First Quarter Report
March 31, 2014

Over Thirty-five Years of Keeping Business Liquid

ACCORD FINANCIAL
Keeping Business Liquid

Message from the President and CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the first quarter ended March 31, 2014 together with comparative figures for the same period of 2013. 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 first quarter of 2014 declined 36% to $797,000 compared with $1,246,000 last year. Net earnings decreased as a result of an increase in general and administrative expenses ("G&A"), a higher provision for credit and loan losses, increased interest expense and business acquisition costs related to the acquisition of Varion Capital Corp. ("Varion") on January 31, 2014. Earnings per share for this year's first quarter were 10 cents compared to 15 cents last year.

Adjusted net earnings, which comprises net earnings before non-operating stock-based compensation and business acquisition expenses (namely, Varion transaction and integration costs and amortization of intangibles) and is considered a more appropriate measure of operating performance than net earnings, totalled $1,235,000 in the first quarter of 2014, 2% below the $1,266,000 earned in the first quarter of 2013. EPS based on adjusted net earnings were 15 cents, the same as last year.

Factoring volume in the first quarter of 2014 increased 15% to a first quarter record $516 million. Revenue rose by $669,000 or 11% to $6,616,000 compared to $5,947,000 last year on higher funds employed and factoring volume. At the same time, our interest cost rose by $65,000 or 14% as borrowings increased to finance higher funds employed. Overheads (G&A and depreciation) rose 26% to $4,179,000. Overheads rose primarily as a result of a substantially higher stock-based compensation expense and Varion overheads now being incurred. Stock-based compensation increased $382,000 to $411,000 as a result of the rise in Accord's share price on the Toronto Stock Exchange in the first quarter, while $271,000 of Varion overheads was incurred. The provision for credit and loan losses increased $247,000 to $527,000 mainly on a $231,000 rise in the non-cash reserves expense as higher allowances for losses were required to support a $26 million rise in funds employed in the quarter. Business acquisition cost associated with the Varion acquisition totalled $194,000 in the quarter (2013 – nil).

Net earnings from our Canadian operations declined to $332,000 in the current quarter compared to $511,000 last year, while net earnings from our U.S. operations declined to $465,000 compared to $735,000 last year.

The Company's total finance receivables and loans, our funds employed, were a record high $137 million at March 31, 2014, 26% higher than the $109 million last March 31. Equity increased to a record high $56 million at March 31, 2014 compared to $49 million last March 31. This is equivalent to a record high book value per share of $6.72 versus $5.91 a year ago.

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

The record level of funds employed, record first quarter factoring volume and increase in revenue clearly show a satisfying pick up in business activity versus the year ago period although the bottom line has yet to reflect this. This improvement occurred in spite of the relatively stagnant economies in Canada and the U.S. and the continued presence of the most aggressive competitors we have witnessed in our 35-year history. I often characterize the nature of the markets we operate in as "too much liquidity chasing too few transactions". For many lenders it has been a race to the bottom on pricing and for a few lately it has degenerated into a race to the bottom on risk. Let me once again reassure you that we don't and we won't join the latter race.

I am certainly not going to predict how the credit markets will operate for the rest of the year except to say it can only improve from where it is now. We have strengthened staff levels in our Canadian and U.S. lending businesses in anticipation of increased business activity that comes largely from the increasing awareness and acceptance of the Accord brand.

In spite of the improved top line performance and record funds employed and first quarter factoring volume, we recorded lower earnings. Several non-operating expense categories led to the decrease in net earnings, such as the substantially higher stock-based compensation expense and business acquisition expenses related to the Varion acquisition. Further, the rise in provision for losses mainly resulted from an increase in the non-cash reserves expense. Without these costs, net earnings would have been higher.

The highlight of the quarter was the January 31st acquisition of Varion; a Vancouver based leasing company founded in 2004. Varion finances equipment across a broad range of industries, from forestry and energy to hospitality and manufacturing. This strategic acquisition strengthens our ability to serve the Canadian marketplace by providing more financing options to companies in need of capital. Varion fits seamlessly into the Accord family, with its similar risk/reward profile and our mutual dedication to quality loan portfolios. Two of the founding partners, James Jang and Steve Passant, will continue to operate the business. We welcome James, Steve and their colleagues to Accord and are confident that Varion's business will continue to thrive and play an increasingly important role in Accord's earnings growth.

At a recent Board of Directors meeting, a regular quarterly dividend of 8 cents per common share was declared payable June 2, 2014 to shareholders of record May 15, 2014.

Sincerely,

Tom Henderson
President and Chief Executive Officer
May 7, 2014

Management's Discussion and Analysis of Results of Operations and Financial Condition

Quarter ended March 31, 2014 compared with quarter ended March 31, 2013

Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter ended March 31, 2014 compared with the quarter ended March 31, 2013 and, where presented, the quarter ended March 31, 2012. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A, which has been prepared as at May 7, 2014, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarters ended March 31, 2014 and 2013, which are included as part of this 2014 First Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2013 audited consolidated financial statements and notes thereto included in the Company's 2013 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 notes 2 and 3 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.

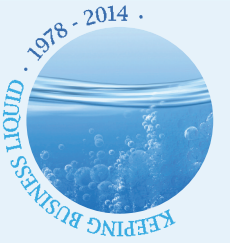
The following discussion contains certain forward-looking statements that are subject to significant risks and uncertainties that could cause actual results to differ materially from historical results and percentages. Factors that may impact future results are discussed in the Risks and Uncertainties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

Non-IFRS Financial Measures

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

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

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



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

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

iv) Adjusted net earnings and adjusted earnings per share – adjusted net earnings presents net earnings before stock-based compensation and business acquisition expenses (namely, business transaction and integration costs and amortization of intangibles) which the Company considers to be non-operating expenses. Management believes adjusted net earnings is a more appropriate measure of operating performance than net earnings as it excludes items which do not relate to ongoing operating activities. Adjusted earnings per share is adjusted net earnings divided by the weighted average number of shares outstanding in the period.

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

Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, credit investigation and guarantees, collection services, supply chain financing for importers and now, with the recent acquisition of Varion Capital Corp. ("Varion"), lease financing and equipment loans. The Varion acquisition is discussed below. The Company's financial services are discussed in more detail in its 2013 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 18(a) to the Statements.

The Company, founded in 1978, operates four finance companies in North America, namely, Accord Financial Ltd. ("AFL"), Accord Financial Inc. ("AFIC") and Varion 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; (ii) lease financing and equipment lending by Varion; and (iii) non-recourse factoring by AFL, which principally involves providing credit guarantees and collection services on a non-recourse basis, generally without financing.

Acquisition of Varion Capital Corp.

On January 31, 2014 the Company completed the strategic acquisition of Varion, a Canadian lease finance company, for a total purchase consideration of $5,029,000, which comprised cash of $4,170,000 and equity consideration of $859,000 through the issuance of 86,215 common shares of Accord at a price of $9.97 per share (being the closing price of Accord's shares on that date). The assets acquired and liabilities assumed in the acquisition are set out in note 4 to the Statements. Notes 7 and 8 also provide details of the intangible assets and goodwill acquired.

The acquisition expands the range of asset-based financial services offered by Accord to include equipment leasing and loans. Varion finances equipment for small- and medium-sized businesses, serving a broad base of Canada's most dynamic industries, from forestry and energy to hospitality and manufacturing. The acquisition enables Accord to provide a broader range of finance solutions for growing companies across Canada. Further, clients of Accord and Varion will benefit by having access to more financing options.

