, the increase in provision for losses in the third quarter resulted from the need for additional allowances for losses (reserves expense) as the Company's funds employed rose by \$11 million in the quarter. The rise in funds employed will increase revenue in future quarters. Third quarter revenue and net earnings in Canada were \$4,310,000 and \$549,000, respectively, compared to \$4,365,000 and \$747,000, respectively, in the third quarter of 2012. They were \$2,154,000 and \$829,000, respectively, in our U.S. operation compared to \$2,389,000 and \$978,000, respectively, last year.

Factoring volume for the third quarter of 2013 rose to \$499 million compared to \$474 million last year as a result of a 12% increase

in recourse factoring volume. Non-recourse factoring volume was 9% lower. Revenue decreased to \$6,464,000 in the third quarter compared to \$6,749,000 last year mainly as a result of the decline in non-recourse volume and somewhat lower yields. Our interest cost was \$470,000 compared to \$493,000 a year ago. Overhead costs, comprising general and administrative expenses and depreciation, increased \$158,000 to \$3,483,000 from \$3,325,000 in last year's third quarter mainly due to the \$166,000 rise in stock-based compensation expense. The provision for credit and loan losses, which comprises net charge-offs and changes in reserves, rose to \$439,000 in the third quarter compared to \$342,000 last year on a \$233,000 increase in reserves expense, while net charge-offs were \$136,000 lower.

The Company's gross factored receivables and loans (our funds employed) were \$119 million at September 30, 2013, 8% above the \$110 million at December 31, 2012 and 3% higher than the \$116 million last September 30. Equity was a record high \$50.4 million at September 30, 2013 compared to \$47.4 million at December 31, 2012 and \$45.1 million at September 30, 2012. Book value per share was also a record high \$6.13 versus \$5.76 at December 31, 2012 and \$5.49 a year ago. There were 8,221,498 shares outstanding at September 30, 2013.

Net earnings for the first nine months of 2013 increased slightly to \$3,891,000 from the \$3,852,000 recorded in 2012. EPS were 47 cents this year compared with 46 cents last year. Net earnings for the nine months increased mainly as a result of a lower provision for credit and loan losses. Excluding the non-operating SARs expense of \$455,000 (2012 – \$50,000), net earnings in the first nine months of 2013 would have risen 8% to \$4,196,000 (2012 – \$3,885,000). EPS would have increased 11% to 51 cents this year

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compared to 46 cents last year. For the first nine months of 2013, Canadian revenue and net earnings were lower at \$11,924,000 and \$1,484,000, respectively, versus \$12,913,000 and \$2,187,000, respectively, for the same period of 2012. U.S. revenue and net earnings rose to \$6,875,000 and \$2,407,000, respectively, compared with \$5,852,000 and \$1,665,000, respectively, last year.

Factoring volume for the first nine months of 2013 increased by 2% to \$1,378 million compared with \$1,354 million in 2012 on 7% higher recourse factoring volume. Revenue was higher at \$18,799,000 this year, up from \$18,751,000 last year. Interest expense rose to \$1,412,000 from \$1,353,000 in 2012. Overhead costs increased 4% to \$10,418,000 in 2013 compared with \$10,061,000 in 2012 on the higher stock-based compensation expense. The provision for credit and loan losses declined to \$1,058,000 in the first nine months of 2013 compared with \$1,668,000 last year as net charge-offs fell \$354,000 and the reserves expense was \$256,000 lower.

The unit providing the biggest momentum to our business in the third quarter was our Montreal based recourse factoring and asset-based lending business. Its President, Fred Moss, and his management team have been busy adding new clients. But of more immediate significance has been their successful effort to acquire a portfolio of loans from competitor, Brome Capital. This was an intensive effort that required extra time and energy from Fred's very capable executive staff. I am most pleased with how this was managed. While the acquisition, which took place towards the end of the third quarter, had little impact on the current quarter's results, the extra funds employed are already adding to our top line revenue. As we approach the end of this fiscal year, I am encouraged by the momentum of this aspect of our business.

Meanwhile, our U.S. based lending business and our Toronto based non-recourse factoring business have been busy battling the headwinds of excessive capital markets liquidity characterized by intense U.S. competition and the continuing aggressive nature of the multinational credit insurance companies operating in Canada, respectively. Both of these units are expecting somewhat diminished competition in 2014 and are preparing product and market initiatives to restore top line growth.

I am pleased to report that the condition of our portfolio at all three units continues to look sound and our processes and procedures are proving effective in maintaining the quality of our portfolio.

At the Board of Directors meeting held today, a regular quarterly dividend of 8 cents per common share was declared payable December 2, 2013 to shareholders of record November 15, 2013.



Tom Henderson
President and Chief Executive Officer
Toronto, Ontario
October 22, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION ("MD&A")

Quarter and nine months ended September 30, 2013 compared with quarter and nine months ended September 30, 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 and nine months ended September 30, 2013 compared with the quarter and nine months ended September 30, 2012 and, where presented, the quarter and nine months ended September 30, 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 October 22, 2013, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements and notes thereto for the quarter and nine months ended September 30, 2013 and 2012 (the "Statements"), which are included as part of this 2013 Third 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 in accordance with IFRS.

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

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.

Non-IFRS Financial Measures

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

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, credit investigation and guarantees, collection services, and

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended	Revenue	Net Earnings	Basic and Diluted Earnings Per Common Share
2013 September 30	\$ 6,464	\$ 1,378	\$ 0.17
June 30	6,388	1,267	0.15
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	6,322	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.