Results of Operations

Quarter ended March 31, 2014 compared with quarter ended March 31, 2013

Net earnings for the quarter ended March 31, 2014 declined by $449,000 or 36% to $797,000 compared to the $1,246,000 earned in the first quarter of 2013 and were 10% below 2012's first quarter net earnings of $883,000. Net earnings decreased compared to 2013 as a result of an increase in general and

Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended	Revenue	Net Earnings	Basic and Diluted Earnings Per Common Share
2014 March 31	**$ 6,616**	**$ 797**	**$ 0.10**
2013 December 31	$ 7,275	$ 2,647	$ 0.32
September 30	6,464	1,378	0.17
June 30	6,388	1,267	0.15
March 31	5,947	1,246	0.15
Fiscal 2013	$ 26,074	$ 6,538	$ 0.80*
2012 December 31	$ 7,139	$ 2,524	$ 0.31
September 30	6,749	1,725	0.21
June 30	6,323	1,243	0.15
March 31	5,680	885	0.10
Fiscal 2012	$ 25,891	$ 6,377	$ 0.76*

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

administrative expenses ("G&A"), a higher provision for credit and loan losses, increased interest expense, and business acquisition costs that were not incurred last year. Net earnings decreased compared to 2012 on higher G&A, increased interest expense and business acquisition expenses. Earnings per common share ("EPS") for the current quarter decreased to 10 cents from the 15 cents earned in the first quarter of 2013, but were the same as in the first quarter of 2012. ROE in the current quarter was 5.8% compared to 10.5% last year and 7.8% in the first quarter of 2012.

Adjusted net earnings, as defined above, totalled $1,235,000 in the first quarter of 2014, 2% below the $1,266,000 earned in the first quarter of 2013. Adjusted EPS were 15 cents, the same as last year. The following table provides a reconciliation of net earnings to adjusted net earnings:

	Three Months Ended March 31	
(in thousands)	**2014**	2013
Net earnings	**$ 797**	$ 1,246
Adjustments, net of tax:		
Stock-based compensation	**289**	20
Business acquisition expenses	**149**	—
Adjusted net earnings	**$ 1,235**	$ 1,266

Factoring volume increased by 15% or $68 million to a first quarter record $516 million compared to $448 million in the first quarter of 2013.

Revenue rose by 11% or $669,000 to $6,616,000 in the current quarter compared with $5,947,000 last year and was 16% higher than the $5,680,000 in the first quarter of 2012. Revenue increased compared to 2013 and 2012 as a result of higher finance receivables and loans (also referred to as funds employed or "Loans") and increased factoring volume. Revenue from Varion for the two months since its acquisition totalled $234,000.

Total expenses for the first quarter of 2014 increased by $1,357,000 or 33% to $5,418,000 compared to $4,061,000 last year. G&A, the provision for credit and loan losses, and interest expense rose by $851,000, $247,000 and $65,000, respectively, while business acquisition expenses (transactions and integration costs and amortization of intangibles) of $194, 000 were incurred. Depreciation was largely unchanged.

Interest expense rose by 14% to $518,000 in the first quarter of 2014 compared to $453,000 last year as a result of higher borrowings. Borrowings increased mainly to finance higher Loans.

G&A comprise personnel costs, which represent the majority of the Company's costs, occupancy costs, commissions to third parties, marketing expenses, management fees, professional fees, data processing, travel, telephone and general overheads. G&A increased by 26% to $4,152,000 in the current quarter compared to $3,301,000 last year primarily as a result of a higher stock-based compensation expense and Varion overheads now being incurred. Stock-based compensation increased $382,000 to $411,000 (2013 – $29,000) in the current quarter largely as a result of a rise in Accord's share price on the Toronto Stock Exchange ("TSX"). Varion overheads for the two months since being acquired added $271,000 to G&A. The Company, however continues to manage its controllable expenses closely.

The provision for credit and loan losses rose by 88% to $527,000 in the first quarter of 2014 compared to $280,000 last year mainly as a result of a higher reserves expense. The provision for the first quarter of 2014 and 2013 comprised:

(in thousands)	**2014**	2013
Net charge-offs	**$ 343**	$ 327
Reserves expense (recovery) related to increase (decrease) in total allowances for losses	**184**	(47)
	$ 527	$ 280

Net charge-offs increased by $16,000 or 5% to $343,000 in the current quarter compared to $327,000 last year, while the reserves expense increased by $231,000 to $184,000 as higher allowances for losses were required to be set up to support a $26 million rise in funds employed in the quarter. Without this non-cash reserves expense, adjusted net earnings would have risen in the current quarter. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies.

Business acquisition expenses consist of transaction and integration costs and the amortization of intangibles relating to the Varion acquisition. For the quarter ended March 31, 2014 these expenses totalled $194,000 (2013 – nil).

Income tax expense decreased by 37% to $401,000 in the current quarter compared to $640,000 in the first quarter of 2013 as a result of a 36% decrease in pre-tax earnings. The Company's effective corporate income tax rate decreased to 33.5% in the first quarter of 2014 compared to 33.9% last year.

Canadian operations reported a 35% decrease in net earnings in the first quarter of 2014 compared to 2013 (see note 17 to the Statements). Net earnings declined by $179,000 to $332,000 on higher expenses. Revenue rose by 24% or $900,000 to $4,632,000 on higher funds employed and factoring volume. Expenses increased by $1,141,000 to $4,165,000. G&A were $658,000 higher at $3,070,000, while interest expense increased by $174,000 to $443,000. The provision for credit and loan losses rose by $117,000 to $439,000. Business acquisition expenses of $194,000 (2013 – nil) were also incurred. Depreciation declined by $2,000. Income tax expense decreased by 31% to $135,000 on a 34% decline in pre-tax earnings.

U.S. operations reported a 37% decrease in net earnings in the first quarter of 2014 compared to 2013. Net earnings declined by $270,000 to $465,000 on lower revenue and higher G&A and provision for losses. Revenue declined by $228,000 or 10% to $1,987,000 on lower average funds employed. Expenses increased by $219,000 to $1,256,000. G&A rose by $193,000 to $1,082,000, while the provision for losses was $130,000 higher at $88,000. Interest expense decreased by $106,000 to $78,000. Depreciation was slightly higher at $8,000. Income tax expense declined by $177,000 or 40% to $266,000 on a 38% decline in pre-tax earnings.

Review of Financial Position

Equity at March 31, 2014 was a record high $55,795,000, $2,365,000 above the $53,430,000 at December 31, 2013 and $7,183,000 higher than the $48,612,000 at March 31, 2013. Book value per common share was also a record high $6.72 at March 31, 2014 compared to $6.50 at December 31, 2013 and $5.91 a year earlier. The increase in equity since December 31, 2013 mainly resulted from a $1,373,000 improvement in the accumulated other comprehensive income or loss ("AOCIL") balance and an increase in capital stock of $859,000. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 15 of this report.

Total assets were $154,792,000 at March 31, 2014 compared to $120,809,000 at December 31, 2013 and $117,171,000 at March 31, 2013. Total assets largely comprised Loans. Excluding inter-company balances, identifiable assets located outside of Canada were 36% of total assets at March 31, 2014 compared to 41% at December 31, 2013 and 51% at March 31, 2013.