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 September 30, 2013 compared with quarter ended September 30, 2012

Net earnings for the quarter ended September 30, 2013 decreased \$347,000 or 20% to \$1,378,000 compared to the \$1,725,000 earned in the third quarter of 2012 and were 39% below 2011's record third quarter net earnings of \$2,248,000. Net earnings decreased compared to 2012 as a result of lower revenue, higher general and administrative expenses ("G&A") and an increased provision for credit and loan losses. Net earnings declined compared to 2011 for similar reasons, but mainly lower revenue. Earnings per common share ("EPS") for the current quarter declined 19% to 17 cents from 21 cents in the third quarter of 2012. They were 32% lower than the 25 cents earned in the third quarter of 2011.

Net earnings in the current quarter were impacted by a significant stock-based compensation expense related to the Company's share appreciation rights ("SARs"). This non-operating expense largely resulted from an increase in Accord's share price on the Toronto Stock Exchange in the third quarter compared to the previous year. Excluding the non-operating SARs expense of \$185,000 (2012 - \$19,000), net earnings in the current quarter would have fallen 14% to \$1,500,000 compared to \$1,738,000 last year. EPS would have been 14% lower at 18 cents compared to 21 cents last year.

Factoring volume increased by 5% to \$499 million in the current quarter compared to \$474 million in the third quarter of 2012. Recourse factoring volume rose 12%, while non-recourse volume declined by 9%. Non-recourse volume continued to suffer from the impact of the terminations of a number of clients, although the rate of decline appears to have slowed.

Revenue declined by \$285,000 or 4% to \$6,464,000 in the current quarter compared with \$6,749,000 last year and was 12% lower than the \$7,342,000 in the third quarter of 2011. Revenue decreased compared to 2012 and 2011 mainly as a result of lower non-recourse volume and somewhat lower yields.

Total expenses for the third quarter of 2013 increased by \$232,000 or 6% to \$4,393,000 compared to \$4,161,000 last year as a result of a \$162,000 increase in G&A and a \$97,000 rise in the provision for credit and loan losses. Interest expense declined by \$23,000, while depreciation was \$4,000 lower at \$28,000.

Interest expense in the current quarter decreased by 5% to \$470,000 compared to \$493,000 last year as a result of a 7% decline in average borrowings.

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 increased by 5% to \$3,455,000 in the current quarter compared to \$3,293,000 last year largely as a result of the above noted \$166,000 rise in stock-based compensation expense. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by 28% to \$439,000 in the third quarter of 2013 compared to \$342,000 last year. For the third quarter of 2013 and 2012 the provision comprised:

(in thousands)	Quarter ended September 30	
	2013	2012
Net charge-offs	\$ 117	\$ 253
Reserves expense related to increase in total allowances for losses	322	89
	\$ 439	\$ 342

Net charge-offs decreased by \$136,000 or 54% to \$117,000 this quarter, while the reserves expense increased by \$233,000 to \$322,000 as higher allowance for losses were set up to support an \$11 million rise in funds employed in the quarter. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of factored receivables and loans (collectively, "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 decreased by 20% to \$693,000 in the current quarter compared to \$863,000 in the third quarter of 2012 as a result of a similar percentage decline in pre-tax earnings. The Company's effective corporate income tax rate increased slightly to 33.5% in the third quarter of 2013 compared to 33.3% last year.

Canadian operations reported a 27% decrease in net earnings in the third quarter of 2013 compared to 2012 (see note 16 to the Statements). Net earnings declined by \$198,000 to \$549,000 on

a higher provision for credit and loan losses, increased G&A and, to a lesser extent, lower revenue. Revenue decreased by \$55,000 to \$4,310,000. Expenses rose by \$226,000 to \$3,568,000. The provision for credit and loan losses was \$162,000 higher at \$588,000, while G&A rose by \$92,000 to \$2,564,000. Interest expense declined \$23,000 to \$395,000, while depreciation was \$5,000 lower. Income tax expense decreased by 30% to \$193,000 mainly as a result of a 28% decline in pre-tax earnings.

U.S. operations reported a 15% decrease in net earnings in the third quarter of 2013 compared to 2012. Net earnings decreased by \$149,000 to \$829,000 on lower revenue and, to a lesser extent, higher G&A. Revenue declined by \$235,000 or 10% to \$2,154,000 on lower funds employed. Expenses were relatively unchanged at \$825,000. G&A increased by \$71,000 to \$892,000. The provision for credit and loan losses decreased by \$65,000 to a net recovery of \$149,000, while interest expense was \$6,000 lower at \$75,000. Depreciation expense was largely unchanged. Income tax expense declined by \$87,000 or 15% to \$500,000 on a similar percentage decrease in pre-tax earnings.

Nine months ended September 30, 2013 compared with nine months ended September 30, 2012

Net earnings for the first nine months of 2013 increased by \$39,000 to \$3,891,000 compared to \$3,852,000 last year. The rise in net earnings principally resulted from a lower provision for credit and loan losses. EPS for the current nine months were 47 cents compared to the 46 cents earned last year. ROE for the current nine month period declined to 10.6% compared to 11.1% last year.

Net earnings in the first nine months of 2013 were impacted by a significant stock-based compensation expense related to the Company's outstanding SARs (see below). Excluding the non-operating SARs expense, net earnings in the first nine months of 2013 would have increased by \$311,000 or 8% to \$4,196,000 compared to \$3,885,000 last year. EPS would have been 11% higher at 51 cents compared to 46 cents last year.

Factoring volume in the current nine months rose by 2% to \$1,378 million compared to \$1,354 million last year. Recourse volume rose by 7%, while non-recourse volume declined 11%. As discussed above, non-recourse volume declined on the departure of a number of clients.

Revenue for the current nine month period increased by \$48,000 to \$18,799,000 compared with \$18,751,000 last year.

Revenue rose on higher average funds employed principally in our U.S. operations.

Total expenses for the current nine months decreased by \$194,000 to \$12,888,000 compared to \$13,082,000 last year. The provision for credit and loan losses declined by \$610,000, while depreciation was \$12,000 lower at \$83,000. G&A rose by \$369,000, while interest expense was \$59,000 higher.

Interest expense rose by 4% to \$1,412,000 on a similar percentage increase in average borrowings, which were largely utilized to finance higher average funds employed.

G&A increased by \$369,000 or 4% to \$10,335,000 principally as a result of a \$405,000 rise in stock-based compensation expense, which totaled \$455,000 in the first nine months of 2013 (2012 – \$50,000).

The provision for credit and loan losses declined by 37% to \$1,058,000 in the current nine months compared to \$1,668,000 last year on lower net charge-offs and reserves expense. The provision for the first nine months of 2013 and 2012 comprised:

(in thousands)	Nine months ended September 30	
	2013	2012
Net charge-offs	\$ 780	\$ 1,134
Reserves expense related to increase in total allowances for losses	278	534
	\$ 1,058	\$ 1,668

Net charge-offs declined by \$354,000 or 31% in the current nine month period compared to last year, while the reserves expense declined by \$256,000 or 48% to \$278,000.

Income tax expense increased by \$203,000 or 11% to \$2,020,000 compared to \$1,817,000 in the first nine months of 2012 on a 4% rise in pre-tax earnings and a higher effective income tax rate resulting from an increased proportion of U.S. earnings. The Company's effective income tax rate rose to 34.2% in the current nine months compared to 32.1% last year.

Canadian operations reported a 32% decrease in net earnings in the first nine months of 2013 compared to 2012 (see note 16 to the Statements). Net earnings declined by \$703,000 to \$1,484,000 compared to \$2,187,000 last year mainly due to lower revenue. Revenue declined by \$989,000 or 8% to \$11,924,000 as a result of lower average funds employed and non-recourse volume. Expenses decreased by \$35,000 to \$9,884,000. Interest expense was \$200,000 lower at \$997,000, while depreciation declined by

\$17,000 to \$63,000. G&A increased by \$114,000 to \$7,653,000, while the provision for credit and loan losses rose by \$68,000 to \$1,171,000. Income tax expense declined by \$251,000 or 31% to \$556,000 on a 32% decline in pre-tax earnings.

U.S. operations reported a 45% rise in net earnings compared to the first nine months of 2012. Net earnings increased by \$742,000 to \$2,407,000 compared to \$1,665,000 last year. Revenue increased by \$1,023,000 or 17% to \$6,875,000 as a result of higher average funds employed and improved yields. Expenses decreased by \$173,000 or 5% to \$3,004,000 on a lower provision for loan losses, which declined by \$678,000 to a recovery of \$113,000. G&A increased by \$255,000 to \$2,682,000, while interest expense rose by \$245,000 to \$415,000 on higher borrowings. Depreciation expense was \$5,000 higher at \$20,000. Income tax expense increased by 45% to \$1,464,000 on a similar percentage rise in pre-tax earnings. In U.S. dollars, AFIU's net earnings increased by 41% to US\$2,349,000 compared to US\$1,666,000 last year.

Review of Financial Position

Equity at September 30, 2013 was a record high \$50,372,000, an increase of \$2,977,000 from the \$47,395,000 at December 31, 2012 and \$5,267,000 above the \$45,105,000 at September 30, 2012. Book value per common share was also a record high \$6.13 at September 30, 2013, 6% higher than the \$5.76 at December 31, 2012 and 12% higher than the \$5.49 a year earlier. The increase in equity since December 31, 2012 and September 30, 2012 resulted from a rise in retained earnings and an improved 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 Third Quarter Report.

Total assets were \$128,594,000 at September 30, 2013 compared to \$124,592,000 at December 31, 2012 and \$122,769,000 at September 30, 2012. Total assets largely comprised Loans (funds employed). Identifiable assets located in the United States were 34% of total assets at September 30, 2013, compared to 51% and 41%, respectively, at December 31, 2012 and September 30, 2012.

Gross Loans, before the allowance for losses thereon, totaled \$119,101,000 at September 30, 2013, 8% above the \$109,883,000 at December 31, 2012 and 3% higher than the \$115,794,000 at September 30, 2012. As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	Sept. 30, 2013	Dec. 31, 2012	Sept. 30, 2012
Factored receivables	\$ 100,291	\$ 93,703	\$ 97,628
Loans to clients	18,810	16,180	18,166
Factored receivables and loans, gross	119,101	109,883	115,794
Less allowance for losses	1,698	1,406	1,986
Factored receivables and loans, net	\$ 117,403	\$ 108,477	\$ 113,808

The Company's factored receivables increased 7% to \$100,291,000 at September 30, 2013 compared to \$93,703,000 at December 31, 2012 and were 3% higher than the \$97,628,000 at September 30, 2012. Loans to clients, which comprise advances against non-receivable assets such as inventory and equipment, rose 16% to \$18,810,000 at September 30, 2013 compared to \$16,180,000 at December 31, 2012 and were 4% higher than \$18,166,000 at September 30, 2012. Net of the allowance for losses thereon, Loans increased 8% to \$117,403,000 at September 30, 2013 compared to \$108,477,000 at December 31, 2012 and were 3% higher than the \$113,808,000 at September 30, 2012. The Company's Loans principally represent advances made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 140 clients at September 30, 2013. Three clients each comprised over 5% of gross Loans at September 30, 2013, of which the largest client comprised 8%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These non-recourse or managed receivables totaled \$87,771,000 at September 30, 2013 compared to \$87,257,000 at December 31, 2012 and \$113,228,000 at September 30, 2012. Managed receivables comprise the receivables of approximately 130 clients at September 30, 2013. The 25 largest clients comprised 65% of non-recourse volume in the first nine months 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 September 30, 2013, the 25 largest customers accounted for 44% of the total managed receivables, of which the largest five comprised 27%. 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 totaled \$207 million at September 30, 2013 compared to \$197 million at December 31, 2012 and \$229 million at September 30, 2012.