Loans, before the allowance for losses thereon, totalled $137,426,000 at March 31, 2014, 23% above the $111,287,000 at December 31, 2013 and 26% higher than the $108,825,000 at March 31, 2013. As detailed in note 5, the Company's Loans comprised:

(in thousands)	**Mar. 31, 2014**	Dec. 31, 2013	Mar. 31, 2013
Factored receivables	**$ 107,228**	$ 91,984	$ 92,659
Loans to clients	**25,902**	19,303	16,166
Lease receivables	**4,296**	—	—
Finance receivables and loans	**137,426**	111,287	108,825
Less allowance for losses	**1,780**	1,512	1,366
Finance receivables and loans, net	**$ 135,646**	$ 109,775	$ 107,459

The Company's factored receivables rose 17% to $107,228,000 at March 31, 2014 compared to $91,984,000 at December 31, 2013 and were 16% higher than the $92,659,000 at March 31, 2013. Loans to clients, which comprise advances against non-receivable

assets such as inventory and equipment, rose 34% to $25,902,000 at March 31, 2014 compared to $19,303,000 at December 31, 2013 and were 60% higher than the $16,166,000 last March 31. Lease receivables, representing Varion's net investment in leases, totalled $4,296,000 at March 31, 2014. Net of the allowance for losses thereon, Loans increased 24% to $135,646,000 at March 31, 2014 compared to $109,775,000 at December 31, 2013 and were 26% higher than the $107,459,000 at March 31, 2013. The Company's Loans represent advances made by its recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to approximately 140 clients in a wide variety of industries at March 31, 2014, as well as Varion's lease receivables and equipment and related loans to approximately 380 clients. Four clients each comprised over 5% of total Loans at March 31, 2014, of which the largest client comprised 10%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables without financing them. Since the Company does not take title to these receivables, they do not appear on its consolidated statements of financial position. These non-recourse or managed receivables totalled $75 million at March 31, 2014 compared to $62 million at December 31, 2013 and $94 million at March 31, 2013. Managed receivables comprise the receivables of approximately 125 clients at March 31, 2014. The 25 largest clients comprised 71% of non-recourse volume in the first quarter of 2014. Most of the clients' customers upon which the Company assumes the credit risk are "big box", apparel, home furnishings and footwear retailers in Canada and the United States. At March 31, 2014, the 25 largest customers accounted for 40% of the total managed receivables, of which the largest five comprised 22%. 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 Loans, as detailed above, and managed receivables increased by 23% to $213 million at March 31, 2014 compared to $173 million at December 31, 2013 and was 5% higher than the $203 million at March 31, 2013.

As described in note 18(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 financing other assets such as inventory and equipment. Credit in the Company's factoring and asset-based lending business 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. In Varion's leasing operations, transactions up to $75,000 are approved by credit managers or more senior staff, while amounts between $75,001 and $150,000 are approved by Varion's general manager or an officer of Varion. Amounts over $150,000 are approved by both Varion's general manager and its President. 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.

In its factoring operations, 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. Varion's lease receivables and equipment loans are term loans with payments usually spread out evenly over the term of the lease or loan, which can typically be up to 60 months. Of the total managed receivables that the Company guarantees payment, 2.4% were past due more than 60 days at March 31, 2014. 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 and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, 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. In its factoring operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. 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 and applying concentration limits, 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 factoring operations, the Company administers and collects the majority of its clients' receivables and so is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's leasing operations, security deposits are usually obtained in respect of each equipment lease or term loan. 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. Note 18(a) to the Statements provides details of the Company's credit exposure by industrial segment.

After the customary detailed quarter-end review of the Company's portfolio by its Risk Management Committee, it was determined that all problem loans and accounts were identified and provided for. The Company maintains separate allowances for credit and loan losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans increased by 18% to $1,780,000 at March 31, 2014 compared to $1,512,000 at December 31, 2013 on a 23% rise in Loans in the first quarter. The allowance was 30% higher than the $1,366,000 at March 31, 2013 on 26% higher Loans. The allowance for losses on the guarantee of managed receivables increased 16% to $171,000 at March 31, 2014 compared to $147,000 at December 31, 2013 but was lower than the $212,000 at March 31, 2013. The allowance for losses on the guarantee of managed receivables rose in 2014 on a 21% increase in managed receivables this year. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. The allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included on its consolidated statements of financial position. The activity in the allowance for losses accounts for the first quarter of 2014 and 2013 is set out in note 5 to the Statements. The estimates of both allowances for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash increased to $4,996,000 at March 31, 2014 compared with $3,442,000 at December 31, 2013 and $3,014,000 at March 31, 2013. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. Fluctuations in cash balances are normal.

Assets held for sale are stated at their net realizable value and totalled $4,675,000 at March 31, 2014 compared to $4,540,000 at December 31, 2013 and $3,377,000 last March 31. Please refer to note 6 to the Statements for details of changes in the assets held for sale in the first quarter of 2014 and 2013. During 2013, the Company obtained title to certain long-lived assets securing a defaulted loan with a net realizable value of $1,120,000. In 2009, the Company also obtained title to certain long-lived assets securing a defaulted loan upon which the Company's U.S. subsidiary had foreclosed. The assets are currently being marketed for sale, or will be shortly, and will be sold as market conditions permit. The net realizable value of the assets at March 31, 2014 and 2013 and December 31, 2013 was estimated based upon professional appraisals of the assets. Assets held for sale by our U.S. subsidiary are translated into Canadian dollars at the prevailing period-end exchange rate.

Intangible assets were acquired as part of the Varion acquisition on January 31, 2014 and comprise existing customer contracts and broker relationships. These are being amortized over a period of 5 to 7 years. Intangible assets, net of accumulated amortization, totalled $2,441,000, at March 31, 2014. Please refer to note 7 to the Statements.

Goodwill totalled $2,779,000 at March 31, 2014 compared to $1,023,000 at December 31, 2013 and $977,000 at March 31, 2013.

Goodwill of $1,715,000 was acquired as part of the Varion acquisition on January 31, 2014. Goodwill of US$962,000 is also carried in the Company's U.S. operations. Please refer to note 8 to the Statements.

Other assets, income taxes receivable, deferred tax assets and capital assets at March 31, 2014 and 2013 and December 31, 2013 were not material.

Total liabilities increased by $31,619,000 to $98,997,000 at March 31, 2014 compared to $67,378,000 at December 31, 2013 and were $30,438,000 higher than the $68,559,000 at March 31, 2013. The increase since December 31, 2013 and March 31, 2013 mainly resulted from higher bank indebtedness.

Amounts due to clients increased by $1,067,000 to $6,182,000 at March 31, 2014 compared to $5,115,000 at December 31, 2013 and were $2,327,000 higher than the $3,855,000 at March 31, 2013. 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 $29,063,000 to $72,431,000 at March 31, 2014 compared with $43,368,000 at December 31, 2013 and was $24,600,000 higher than the $47,831,000 at March 31, 2013. Bank indebtedness mainly increased to fund the rise in Loans, although $4,170,000 of the increase related to cash consideration paid as part of the Varion acquisition. The Company had approved credit lines with a number of banks totalling $123 million at March 31, 2014 and was in compliance with all loan covenants thereunder at the above dates. The Company's credit lines are typically renewed for a period of one or two years at a time as circumstances dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Accounts payable and other liabilities totalled $3,013,000 at March 31, 2014 compared to $2,276,000 at December 31, 2013 and $1,688,000 last March 31. The increase since December 31, 2013 principally resulted from client security deposits assumed upon the acquisition of Varion ($392,000 at March 31, 2014) and a $295,000 increase in the Company's liability for outstanding SARs. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables.

Income taxes payable, deferred income and deferred tax liabilities at March 31, 2014, December 31, 2013 and March 31, 2013 were not significant.

Notes payable increased to $14,826,000 at March 31, 2014 compared to $14,809,000 at December 31, 2013 and $13,570,000 at March 31, 2013. The increase in notes payable resulted from new notes issued, net of redemptions, and/or accrued interest. Please see Related Party Transactions section below and note 10 to the Statements.

Capital stock increased by $859,000 to $6,896,000 at March 31, 2014 compared to $6,037,000 at December 31 and March 31, 2013. There were 8,307,713 common shares outstanding at March 31, 2014 compared to 8,221,498 at December 31, 2013 and March 31, 2013. The $859,000 increase since December 31, 2013 relates to the issuance of 86,215 shares on January 31, 2014 as part of the Varion purchase consideration. These shares were issued at a price of $9.97 being the closing price of the Company's shares on the TSX on the date of acquisition. The consolidated statements of changes in equity on page 15 of this report provide details of changes in the Company's issued and outstanding common shares and capital stock in the first quarter of 2014 and 2013. At the date of this MD&A, May 7, 2014, 8,307,713 common shares were outstanding.

Retained earnings totalled $47,210,000 at March 31, 2014 compared to $47,078,000 at December 31, 2013 and $43,759,000 at March 31, 2013. In the first quarter of 2014 retained earnings increased by $132,000. This comprised net earnings of $797,000 less dividends paid of $665,000 (8 cents per common share). Please see the consolidated statements of changes in equity on page 15 of this report for details of changes in retained earnings in the first quarter of 2014 and 2013.

The Company's AOCIL account solely comprises the cumulative unrealized foreign exchange income or loss arising on the translation of the assets and liabilities of the Company's foreign operations. The AOCIL balance was in an income position of $1,647,000 at March 31, 2014 compared to $274,000 at December 31, 2013 and a loss position of $1,226,000 at March 31,

2013. These balances represent the cumulative translation gains or losses arising as a result of fluctuations in the U.S. dollar against the Canadian dollar since January 1, 2010, the date the Company transitioned to IFRS and reset its AOCIL balance to zero. Please refer to note 15 to the Statements and the consolidated statements of changes in equity on page 15 of this report, which details movements in the AOCIL account during the first quarter of 2014 and 2013. The $1,373,000 increase in the first three months of 2014 resulted from an increase in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar strengthened from $1.0636 at December 31, 2013 to $1.1055 at March 31, 2014. This increased the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US$33 million by $1,373,000 in the first quarter.

Liquidity and Capital Resources

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

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

(as a percentage)	**Mar. 31, 2014**	Dec. 31, 2013	Mar. 31, 2013
Debt* / Equity	**156%**	109%	126%
Equity / Assets	**36%**	44%	41%

**bank indebtedness and notes payable*

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

The Company had bank credit lines totalling $123 million at March 31, 2014 and had borrowed $72 million against these facilities. Funds generated through operating activities and issuance of notes payable decrease the usage of, and dependence on, these lines.

As noted in the Review of Financial Position section above, the Company had cash balances of $4,996,000 at March 31, 2014 compared to $3,442,000 at December 31, 2013. As far as possible, cash balances are maintained at a minimum and surplus cash is used to repay bank indebtedness.

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

Cash flow for the quarter ended March 31, 2014 compared with the quarter ended March 31, 2013

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled $1,537,000 in the first quarter of 2014 compared to $1,937,000 last year. After changes in operating assets and liabilities and income tax payments are taken into account, there was a net cash outflow from operating activities of $18,430,000 in the first quarter of 2014 compared to an inflow of $2,026,000 last year. The net cash outflow in the current quarter largely resulted from financing Loans of $18,779,000. In the first quarter of 2013, the net cash inflow principally resulted from a net reduction in Loans of $2,235,000 and net earnings of $1,246,000. Changes in other operating assets and liabilities are discussed above and are set out in the Company's consolidated statements of cash flows on page 16 of this report.

Cash outflows from investing activities totalled $4,201,000 (2013 – nil) in the current quarter. In the current quarter, cash consideration of $4,170,000 was paid as part of the Varion acquisition, while $31,000, net, related to capital asset additions.

Net cash inflow from financing activities totalled $24,142,000 in the current quarter compared to an outflow of $8,939,000 last year. The net cash inflow in the current quarter resulted from an increase in bank indebtedness of $26,249,000. Partially offsetting this inflow were funds of $1,430,000 used to redeem Varion's preferred shares immediately upon acquisition, a dividend payment of $665,000 and notes payable redemptions, net, of $12,000. The net cash outflow in the first quarter of 2013 resulted from repayment of bank indebtedness of $7,344,000, notes payable redemptions, net, of $937,000 and a dividend payment of $658,000.

The effect of exchange rate changes on cash was not significant in the quarters ended March 31, 2014 and 2013.

Overall, there was a net cash inflow of $1,554,000 in the current quarter compared to an outflow of $6,885,000 in the first quarter of 2013.

Contractual Obligations and Commitments at March 31, 2014

	Payments due in				
(in thousands of dollars)	Less than 1 year	2 and 3 years	4 and 5 years	After 5 years	**Total**
Operating lease obligations	$ 404	$ 748	$ 83	$ —	**$ 1,235**
Purchase obligations	139	48	—	—	**187**
Total	$ 543	$ 796	$ 83	$ —	**$ 1,422**

Related Party Transactions

The Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand or, in the case of one note, a week after demand and bear interest at rates at or below the rates charged by the Company's banks. Notes payable at March 31, 2014 rose to $14,826,000 compared with $14,809,000 at December 31, 2013 and $13,570,000 at March 31, 2013. Of these notes payable, $12,958,000 (December 31, 2013 – $12,957,000; March 31, 2013 – $12,254,000) was owing to related parties and $1,868,000 (December 31, 2013 – $1,852,000; March 31, 2013 – $1,316,000) to third parties. Interest expense on these notes totalled $103,000 in the quarter ended March 31, 2014 compared to $101,000 last year. Please refer to note 10 to the Statements.

Financial Instruments

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

At March 31, 2014, the Company had outstanding forward foreign exchange contracts with a financial institution that must be exercised by the Company between July 31, 2014 and September 30, 2014 and which oblige the Company to sell Canadian dollars and buy US$900,000 at exchange rates ranging from 1.0985 to 1.1254. These contracts were entered into on behalf of a client and similar contracts were entered into between the Company and the client whereby the Company will sell US$900,000 to and buy Canadian dollars from the client, thereby offsetting most risks to the Company. These contracts are discussed further in note 14 to the Statements.

Critical Accounting Policies and Estimates

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

i) the allowance for losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic environment, condition of the loan and receivable portfolios and typical industry loss experience. These estimates are particularly

judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

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

A general or collective allowance on both its Loans and its guarantee of managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its collective allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are based upon historic credit and loan loss experience and are reviewed for adequacy on an ongoing basis. Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and in notes 3(d) and 5 to the Statements.

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

Control Environment

There have been no changes to the Company's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, DC&P or ICFR. However, due to the timing of the acquisition of Varion on January 31, 2014, the Company has limited its design of DC&P and ICFR to exclude the controls, policies and procedures relating to Varion for the three months ended March 31, 2014. At March 31, 2014, Varion had assets of $7,651,000 and liabilities of $6,418,000, including $3,045,000 due to the Company. During the two months since acquisition, Varion's revenue totalled $234,000 and it incurred a net loss of $60,000.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate and, as such, there can be no assurance that any design will succeed in achieving its stated goal under all potential conditions.

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

Competition

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects competition to persist in the future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete

effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, operating results and financial condition. The Company will not, however, compromise its credit standards.

Economic slowdown

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

Credit risk

The Company is in the business of factoring its clients' receivables and making asset-based loans, including lease financing. The Company's portfolio totalled $213 million at March 31, 2014. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 18(a) to the Statements.

Interest rate risk

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Further, in its leasing business, lease receivables and term loans to clients tend to be at fixed effective interest rates, while related bank borrowings tend to be floating rate. Please refer to note 18(c)(ii) to the Statements.

Foreign currency risk

The Company operates internationally. Accordingly, a portion of its financial resources is 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 fluctuations in the U.S. dollar against the Canadian dollar affect its operating results when its foreign subsidiaries results are translated into Canadian dollars. It has also impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had reduced the AOCIL component of equity to a loss position, although this has now recovered to a gain position at March 31, 2014. Please see notes 15 and 18(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. Business combinations also require management to exercise judgment in measuring the fair value of assets acquired, liabilities and contingent liabilities assumed, and equity instruments issued.