As described in note 17(a) to the Statements, the Company's business involves funding or assuming 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 exposed. 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, 1.2% were past due more than 60 days at September 30, 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, all customer credit in excess of \$2.5 million is approved by the Company's Credit Committee on a case-by-case basis. 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. 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 \$207 million portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for where necessary. The Company maintains a separate allowance for losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans increased by 21% to \$1,698,000 at September 30, 2013 compared to \$1,406,000 at December 31, 2012 on a \$9 million rise in funds employed in the first nine months of the year. The allowance was 15% below the \$1,986,000 at September 30, 2012 despite a \$3 million rise in funds employed as, following a review of historic charge-offs, a revision to the Company's formula used to estimate the allowance for losses on Loans to reflect improved charge-off experience was made. The allowance for losses on the guarantee of managed receivables increased to \$212,000 at September 30, 2013 compared to \$207,000 at December 31, 2012 but was substantially lower than the \$778,000 at September 30, 2012. The decrease since last September 30 followed a review of historic charge-off experience relating to the Company's managed receivables that resulted in a revision to the allowance for losses formula, as well as a 22% decline in managed receivables. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. It is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in both allowance for losses accounts for the first nine months of 2013 and 2012 is set out in note 4 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash decreased to \$4,440,000 at September 30, 2013 compared with \$9,899,000 at December 31, 2012 but was higher than the \$2,382,000 at September 30, 2012. Cash was higher at December 31, 2012 as a result of a year-end repayment of a loan 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 totaled \$3,421,000 at September 30, 2013 compared to \$3,307,000 at December 31, 2012 and \$3,268,000 last September 30. 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 first nine months of 2013, there were no (2012 – nil) additions to the assets, while assets of \$4,000 (2012 – nil) were disposed of. The net realizable value of the assets at September 30, 2013, December 31, 2012 and September 30, 2012 was estimated from professional appraisals. The different balances reported in the Company's consolidated statements of financial position at the above dates largely relates to the translation of the assets held for sale balance into Canadian dollars at different prevailing period-end exchange rates.

Changes in income taxes receivable, deferred tax, net, other assets, capital assets and goodwill since December 31, 2012 and September 30, 2012 were not significant.

Total liabilities increased by \$1,026,000 to \$78,222,000 at September 30, 2013 compared to \$77,196,000 at December 31, 2012 and were \$558,000 higher than the \$77,664,000 at September 30, 2012.

Amounts due to clients increased by \$143,000 to \$4,017,000 at September 30, 2013 compared to \$3,874,000 at December 31, 2012 and were \$1,628,000 higher than the \$2,389,000 at September 30, 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 increased by \$1,545,000 to \$56,117,000 at September 30, 2013 compared with \$54,572,000 at December 31, 2012 but was \$370,000 lower than the \$56,487,000 at September 30, 2012. The Company had approved credit lines with a number of

banks totaling \$116 million at September 30, 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 totaled \$1,952,000 at September 30, 2013 compared to \$2,874,000 at December 31, 2012 and \$2,566,000 last September 30. The decrease since December 31, 2012 in large part 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.

Notes payable increased slightly to \$14,665,000 at September 30, 2013 compared to \$14,492,000 at December 31, 2012 and \$14,337,000 at September 30, 2012. Please see Related Party Transactions section below and note 8 to the Statements.

Changes in income taxes payable and deferred income since December 31, 2012 and September 30, 2012 were not significant.

Capital stock remained unchanged at \$6,037,000 on September 30, 2013, December 31, 2012 and September 30, 2012. There were 8,221,498 common shares outstanding at those dates. The consolidated statements of changes in equity on page 13 of this report provides details of changes in the Company's issued and outstanding common shares and capital stock in the first nine months of 2013 and 2012. Details of the Company's issuer bids are provided in note 9(c) to the Statements. At the date of this MD&A, October 22, 2013, 8,221,498 common shares remained outstanding.

Retained earnings totaled \$45,088,000 at September 30, 2013 compared to \$43,170,000 at December 31, 2012 and \$41,303,000 at September 30, 2012. In the first nine months of 2013, retained earnings increased by \$1,918,000 which comprised net earnings of \$3,891,000 less dividends paid of \$1,973,000 (24 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 nine months 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 a loss position of \$795,000 at September 30, 2013 compared to a loss position of \$1,854,000

at December 31, 2012 and \$2,278,000 at September 30, 2012. 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 nine months of 2013 and 2012. The \$1,059,000 improvement in loss position in the first nine 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 \$1.030 at September 30, 2013. This increased the Canadian dollar equivalent book value of the Company's net investment in its U.S. subsidiary of approximately US\$32 million by \$1,059,000.