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, long-term incentives, 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's factoring volume was a first quarter record and we ended the quarter with record high funds employed of $137 million, up 23% in the quarter. Further, our pipeline of

Superior Client Service: Accord's clients deal with decision-makers for credit and funding, using fast, simple and reliable procedures. Accord will look after credit investigations, record-keeping and collections. Our clients appreciate our high level of service, attention to detail and how we simplify doing business.

prospects is good, and it is anticipated that our factoring and asset-based financing units, AFIC and AFIU, can build upon the momentum of the first quarter despite operating in a very competitive market. AFL, our Canadian non-recourse factoring business which has faced intense competition from multinational credit insurers for the last three years, has now stabilized and hopes to grow somewhat in 2014. Varion, our leasing company acquired on January 31, 2014, hopes to grow its leasing business substantially over the next few years with Accord's financial backing. The Company continues to seek opportunities to acquire companies or portfolios to grow its business and is optimistic about its prospects for the remainder of 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
May 7, 2014

Accord's Financial Services

Non-recourse factoring

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

Recourse factoring

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

Asset-based lending

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

International trade financing

Since 1978, Accord has been a leader in cross-border trade, simplifying the financing and management of international receivables. Our unique AccordOctet program provides import financing for North American companies sourcing goods anywhere in the world, while our alliance with Factors Chain International facilitates seamless credit and collection services through a network of more than 265 factoring companies in 75 countries worldwide.

ACCORDOctet™ Safe. Secure. And surprisingly simple.

FCI A Member of Factors Chain International

Lease financing

Varion Capital Corp. finances equipment for SMEs, serving a broad base of Canada's most dynamic industries, from forestry and energy to hospitality and manufacturing. Varion's success has been built on its commitment to supporting SMEs directly, and on its strong relationships with regional and national equipment vendors. Varion delivers on Accord's strengths, including our flexible approach to financing businesses that may be underserved by the major banks.

VARION Capital Corp an Accord company

Consolidated Statements of Financial Position (unaudited)

	March 31, 2014	December 31, 2013	March 31, 2013
Assets			
Cash	**$ 4,995,967**	$ 3,442,186	$ 3,013,997
Finance receivables and loans, net (note 5)	**135,646,379**	109,774,608	107,458,675
Income taxes receivable	**165,184**	7,871	270,536
Other assets	**2,313,750**	382,017	422,844
Assets held for sale (note 6)	**4,674,655**	4,539,910	3,376,934
Deferred tax assets, net	**1,464,224**	1,351,684	1,326,520
Capital assets	**312,660**	287,552	324,143
Intangible assets (note 7)	**2,440,992**	—	—
Goodwill (note 8)	**2,778,512**	1,022,861	977,084
	$ 154,792,323	$ 120,808,689	$ 117,170,733
Liabilities			
Due to clients	**$ 6,182,460**	$ 5,115,368	$ 3,855,140
Bank indebtedness (note 9)	**72,430,832**	43,368,363	47,830,681
Accounts payable and other liabilities	**3,013,326**	2,275,855	1,688,120
Income taxes payable	**1,228,798**	1,126,493	1,091,891
Notes payable (note 10)	**14,825,881**	14,808,714	13,569,762
Deferred income	**554,550**	503,424	523,216
Deferred tax liabilities	**761,147**	180,000	—
	98,996,994	67,378,217	68,558,810
Equity			
Capital stock (note 11)	**6,896,153**	6,036,589	6,036,589
Contributed surplus	**42,840**	42,840	42,840
Retained earnings	**47,209,824**	47,077,476	43,758,653
Accumulated other comprehensive income (loss) (note 15)	**1,646,512**	273,567	(1,226,159)
	55,795,329	53,430,472	48,611,923
	$ 154,792,323	$ 120,808,689	$ 117,170,733
Common shares outstanding	**8,307,713**	8,221,498	8,221,498

Notice to Reader

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

Consolidated Statements of Earnings (unaudited)

Three months ended March 31	2014	2013
Revenue		
Interest and other income (note 5)	$ 6,616,225	$ 5,947,217
Expenses		
Interest	517,904	453,137
General and administrative	4,152,259	3,301,003
Provision for credit and loan losses	526,789	279,706
Depreciation	26,836	27,343
Business acquisition expenses:		
Transaction and integration costs	112,429	—
Amortization of intangibles	82,043	—
	$ 5,418,260	$ 4,061,189
Earnings before income tax expense	1,197,965	1,886,028
Income tax expense	401,000	640,000
Net earnings	$ 796,965	$ 1,246,028
Basic and diluted earnings per common share	$ 0.10	$ 0.15
Basic and diluted weighted average number of common shares	8,279,902	8,221,498

Consolidated Statements of Comprehensive Income (unaudited)

Three months ended March 31	2014	2013
Net earnings	$ 796,965	$ 1,246,028
Other comprehensive income: unrealized foreign exchange gain on translation of foreign operations	1,372,945	628,125
Comprehensive income	$ 2,169,910	$ 1,874,153

Consolidated Statements of Changes in Equity (unaudited)

	Capital Stock					
	Number of common shares outstanding	Amount	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2012	8,221,498	$ 6,036,589	$ 42,840	$ 43,170,345	$ (1,854,284)	$ 47,395,490
Comprehensive income	—	—	—	1,246,028	628,125	1,874,153
Dividend paid	—	—	—	(657,720)	—	(657,720)
Balance at March 31, 2013	8,221,498	$ 6,036,589	$ 42,840	$ 43,758,653	$ (1,226,159)	$ 48,611,923
Balance at December 31, 2013	8,221,498	$ 6,036,589	$ 42,840	$ 47,077,476	$ 273,567	$ 53,430,472
Comprehensive income	—	—	—	796,965	1,372,945	2,169,910
Shares issued on acquisition of Varion Capital Corp.	86,215	859,564	—	—	—	859,564
Dividend paid	—	—	—	(664,617)	—	(664,617)
Balance at March 31, 2014	8,307,713	$ 6,896,153	$ 42,840	$ 47,209,824	$ 1,646,512	$ 55,795,329

Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31	2014	2013
Cash provided by (used in)		
Operating activities		
Net earnings	$ 796,965	$ 1,246,028
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	183,551	(47,167)
Deferred income	47,056	71,034
Depreciation	26,836	27,343
Loss on disposal of capital assets	—	23
Amortization of intangibles	82,043	—
Deferred tax (recovery) expense	(75,303)	39,896
Current income tax expense	476,303	600,104
	1,537,451	1,937,261
Changes in operating assets and liabilities		
Finance receivables and loans	(18,779,230)	2,234,721
Due to clients	1,031,501	(53,816)
Other assets	(1,916,484)	(202,730)
Accounts payable and other liabilities	268,692	(1,306,009)
Assets held for sale	886	—
Income tax paid, net	(573,294)	(583,709)
	(18,430,478)	2,025,718
Investing activities		
Acquisition of Varion Capital Corp.	(4,169,744)	—
Additions to capital assets, net	(30,786)	—
	(4,200,530)	—
Financing activities		
Bank indebtedness	26,249,021	(7,343,481)
Notes payable redeemed, net	(12,320)	(937,314)
Redemption of Varion Capital Corp. preferred shares	(1,430,467)	—
Dividend paid	(664,617)	(657,720)
	24,141,617	(8,938,515)
Effect of exchange rate changes on cash	43,172	27,779
Increase (decrease) in cash	1,553,781	(6,885,018)
Cash at beginning of period	3,442,186	9,899,015
Cash at end of period	$ 4,995,967	$ 3,013,997
Supplemental cash flow information		
Net cash used in operating activities includes:		
Interest paid	$ 454,316	$ 374,095

Notes to Consolidated Financial Statements (unaudited)

Three months ended March 31, 2014 and 2013

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, leasing, credit investigation and 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 are prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 finance receivables and loans and to the guarantee of managed receivables, the net realizable value of assets held for sale, deferred tax assets and liabilities, as well as the valuation of intangible assets and goodwill acquired in business combinations (see notes 3(d), 3(o), 3(q), 4, 5, 6, 7 and 8). 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 months ended March 31, 2014 were approved for issue by the Company's Board of Directors ("Board") on May 7, 2014.