Liquidity and Capital Resources

The Company considers its capital resources to include equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt 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)	Sept. 30, 2013	Dec. 31, 2012	Sept. 30, 2012
Debt* / Equity	141%	146%	157%
Equity / Assets	39%	38%	37%

*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 totaling \$116 million at September 30, 2013 and had borrowed \$56 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 \$4,440,000 at September 30, 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 nine months ended September 30, 2013 compared with nine months ended September 30, 2012

Cash inflow from operating activities before changes in operating assets and liabilities totaled \$6,476,000 in the first nine months of 2013 compared with \$6,499,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash outflow from operating activities of \$4,185,000 in the first nine months of 2013 compared to \$24,376,000 last year. The net cash outflow in the current nine months largely arose from financing gross Loans of \$7,242,000. The net cash outflow in the first nine months of 2012 largely arose from financing \$26,817,000 of gross Loans. Changes in other operating assets and liabilities are set out in the Company's consolidated statements of cash flows on page 14 of this report.

Net cash outflow from financing activities totaled \$1,287,000 in the first nine months of 2013 compared to a net cash inflow of \$24,103,000 last year. The net cash outflow in the current nine month period resulted from the payment of dividends totaling \$1,973,000. This was partly offset by bank borrowings of \$538,000 and \$148,000 received from the issue of notes payable, net. The net cash inflow in the first nine months of 2012 resulted from bank borrowings of \$29,690,000 largely used to finance gross Loans. This inflow was partly offset by the repurchase of 497,500 common shares acquired under the Company's issuer bid at a cost of \$3,402,000, the payment of dividends totaling \$1,935,000 and the redemption of notes payables, net, of \$250,000.

Cash flows from investing activities and the effect of exchange rate changes on cash were not significant in the nine months ended September 30, 2013 and 2012.

Overall, there was a \$5,459,000 decrease in cash balances in the first nine months of 2013 compared to a \$472,000 decline in the first nine months of 2012.

Contractual Obligations and Commitments at September 30, 2013

(in thousands of dollars)	Payments due in				Total
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	
Operating lease obligations	\$ 336	\$ 683	\$ 251	\$ —	\$ 1,270
Purchase obligations	90	18	—	—	108
Total	\$ 426	\$ 701	\$ 251	\$ —	\$ 1,378

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 September 30, 2013 totaled \$14,665,000 compared with \$14,492,000 at December 31, 2012 and \$14,337,000 at September 30, 2012. Of these notes payable, \$12,838,000 (December 31, 2012 – \$13,150,000; September 30, 2012 – \$13,009,000) was owing to related parties and \$1,827,000 (December 31, 2012 – \$1,342,000; September 30, 2012 – \$1,328,000) to third parties. Interest expense on these notes in the current quarter and first nine months of 2013 totaled \$105,000 (2012 – \$102,000) and \$308,000 (2012 – \$309,000), respectively.

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 September 30, 2013, the Company had no outstanding forward foreign exchange contracts.

Critical Accounting Policies and Estimates

Critical accounting estimates represent those estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial results. The following are accounting estimates that the Company considers 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 (also referred to as 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 when 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 generate 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 totaled \$207 million at September 30, 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 floating rate 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 ended the third quarter with funds employed of \$119 million and, at the date of this MD&A, they are at record levels; AFIC saw its funds employed reach record levels in the third quarter, but AFIU has seen some run off. While AFIC has strong momentum going forward, AFIU continues to face intense competition as a result of excess capital market liquidity in the U.S. However, it still has good deal flow and is optimistic for the future. AFL, our Canadian non-recourse factoring business is facing intense competition from multinational credit insurance companies and this continues to impact its factoring volumes, although the rate of decline has diminished. Going forward, growth in the Company's revenue will largely depend upon building on the current levels of funds employed. The Company continues to control operating expenses well, and its levels of credit and loan losses are reasonable. The Company is cautiously optimistic for the remainder of 2013, as well as 2014.

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



Stuart Adair
Vice President, Chief Financial Officer
October 22, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	September 30, 2013	December 31, 2012	September 30, 2012
Assets			
Cash	\$ 4,439,546	\$ 9,899,015	\$ 2,381,714
Factored receivables and loans, net (note 4)	117,403,123	108,477,165	113,807,670
Income taxes receivable	527,062	148,936	478,814
Other assets	206,279	112,693	119,366
Assets held for sale (note 5)	3,420,600	3,306,803	3,267,915
Deferred tax, net	1,320,572	1,340,051	1,394,891
Capital assets	286,236	350,503	372,721
Goodwill (note 6)	990,836	956,792	945,541
	\$ 128,594,254	\$ 124,591,958	\$ 122,768,632
Liabilities			
Due to clients	\$ 4,016,914	\$ 3,873,705	\$ 2,388,781
Bank indebtedness (note 7)	56,117,214	54,571,784	56,487,195
Accounts payable and other liabilities	1,951,654	2,873,969	2,566,156
Income taxes payable	814,754	934,551	0936,056
Notes payable (note 8)	14,664,665	14,491,821	14,337,022
Deferred income	657,000	450,638	948,774
	78,222,201	77,196,468	77,663,984
Equity			
Capital stock (note 9)	6,036,589	6,036,589	6,036,589
Contributed surplus	42,840	42,840	42,840
Retained earnings	45,088,097	43,170,345	41,303,099
Accumulated other comprehensive loss (note 13)	(795,473)	(1,854,284)	(2,277,880)
	50,372,053	47,395,490	45,104,648
	\$ 128,594,254	\$ 124,591,958	\$ 122,768,632

See accompanying notes to consolidated financial statements

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 and nine months ended September 30	Three months		Nine months	
	2013	2012	2013	2012
Revenue				
Interest and other income (note 4)	\$ 6,463,634	\$ 6,748,970	\$ 18,798,865	\$ 18,751,095
Expenses				
Interest	469,767	493,458	1,411,835	1,352,940
General and administrative	3,455,421	3,293,098	10,335,258	9,965,993
Provision for credit and loan losses	439,343	341,693	1,057,853	1,668,512
Depreciation	28,228	32,343	83,007	95,018
	4,392,759	4,160,592	12,887,953	13,082,463
Earnings before income tax expense	2,070,875	2,588,378	5,910,912	5,668,632
Income tax expense	693,000	863,000	2,020,000	1,817,000
Net earnings	\$ 1,377,875	\$ 1,725,378	\$ 3,890,912	\$ 3,851,632
Basic and diluted earnings per common share (note 14)	\$ 0.17	\$ 0.21	\$ 0.47	\$ 0.46
Basic and diluted weighted average number of common shares outstanding (note 14)	8,221,498	8,342,261	8,221,498	8,464,468

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and nine months ended September 30	Three months		Nine month	
	2013	2012	2013	2012
Net earnings	\$ 1,377,875	\$ 1,725,378	\$ 3,890,912	\$ 3,851,632
Other comprehensive (loss) income: unrealized foreign exchange (loss) gain on translation of self-sustaining foreign operation	(675,494)	(1,313,835)	1,058,811	(1,264,435)
Comprehensive income	\$ 702,381	\$ 411,543	\$ 4,949,723	\$ 2,587,197

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Capital Stock		Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
	Number of common shares outstanding	Amount				
Balance at January 1, 2012	8,718,998	\$ 6,401,876	\$ 42,840	\$ 42,423,832	\$ (1,013,445)	\$ 47,855,103
Comprehensive income	—	—	—	3,851,632	(1,264,435)	2,587,197
Dividends paid	—	—	—	(1,935,188)	—	(1,935,188)
Shares repurchased for cancellation	(497,500)	(365,287)	—	(3,037,177)	—	(3,402,464)
Balance at September 30, 2012	8,221,498	\$ 6,036,589	\$ 42,840	\$ 41,303,099	\$ (2,277,880)	\$ 45,104,648
Balance at January 1, 2013	8,221,498	\$ 6,036,589	\$ 42,840	\$ 43,170,345	\$ (1,854,284)	\$ 47,395,490
Comprehensive income	—	—	—	3,890,912	1,058,811	4,949,723
Dividends paid	—	—	—	(1,973,160)	—	(1,973,160)
Balance at September 30, 2013	8,221,498	\$ 6,036,589	\$ 42,840	\$ 45,088,097	\$ (795,473)	\$ 50,372,053

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine months ended September 30	2013	2012
Cash provided by (used in)		
Operating activities		
Net earnings	\$ 3,890,912	\$ 3,851,632
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	278,357	534,313
Deferred income	203,594	194,788
Depreciation	83,007	95,018
Loss on disposal of capital assets	23	6,177
Deferred tax expense (recovery)	63,732	(174,598)
Current income tax expense	1,956,268	1,991,598
	6,475,893	6,498,928
Changes in operating assets and liabilities:		
Factored receivables and loans, gross	(7,241,507)	(26,816,818)
Due to clients	92,230	(1,107,400)
Other assets	(83,334)	24,779
Accounts payable and other liabilities	(943,713)	(1,098,710)
Sale of assets held for sale	3,894	190,440
Income tax paid, net	(2,488,573)	(2,066,791)
	(4,185,110)	(24,375,572)
Investing activities		
Additions to capital assets, net	(17,167)	(38,153)
Financing activities		
Bank indebtedness	538,439	29,690,803
Notes payable issued (redeemed), net	147,448	(250,196)
Repurchase and cancellation of shares	—	(3,402,464)
Dividends paid	(1,973,160)	(1,935,188)
	(1,287,273)	24,102,955
Effect of exchange rate changes on cash	30,081	(161,684)
Decrease in cash	(5,459,469)	(472,454)
Cash at beginning of period	9,899,015	2,854,168
Cash at end of period	\$ 4,439,546	\$ 2,381,714
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	\$ 1,407,425	\$ 1,369,038

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and nine months ended September 30, 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 that 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 and nine months ended September 30, 2013 were approved for issue by the Company's Board of Directors ("Board") on October 22, 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 fiscal year 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 rate 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 or loans is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of these asset(s), and that the loss event has an effect on the future cash flows resulting from the factored receivable(s) or 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 the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the period 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 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 its 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 common share ("EPS"). 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 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 in 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

	Sept. 30, 2013	Dec. 31, 2012	Sept. 30, 2012
Factored receivables	\$ 100,290,776	\$ 93,702,696	\$ 97,628,290
Loans to clients	18,810,347	16,180,469	18,165,380
Factored receivables and loans, gross	119,101,123	109,883,165	115,793,670
Less allowance for losses	1,698,000	1,406,000	1,986,000
Factored receivables and loans, net	\$ 117,403,123	\$ 108,477,165	\$ 113,807,670

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 first nine months of 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	892,296	1,249,520
Charge-offs	(633,450)	(763,242)
Recoveries	14,511	21,035
Foreign exchange adjustment	18,643	(23,313)
Allowance for losses at September 30	\$ 1,698,000	\$ 1,986,000

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 September 30, 2013, the gross amount of these managed receivables was \$87,770,882 (December 31, 2012 – \$87,257,113; September 30, 2012 – \$113,228,027). At September 30, 2013, management provided an amount of \$212,000 (December 31, 2012 – \$207,000; September 30, 2012 – \$778,000) as a collective allowance for losses on the guarantee of these managed receivables, which represented the estimated fair value of the guarantees at that date. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statements of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the nine months ended September 30, 2013 and 2012 was as follows:

	2013	2012
Allowance for losses at January 1	\$ 207,000	\$ 751,000
Provision for credit losses	165,557	418,992
Charge-offs	(246,439)	(400,535)
Recoveries	85,882	8,543
Allowance for losses at September 30	\$ 212,000	\$ 778,000

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 September 30, 2013, the Company held cash collateral of \$607,244 (December 31, 2012 – \$1,939,682; September 30, 2012 – \$1,979,938) to help it reduce the risk of loss on certain of the Company's factored receivables and loans and managed receivables.