3. Significant accounting policies

a) *Basis of consolidation*

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

b) *Revenue recognition*

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's recourse and non-recourse factoring and leasing businesses and is measured at the fair value of the consideration received. For receivables purchased in its recourse factoring business, discount fees are calculated as a discount percentage of the gross amount of the factored invoice and are recognized as revenue over the initial discount period. Additional discount fees are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. For non-recourse or managed receivables, factoring commissions are charged upfront and a certain portion thereof is deferred and recognized over the period that costs are incurred collecting the receivables. Interest charged on finance receivables and loans to clients is recognized as revenue using the effective interest rate method. In the Company's leasing business interest is recognized over the term of the lease agreement or installment payment agreement using the effective interest rate; the effective interest rate is that rate that exactly discounts estimated future cash receipts through the expected life of the lease, installment payment or loan agreement. Fees related to direct finance leases, installment payment agreements and loan receivables of Varion are considered an integral

part of the yield earned on the debtor balance and are accounted for using the effective interest rate method.

Other revenue, such as due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

c) Finance receivables and loans

The Company finances its clients by factoring their receivables, providing asset-based loans and financing equipment leases. Finance receivables (namely, factored receivables and lease receivables) and loans to clients 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. Finance receivables and loans to clients are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method.

The Company's leasing operations have standard lease contracts that are non-cancellable direct financing leases and provide for monthly lease payments, usually for periods of one to five years. The present value of the minimum lease payments to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of execution costs, and the cost of the leased asset is unearned revenue, which is recorded as a reduction of the asset, with the net amount being shown as the net investment in leases. The unearned revenue is then recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return on the net investment throughout the lease term.

d) Allowances for losses

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

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

The Company considers evidence of impairment for finance receivables and loans and managed receivables at both a specific asset and collective level. All finance 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 finance 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 finance receivables and loans is recorded at amortized cost, while the allowance for losses on the guarantee of managed receivables is recorded at fair value.

e) Capital assets

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

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

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

f) Goodwill

Goodwill arises upon the acquisition of subsidiaries or loan portfolios. Goodwill is not amortized, but an annual impairment test is performed by comparing the carrying amount to the recoverable amount for the cash-generating unit. If the carrying value of the goodwill exceeds its recoverable amount, the excess is charged against earnings in the year in which the impairment is determined.

g) Intangible assets

Purchased intangible assets are recognized as assets in accordance with International Accounting Standard ("IAS") 38, Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase, which is also the fair value at the date acquired, and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses. The Company's intangible assets have a finite life and are amortized over their useful economic life. They are also assessed for impairment each reporting period. The amortization period and method of amortization are reassessed annually. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and are treated as a change in accounting estimates. The amortization expense is recorded as a charge against earnings. The Company's intangible assets comprise existing customer contracts and broker relationships in its leasing operations, which are amortized over a period of five to seven years.

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 through the statement of earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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, as well as the available losses carried forward to future years for income tax 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. A deferred tax liability is recognized in respect of taxes payable in the future based on deductible temporary differences and are mainly related to the Company's goodwill and intangible asset balances.

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

i) Foreign subsidiaries

The assets and liabilities of the Company's foreign subsidiaries that report in U.S. dollars are translated into Canadian dollars at the exchange rate prevailing at the statement of financial position date. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting translation gains and losses are credited or charged to other comprehensive

income or loss and presented in the accumulated other comprehensive income or loss component of equity.

j) Foreign currency translation

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

k) Earnings per common share

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

l) Stock-based compensation

The Company accounts for SARs and stock options issued to directors and employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the SARs 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 the statement of 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. The Company has employed only cash flow or economic hedges.

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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between participants in an active (or in its absence, the most advantageous) market to which the Company has access at the transaction date.

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

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

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

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

o) Assets held for sale

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

p) *Financial instruments – disclosures*

The financial instruments presented on the 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) *Business combinations*

Business combinations are accounted for using the acquisition method of accounting under IFRS 3, Business Combinations. This involves recognizing identifiable assets and liabilities, including previously unrecognized intangible assets and liabilities, and contingent liabilities but excluding future restructuring of the acquired business, at fair value. Transaction and integration costs incurred in business combinations are expensed as incurred and reported as "business acquisition expenses" in the statement of earnings.

r) *Future accounting policies*

IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements, in regards to classification and measurement of financial assets. This change will be completed and implemented in three separate phases: (i) classification and measurement of financial assets and liabilities; (ii) impairment of financial assets; and (iii) hedge accounting. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of IFRS 9 has not yet been determined.

4. Acquisition of Varion Capital Corp.

On January 31, 2014, the Company acquired 100% of Varion, a Canadian lease finance company. Varion has been financing equipment for small- and medium-sized businesses since 2004. This acquisition expands the range of asset-based financial services offered by Accord to include leasing.

The following table summarizes the purchase consideration paid and the fair value of Varion's assets acquired and liabilities assumed at the date of acquisition:

Purchase consideration	
Cash paid	**$ 4,169,744**
Shares issued at fair value (86,215 at $9.97 each)	**859,564**
	$ 5,029,308
Assets acquired	
Finance receivables, net	**$ 5,564,500**
Other assets	**12,934**
Capital assets, net	**18,840**
Intangible assets (note 7)	**2,523,035**
Goodwill (note 8)	**1,715,356**
	9,834,665
Liabilities assumed	
Bank indebtedness	**2,362,361**
Accounts payables and other liabilities	**418,914**
Income taxes payable	**162**
Deferred tax liabilities	**593,453**
Preferred shares	**1,430,467**
	4,805,357
Fair value of net assets acquired	**$ 5,029,308**

The Company incurred business acquisition expenses of $194,472 in the three months ended March 31, 2014 relating to the purchase. In the two months since the date of acquisition to March 31, 2014, Varion generated revenue of $234,221 and incurred a net loss of $59,654. Had the Varion acquisition occurred at the beginning of the year, the revenue generated and net loss incurred would have been approximately $120,000 and $30,000 higher, respectively.

5. Finance receivables and loans

	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Factored receivables	**$107,227,935**	$ 91,983,961	$ 92,658,387
Loans to clients	**25,902,005**	19,302,647	16,166,288
Lease receivables	**4,296,439**	—	—
Finance receivables and loans	**137,426,379**	111,286,608	108,824,675
Less allowance for losses	**1,780,000**	1,512,000	1,366,000
Finance receivables and loans, net	**$135,646,379**	$109,774,608	$107,458,675

Lease receivables comprise Varion's net investment in leases as described in note 3(c) and is stated at the present value of future lease payments. Varion's lease receivables at March 31, 2014 will be collected over a period of five years.