The Company considers the allowances for losses on both its 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. 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. 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.

Interest income earned on factored receivables and loans during the three and nine months ended September 30, 2013 totaled \$5,017,404 (2012 – \$4,972,508) and \$14,380,696 (2012 – \$13,736,897), respectively.

5. Assets held for sale

The Company obtained title to certain long-lived assets securing a defaulted loan in 2009. During the three and nine months ended September 30, 2013, there were no additions (2012 – nil) to the

assets, while assets of \$3,894 were disposed of (2012 – nil). The assets are carried in the Company's U.S. operations and the different balances reported in the consolidated statements of financial position largely relates to the translation of the Company's assets held for sale balance 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 September 30, 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 earlier. The goodwill is 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 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 September 30, 2013, the amount outstanding under the lines of credit totaled \$56,117,214 (December 31, 2012 – \$54,571,784; September 30, 2012 – \$56,487,195). 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 lower. Notes payable were as follows:

	Sept. 30, 2013	Dec. 31, 2012	Sept. 30, 2012
Related parties	\$ 12,837,658	\$ 13,149,701	\$ 13,008,544
Third parties	1,827,007	1,342,120	1,328,478
	\$ 14,664,665	\$ 14,491,821	\$ 14,337,022

Interest expense on the notes payable for the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months		Nine Months	
	2013	2012	2013	2012
Related parties	\$ 91,841	\$ 93,679	\$ 274,173	\$ 284,910
Third parties	12,927	8,340	33,545	24,500
	\$ 104,768	\$ 102,019	\$ 307,718	\$ 309,410

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 September 30, 2013, there were no first preferred shares outstanding.

b) Issued and outstanding

The Company's issued and outstanding common shares and changes therein during the nine months ended September 30, 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 Toronto Stock Exchange ("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 common shares acquired at an average price of \$6.78 per common 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 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 terminated on August 7, 2013. Under the 2012 Bid, the Company repurchased and cancelled 268,600 common shares acquired 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. The Company did not renew its normal course issuer bid after the 2012 Bid expired.

During the nine months ended September 30, 2013, the Company did not repurchase any shares under the 2012 Bid. During the nine months ended September 30, 2012, the Company repurchased and cancelled 497,500 shares acquired under its bids at an average price of \$6.84 per common share for a total consideration of \$3,402,464. This was applied to reduce share capital by \$365,287 and retained earnings by \$3,037,177.

d) Dividends

Dividends on the Company's common shares are declared in Canadian dollars. During the three and nine months ended September 30, 2013, dividends per common share of \$0.08 and \$0.24, respectively, were declared and paid resulting in total dividend payments of \$657,720 and \$1,973,160, respectively. During the three and nine months ended September 30, 2012, dividends per common share of \$0.08 and \$0.23, respectively, were declared and paid resulting in total dividend payments of \$657,728 and \$1,935,188, respectively.

On October 22, 2013, the Company declared a quarterly dividend of \$0.08 per common share, payable December 2, 2013 to shareholders of record on November 15, 2013.

10. Stock-based compensation

The Company's stock-based compensation relates solely to its SARs. During the three and nine months ended September 30, 2013, the Company recorded a stock-based compensation expense of \$185,400 (2012 – \$18,940) and \$455,651 (2012 – \$50,306), respectively. 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	Sept. 30, 2013	Dec. 31, 2012	Sept. 30, 2012
\$ 7.25	May 7, 2008	15,000	57,500	57,500
\$ 6.03	July 28, 2009	32,500	70,000	70,000
\$ 5.50	May 7, 2010	65,000	140,000	140,000
\$ 7.95	May 4, 2011	107,500	152,500	152,500
\$ 7.56	July 26, 2011	5,000	5,000	5,000
SARs outstanding		225,000	425,000	425,000
SARs vested		225,000	342,500	342,500

At September 30, 2013, the Company had accrued \$319,600 (December 31, 2012 – \$294,700; September 30, 2012 – \$259,000) 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 \$1,128,197 at September 30, 2013 (December 31, 2012 – \$390,579; September 30, 2012 – \$670,325). In addition, at September 30, 2013 and September 30, 2012, the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of \$150,000 (December 31, 2012 – \$250,000). These amounts were considered in determining the allowance for losses on factored receivables and loans.

12. Derivative financial instruments

At September 30, 2013 and 2012, and December 31 2012, the Company had no outstanding forward foreign exchange contracts.