The Company's allowance for losses on its finance receivables and loans at March 31, 2014 comprised a collective allowance of $1,685,000 and a specific allowance of $95,000. At December 31 and March 31, 2013, it comprised only a collective allowance. The activity in the allowance for losses on finance receivables and loans account during the first three months of 2014 and 2013 was as follows:

	2014	2013
Allowance for losses at January 1	**$ 1,512,000**	$ 1,406,000
Allowance for losses assumed on acquisition of Varion	**95,174**	—
Provision for credit and loan losses	**422,790**	184,835
Charge-offs	**(263,240)**	(243,686)
Recoveries	**—**	6,684
Foreign exchange adjustment	**13,276**	12,167
Allowance for losses at March 31	**$ 1,780,000**	$ 1,366,000

The Company has entered into agreements with clients whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At March 31, 2014, the gross amount of these managed receivables was $75,441,435 (December 31, 2013 – $62,170,445; March 31, 2013 – $94,490,742). At March 31, 2014, management provided an amount of $171,000 (December 31, 2013 – $147,000; March 31, 2013 – $212,000) as a collective allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of the guarantees at those dates. This allowance is included in the total of accounts payable and other liabilities as the Company does not take title to the managed receivables and they are not included in the consolidated statement of financial position.

The activity in the allowance for losses on the guarantee of managed receivables account during the three months ended March 31, 2014 and 2013 was as follows:

	2014	2013
Allowance for losses at January 1	**$ 147,000**	$ 207,000
Provision for credit losses	**103,999**	94,871
Charge-offs	**(129,005)**	(143,073)
Recoveries	**49,006**	53,202
Allowance for losses at March 31	**$ 171,000**	$ 212,000

The nature of the Company's 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. These transactions are conducted on terms that are usual and customary to the Company's factoring, financing and leasing activities. The Company controls the credit risk associated with its finance 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 18(a).

At March 31, 2014, the Company held cash collateral of $1,129,006 (December 31, 2013 – $609,212; March 31, 2013 – $733,253) to help reduce the risk of loss on certain of the Company's finance receivables and loans and managed receivables.

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

In establishing its collective allowances, the Company applies percentage formulae to its finance receivables and loans and managed receivables. The Company reviewed and adjusted its allowance for losses formulae in the current quarter. This change in estimate did not have a material impact on the Company's consolidated financial statements.

Interest income earned on finance receivables and loans during the quarter ended March 31, 2014 totalled $5,066,480 (March 31, 2013 – $4,398,666).

6. Assets held for sale

The net realizable value of the assets held for sale at March 31, 2014 and 2013 and movements therein during the first three months of 2014 and 2013 were as follows:

	2014	2013
Assets held for sale at January 1	**$ 4,539,910**	$ 3,306,803
Foreign exchange adjustment	**134,745**	70,131
Assets held for sale at March 31	**$ 4,674,655**	$ 3,376,934

The Company obtained title to certain long-lived assets securing defaulted loans in 2013 and 2009. These assets are currently being marketed for sale, or will be shortly, and will be sold as market conditions permit. The net realizable value of the assets at March 31, 2014, December 31 2013 and March 31, 2013 was estimated based upon professional appraisals of the assets.

7. Intangible assets

The Company's intangible assets were acquired as part of the Varion acquisition on January 31, 2014. At March 31, 2014 they were as follows:

	Existing customer contracts	Broker relationships	Total
Cost			
January 1, 2014	$ —	$ —	$ —
Varion acquisition (note 4)	1,179,097	1,343,938	2,523,035
March 31, 2014	1,179,097	1,343,938	2,523,035
Accumulated amortization			
January 1, 2014	—	—	—
Amortization expense	(48,021)	(34,022)	(82,043)
March 31, 2014	(48,021)	(34,022)	(82,043)
Net book value			
January 1, 2014	—	—	—
March 31, 2014	$1,131,076	$1,309,916	$2,440,992

8. Goodwill

	2014	2013
Balance at January 1	$ 1,022,861	$ 956,792
Varion acquisition (note 4)	1,715,356	—
Foreign exchange adjustment	40,295	20,292
Balance at March 31	$ 2,778,512	$ 977,084

Goodwill is tested for impairment annually. During 2013, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2014's impairment review will be conducted in the Company's fourth quarter unless impairment indicators arise earlier. Goodwill of US$961,697 is carried in the Company's U.S. operations and a foreign exchange adjustment is booked each period-end as this amount is translated into Canadian dollars at the prevailing period-end exchange rate.

9. 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 finance receivables and loans. At March 31, 2014, the amounts outstanding under the lines of credit totalled $72,430,832 (December 31, 2013 – $43,368,363; March 31, 2013 – $47,830,681). The Company was in compliance with all loan covenants under these lines of credit at March 31, 2014.

10. Related party transactions (notes payable)

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

Notes payable were as follows:

	Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2013
Related parties	$ 12,958,330	$ 12,956,607	$ 12,254,215
Third parties	1,867,551	1,852,107	1,315,547
	$ 14,825,881	$ 14,808,714	$ 13,569,762

Interest expense on the notes payable for the three months ended March 31, 2014 and 2013 was as follows:

	2014	2013
Related parties	$ 91,655	$ 92,887
Third parties	11,462	8,296
	$ 103,117	$ 101,183

11. Capital stock

a) *Authorized*

The authorized capital stock of the Company consists of an unlimited number of first preferred shares, issuable in series, and an unlimited number of common shares with no par value. The first preferred shares may be issued in one or more series and rank in preference to the common shares. Designations, preferences, rights, conditions or prohibitions relating to each class of shares may be fixed by the Board. At March 31, 2014 and 2013 and December 31, 2013, there were no first preferred shares outstanding.

b) *Issued and outstanding*

The Company's issued and outstanding common shares during the first quarter of 2014 and 2013 are set out in the consolidated statements of changes in equity.

c) *Dividends*

Dividends in respect of the Company's common shares are declared in Canadian dollars. During the three months ended March 31, 2014, a dividend totalling $664,617 (2013 – $657,720) or $0.08 (2013 – $0.08) per common share was declared and paid.

On April 23, 2014, the Company declared a quarterly dividend of $0.08 per common share, payable June 2, 2014 to shareholders of record at the close of business on May 15, 2014.

12. Share appreciation rights and stock-based compensation

The Company's stock-based compensation relates solely to its SARs. During the three months ended March 31, 2014, the Company recorded a stock-based compensation expense of $411,100 (2013 – $29,400) in respect of its SARs. 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, 2013 included in its 2013 Annual Report.

The following SARs were outstanding at:

SARs grant price	Grant Date	**Mar. 31, 2014**	Dec. 31, 2013	Mar. 31, 2013
$ 7.25	May 7, 2008	**15,000**	15,000	57,500
$ 6.03	July 28, 2009	**22,500**	32,500	70,000
$ 5.50	May 7, 2010	**60,000**	65,000	140,000
$ 7.95	May 4, 2011	**85,000**	107,500	152,500
$ 7.56	July 26, 2011	**5,000**	5,000	5,000
SARs outstanding		**187,500**	225,000	425,000
SARs vested		**187,500**	225,000	342,500

At March 31, 2014, the Company had accrued $528,900 (December 31, 2013 – $234,100; March 31, 2013 – $324,100) in respect of its liability for outstanding SARs.

13. Contingent liabilities

a) In the normal course of business there is outstanding litigation, the results of which are not expected to have a material effect upon the Company. Pending litigation, or other contingent matters represent potential financial loss to the Company. The Company accrues a potential loss if the Company believes the loss is probable and it can be reasonably estimated. The decision is based on information that is available at the time. The Company estimates the amount of the loss by consulting with the outside legal counsel that is handling the 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 $1,958,226 at March 31, 2014 (December 31, 2013 – $759,029; March 31, 2013 – $1,544,563). In addition, at March 31, 2014 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, 2013 – $150,000; March 31, 2013 – $250,000). These amounts were considered in determining the allowance for losses on finance receivables and loans.

14. Derivative financial instruments

At March 31, 2014, the Company had entered into forward foreign exchange contracts with a financial institution that must be exercised by the Company between July 31, 2014 and September 30, 2014 and which oblige the Company to sell Canadian dollars and buy US$900,000 at exchange rates ranging from 1.0985 to 1.1254. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby the Company will buy Canadian dollars from and sell US$900,000 to the client.

At December 31, 2013, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 1, 2014 and February 28, 2014 and obliged the Company to sell Canadian dollars and buy US$600,000 at exchange rates ranging from 1.0536 to 1.0548, while at March 31, 2013, the Company had entered into a forward foreign exchange contract with a financial institution that matured between April 1, 2013 and April 15, 2013 and obliged the Company to sell Canadian dollars and buy US$200,000 at an exchange rate of 1.0044. These contracts were entered into by the Company on behalf of a client and similar forward foreign exchange contracts were entered into between the Company and the client, whereby

the Company bought Canadian dollars from and sold US$600,000 and US$200,000, respectively, to the client between the above noted maturity dates.

The favorable and unfavorable fair values of the above contracts were recorded on the Company's consolidated statements of financial position in other assets and accounts payable and other liabilities, respectively. The fair values of these contracts were classified as Level 2 under IFRS 7. During the three months ended March 31, 2014 and 2013, there was no movement between the three-level fair value hierarchy described in note 3(p).

15. Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) ("AOCIL") solely comprises the unrealized foreign exchange gain or loss (commonly referred to as cumulative translation adjustment) arising on translation of the assets and liabilities of the Company's foreign subsidiaries that report in U.S dollars into Canadian dollars. Changes in the AOCIL balance during the three months ended March 31, 2014 and 2013 are set out in the consolidated statements of changes in equity.

16. Fair values of financial assets and liabilities

Any financial assets or liabilities, other than the lease receivables and loans to clients in our leasing business, recorded at cost are short term in nature and, therefore, their carrying values approximate fair values. Under the fair value hierarchy, finance receivables and loans are classified as Level 3.

17. 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 during the periods under review. For additions to intangible assets and goodwill, which were acquired as part of the Varion purchase and are part of Canadian operations, please refer to notes 7 and 8.

Three months ended March 31, 2014

(in thousands)	Canada	U.S.A. and others	Inter-company	Total
Identifiable assets	$ 98,422	$ 62,729	$ (6,359)	$ 154,792
Revenue	$ 4,632	$ 1,987	$ (3)	$ 6,616
Expenses				
Interest	443	78	(3)	518
General and administrative	3,070	1,082	—	4,152
Provision for credit and loan losses	439	88	—	527
Depreciation	19	8	—	27
Business acquisition expenses	194	—	—	194
	4,165	1,256	(3)	5,418
Earnings before income tax expense	467	731	—	1,198
Income tax expense	135	266	—	401
Net earnings	$ 332	$ 465	$ —	$ 797

Three months ended March 31, 2013

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

18. 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 and leases 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, leases 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, including leasing, 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.

In its factoring operations, 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. In its leasing business, transactions up to $75,000 are approved by credit managers, amounts between $75,001 and $150,000 are approved by Varion's general manager or an officer, while amounts over $150,000 are approved by both Varion's general manager and its President. 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.

In its factoring operations, the Company's primary focus continues to be on the credit-worthiness and collectability of its clients' receivables.

The Company's factoring clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables that the Company guarantees payment, 2.4% were past due more than 60 days at March 31, 2014 (December 31, 2013 – 4.9%; March 31, 2013 – 2.4%). In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its recourse factoring and leasing businesses, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, 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. In its factoring operations, the Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. 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 factoring operations, the Company administers and collects the majority of its clients' receivables and so is able to

quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. In the Company's leasing operations, security deposits are usually obtained in respect of each equipment lease or loan.

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. At March 31, 2014, the Company had not guaranteed accounts receivable in excess of $10 million to any customer.

The Company's credit exposure relating to its finance receivables and loans by industrial sector at March 31, 2014 and 2013 was as follows:

	2014	
Industrial sector (in thousands)	**Finance receivables and loans**	**% of total**
Financial and professional services	**$ 49,168**	**36**
Manufacturing	**38,605**	**28**
Wholesale and distribution	**34,851**	**25**
Other	**14,802**	**11**
	$ 137,426	**100**

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

The Company's credit exposure relating to its managed receivables by industrial sector at March 31, 2014 and 2013 was as follows:

	2014	
Industrial Sector (in thousands)	**Managed receivables**	**% of total**
Retail	**$ 68,188**	**90**
Other	**7,253**	**10**
	$ 75,441	**100**

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

As set out in notes 3(d) and 5 the Company maintains an allowance for credit and loan losses on its finance receivables and loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients, and accounts payable and other liabilities. Revolving credit lines totalling $123,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At March 31, 2014 the Company had borrowed $72,430,832 (December 31, 2013 – $43,368,363; March 31, 2013 – $47,830,681) against these facilities. These lines of credit are collateralized primarily by finance receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit as at March 31, 2014.

Notes payable are due on demand, or in the case of one note, a week after demand, and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at March 31, 2014, 87% of these notes were due to related parties and 13% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits collections within a few days of receipt. Accounts payable and other liabilities comprise a number of different obligations, the majority of which are payable within six months.

At March 31, 2014, as set out in note 5, the Company had finance receivables and loans, before the allowance for losses thereon, totalling $137,426,000 (December 31, 2013 – $111,287,000; March 31, 2013 – $108,825,000) which substantially exceeded its total liabilities of $98,997,000 at that date (December 31, 2013 – $67,378,000; March 31, 2013 – $68,559,000). The Company's factored receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

c) Market risk

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

i) Currency risk

The Company is exposed to currency risk primarily in its foreign operations, which operate in U.S. dollars, to the full extent of the foreign operations net assets of US$33,163,000 at March 31, 2014. The Company's investment in its foreign operations is not hedged as they are long-term in nature. Unrealized foreign exchange gains or losses arise on translation of the assets and liabilities of the Company's foreign operations 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 AOCIL component of equity (note 15). The Company is also subject to foreign currency risk on the earnings of its foreign operations, which are unhedged. Based on the foreign operations results for the three months ended March 31, 2014, a one-cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately $19,000. It would also change other comprehensive income or loss and the AOCIL component of equity by approximately $330,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At March 31, 2014, the Company's unhedged foreign currency positions in its Canadian operations totalled $245,000 (December 31, 2013 – $31,000; March 31, 2013 – $16,000). 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 finance 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 interest rate sensitivity gap at March 31, 2014 was as follows:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
Assets						
Cash	$ 1,615	$ —	$ —	$ —	$ 3,381	$ 4,996
Finance receivables and loans	130,451	442	4,091	2,357	(1,695)	135,646
Assets for sale	—	—	—	—	4,675	4,675
All other assets	—	158	—	—	9,317	9,475
	132,066	600	4,091	2,357	15,678	154,792
Liabilities						
Due to clients	—	—	—	—	6,183	6,183
Bank indebtedness	28,532	43,899	—	—	—	72,431
Notes payable	14,826	—	—	—	—	14,826
All other liabilities	—	1,224	—	—	4,333	5,557
Shareholders' equity	—	—	—	—	55,795	55,795
	43,358	45,123	—	—	66,311	154,792
Total interest rate sensitivity gap	$ 88,708	$(44,523)	$ 4,091	$ 2,357	$(50,633)	$ —

Based on the Company's interest rate positions as at March 31, 2014, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately $510,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

19. 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, these ratios were 156% (December 31, 2013 – 109%; March 31, 2013 – 126%) and 36% (December 31, 2013 – 44%; March 31, 2013 – 41%), respectively, at March 31, 2014 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 finance receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, at March 31, 2014, 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. Varion is required to maintain a TNW ratio of less than 1.75, while maintaining a TNW of at least $2 million. The Company was fully compliant with its banking covenants at March 31, 2014. There were no changes in the Company's approach to capital management from the previous year.

20. Subsequent events

At May 7, 2014 there were no subsequent events occurring after March 31, 2014 that required disclosure.

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