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 nine months ended September 30, 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 and nine months ended September 30, 2013 and 2012. Accordingly, basic and diluted EPS are the same for these 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 September 30, 2013

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 85,048	\$ 43,546	\$ —	\$ 128,594
Revenue	\$ 4,310	\$ 2,154	\$ —	\$ 6,464
Expenses				
Interest	395	75	—	470
General and administrative	2,564	892	—	3,456
Provision for credit and loan losses	588	(149)	—	439
Depreciation	21	7	—	28
	3,568	825	—	4,393
Earnings before income tax expense	742	1,329	—	2,071
Income tax expense	193	500	—	693
Net earnings	\$ 549	\$ 829	\$ —	\$ 1,378

Three months ended September 30, 2012

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 72,132	\$ 54,575	\$ (3,938)	\$ 122,769
Revenue	\$ 4,365	\$ 2,389	\$ (5)	\$ 6,749
Expenses				
Interest	418	81	(5)	494
General and administrative	2,472	821	—	3,293
Provision for credit and loan losses	426	(84)	—	342
Depreciation	26	6	—	32
	3,342	824	(5)	4,161
Earnings before income tax expense	1,023	1,565	—	2,588
Income tax expense	276	587	—	863
Net earnings	\$ 747	\$ 978	\$ —	\$ 1,725

Nine months ended September 30, 2013

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 85,048	\$ 43,546	\$ —	\$ 128,594
Revenue	\$ 11,924	\$ 6,875	\$ —	\$ 18,799
Expenses				
Interest	997	415	—	1,412
General and administrative	7,653	2,682	—	10,335
Provision for credit and loan losses	1,171	(113)	—	1,058
Depreciation	63	20	—	83
	9,884	3,004	—	12,888
Earnings before income tax expense	2,040	3,871	—	5,911
Income tax expense	556	1,464	—	2,020
Net earnings	\$ 1,484	\$ 2,407	\$ —	\$ 3,891

Nine months ended September 30, 2012

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 72,132	\$ 54,575	\$ (3,938)	\$ 122,769
Revenue	\$ 12,913	\$ 5,852	\$ (14)	\$ 18,751
Expenses				
Interest	1,197	170	(14)	1,353
General and administrative	7,539	2,427	—	9,966
Provision for credit and loan losses	1,103	565	—	1,668
Depreciation	80	15	—	95
	9,919	3,177	(14)	13,082
Earnings before income tax expense	2,994	2,675	—	5,669
Income tax expense	807	1,010	—	1,817
Net earnings	\$ 2,187	\$ 1,665	\$ —	\$ 3,852

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, 1.2% were past due more than 60 days at September 30, 2013 (December 31, 2012 – 4.6%; September 30, 2012 – 1.8%). 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 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 factoring 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.

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

	September 30, 2013	
	Gross factored receivables and loans	% of total
Industrial sector (in thousands)		
Financial and professional services	\$ 44,694	38
Wholesale and distribution	32,748	27
Manufacturing	26,683	22
Other	14,976	13
	\$ 119,101	100
	September 30, 2012	
	Gross factored receivables and loans	% of total
Industrial sector (in thousands)		
Manufacturing	\$ 52,109	45
Financial and professional services	28,351	24
Wholesale and distribution	25,453	22
Other	9,881	9
	\$ 115,794	100

The Company's credit exposure relating to its managed receivables by industrial sector was as follows.

	September 30, 2013	
	Managed receivables	% of total
Industrial Sector (in thousands)		
Retail	\$ 82,073	94
Other	5,698	6
	\$ 87,771	100

	September 30, 2012	
	Managed receivables	% of total
Industrial Sector (in thousands)		
Retail	\$ 107,101	95
Other	6,127	5
	\$ 113,228	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 totaling \$116,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At September 30, 2013 the Company had borrowed \$56,117,214 (December 31, 2012 – \$54,571,784; September 30, 2012 – \$56,487,195) against these facilities. These lines of credit are collateralized primarily by factored receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit as at September 30, 2013. Notes payable are due on demand, or in the case of one note, a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at September 30, 2013, 88% of these notes were due to related parties and 12% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a 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 September 30, 2013, the Company had gross factored receivables and loans totaling \$119,101,000 (December 31, 2012 – \$109,883,000; September 30, 2012 – \$115,794,000), which substantially exceeded its total liabilities of \$78,222,000 at that date (December 31, 2012 – \$77,196,000; September 30, 2012 – \$77,664,000). 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 US dollars, to the full extent of the U.S. subsidiary's net assets of approximately US\$32,000,000 at September 30, 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 nine months ended September 30, 2013, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately \$30,000. It would also change other comprehensive income or loss and the AOCL component of equity by approximately \$320,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At September 30, 2013, the Company's unhedged foreign

currency positions in its Canadian operations totaled \$11,000 (December 31, 2012 – \$129,000; September 30, 2012 – \$216,000). 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 September 30, 2013:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	Non-rate sensitive	Total
Assets					
Cash	\$ 2,258	\$ —	\$ —	\$ 2,181	\$ 4,439
Factored receivables and loans, net	116,308	1,545	372	(822)	117,403
Assets held for sale	—	—	—	3,421	3,421
All other assets	—	527	—	2,804	3,331
	118,566	2,072	372	7,584	128,594
Liabilities					
Due to clients	—	—	—	4,017	4,017
Bank indebtedness	14,482	41,635	—	—	56,117
Notes payable	14,665	—	—	—	14,665
All other liabilities	—	815	—	2,608	3,423
Equity	—	—	—	50,372	50,372
	29,147	42,450	—	56,997	128,594
	\$ 89,419	\$ (40,378)	\$ 372	\$ (49,413)	\$ —

Based on the Company's interest rate positions as at September 30, 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 other debt. The Company monitors the ratio of its debt to equity and its equity to total assets. As a percentage, at September 30, 2013 these ratios were 141% (December 31, 2012 – 146%; September 30, 2012 – 157%) and 39% (December 31, 2012 – 38%; September 30, 2012 – 37%), respectively, indicating the Company's continued financial strength and relatively low degree of leverage. The Company's debt, and leverage, will usually rise with an increase in factored receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at September 30, 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 September 30, 2013. There were no changes in the Company's approach to capital management from the previous year.

19. Subsequent events

At October 22, 2013 there were no subsequent events occurring after September 30, 2013 that required disclosure.

Keeping Business Liquid



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