



Keeping Business Liquid



Management's Report to the Shareholders

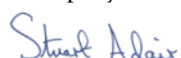


The management of Accord Financial Corp. is responsible for the preparation, presentation and integrity of the consolidated financial statements, financial information and MD&A contained in this annual report. This responsibility includes the selection of the Company's accounting policies in addition to judgments and estimates in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The accounting principles which form the basis of the consolidated financial statements and the more significant policies applied are described in notes 2 and 3 to the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of the CSA's National Instrument 51-102.

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

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

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


Stuart Adair
Vice President,
Chief Financial Officer

Toronto, Canada
March 1, 2010

Auditors' Report to the Shareholders



We have audited the consolidated balance sheets of Accord Financial Corp. as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public
Accountants



Toronto, Canada
February 23, 2010

Consolidated Balance Sheets

At December 31	2009	2008
Assets		
Factored receivables and loans, net (note 4)	\$ 89,906,633	\$ 99,990,000
Assets held for sale (note 5)	4,996,716	—
Cash	339,267	993,723
Other assets	302,742	229,554
Income taxes receivable	284,886	266,693
Future income taxes, net (note 12)	576,375	211,273
Capital assets (note 6)	520,129	635,010
Goodwill (note 7)	1,010,744	1,171,346
	\$ 97,937,492	\$ 103,497,599
Liabilities		
Bank indebtedness (note 8)	\$ 36,798,397	\$ 35,876,905
Due to clients	4,517,282	4,588,209
Accounts payable and other liabilities	3,266,477	3,080,485
Deferred income	746,273	828,624
Notes payable (note 9)	9,253,501	10,944,148
	54,581,930	55,318,371
Shareholders' equity		
Capital stock (note 10)	6,908,481	6,731,581
Contributed surplus (note 10(d))	42,840	82,225
Retained earnings	43,783,131	43,543,490
Accumulated other comprehensive loss (note 17)	(7,378,890)	(2,178,068)
	43,355,562	48,179,228
Commitments and contingencies (notes 4, 14, 15 and 16)		
	\$ 97,937,492	\$ 103,497,599
Common shares outstanding (note 10)	9,408,971	9,438,171

See accompanying notes to consolidated financial statements.

On behalf of the Board



Ken Hitzig,
Chairman of the Board



Tom Henderson,
President & Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31	2009	2008
Revenue		
Factoring commissions, discounts, interest and other income	\$ 24,045,288	\$ 28,059,765
Expenses		
Interest	1,180,185	2,871,402
General and administrative	13,290,213	13,490,618
Provision for credit and loan losses	3,647,849	3,848,451
Impairment of assets held for sale (note 5)	1,265,280	—
Depreciation	181,148	195,133
	19,564,675	20,405,604
Earnings before income tax expense	4,480,613	7,654,161
Income tax expense (note 12)	1,392,000	2,613,000
Net earnings	\$ 3,088,613	\$ 5,041,161
Earnings per common share (note 13)		
Basic	\$ 0.33	\$ 0.53
Diluted	0.33	0.53
Weighted average number of common shares (note 13)		
Basic	9,420,390	9,490,837
Diluted	9,424,384	9,530,932

Consolidated Statements of Comprehensive Income

Years ended December 31	2009	2008
Net earnings	\$ 3,088,613	\$ 5,041,161
Other comprehensive (loss) income:		
Unrealized (loss) gain on translation of self-sustaining foreign operation	(5,200,822)	6,716,819
Comprehensive (loss) income	\$ (2,112,209)	\$ 11,757,980

Consolidated Statements of Retained Earnings

Years ended December 31	2009	2008
Retained earnings at January 1	\$ 43,543,490	\$ 41,680,286
Net earnings	3,088,613	5,041,161
Dividends paid	(2,449,986)	(2,280,810)
Premium on shares repurchased for cancellation (note 10(c))	(398,986)	(897,147)
Retained earnings at December 31	\$ 43,783,131	\$ 43,543,490

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31	2009	2008
Cash provided by (used in)		
Operating activities		
Net earnings	\$ 3,088,613	\$ 5,041,161
Items not involving cash		
Allowances for losses, net of charge-offs and recoveries	(985,311)	830,773
Impairment of assets held for sale	1,265,280	—
Deferred income	(64,598)	1,266
Depreciation	181,148	195,133
Loss on disposal of capital assets	10,612	—
Future income tax expense	(412,644)	45,826
	3,083,100	6,114,159
Changes in operating assets and liabilities		
Factored receivables and loans, gross	856,196	10,052,281
Due to clients	15,993	(475,854)
Income taxes payable/receivable	37,266	(1,323,238)
Other assets	(47,436)	71,272
Accounts payable and other liabilities	(853,046)	(427,161)
Addition to assets held for sale	(209,264)	—
Sale of assets held for sale	73,049	—
	2,955,858	14,011,459
Investing activities		
Additions to capital assets, net	(85,886)	(220,508)
Financing activities		
Bank indebtedness	1,372,220	(13,331,681)
Notes payable (redeemed) issued, net	(1,615,247)	1,276,157
Issuance of shares	193,550	510,200
Repurchase and cancellation of shares	(455,021)	(1,005,017)
Dividends paid	(2,449,986)	(2,280,810)
	(2,954,484)	(14,831,151)
Effect of exchange rate changes on cash	(569,944)	886,239
Decrease in cash	(654,456)	(153,961)
Cash at January 1	993,723	1,147,684
Cash at December 31	\$ 339,267	\$ 993,723
Supplemental cash flow information		
Interest paid	\$ 958,454	\$ 2,520,291
Income taxes paid	2,301,506	3,987,389

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

1. Description of the business

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

2. Basis of presentation

These financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

3. Significant accounting policies

(a) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, Accord Financial Ltd. ("AFL") (formerly Accord Business Credit Inc.) and Accord Financial Inc. ("AFIC") (formerly Montcap Financial Corporation) in Canada and Accord Financial, Inc. ("AFIU") in the United States. Intercompany balances and transactions are eliminated upon consolidation.

(b) Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting years. Actual results could differ from those estimates. Estimates that are particularly judgmental relate to the determination of the allowance for losses relating to factored receivables and loans and to managed receivables (note 4). Management believes that both allowances for losses are adequate.

(c) Revenue recognition

Revenue principally comprises factoring commissions from the Company's recourse and non-recourse factoring businesses. Factoring commissions are calculated as a discount

percentage of the gross amount of the factored invoice. These commissions are recognized as revenue at the time of factoring. A portion of the revenue is deferred and recognized over the period when costs are being incurred in collecting the receivables. Additional factoring commissions are charged on a per diem basis if the invoice is not paid by the end of the initial discount period. Interest charges on loans are recognized as revenue on an accrual basis. Other revenue, such as due diligence fees, documentation fees and commitment fees, is recognized as revenue when earned.

(d) Allowances for losses

The Company maintains a separate allowance for losses on both its factored receivables and loans and its guarantee of managed receivables. 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.

Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on factored receivables and loans are charged to the allowance for losses when collectibility becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Recoveries of previously written off accounts are credited to the respective allowance for losses account.

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

(g) Income taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future income 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. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse and are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. To the extent that the realization of future income tax assets is not considered to be more likely than not, a valuation allowance is provided.

(h) Foreign subsidiary

The assets and liabilities of the Company's self-sustaining foreign subsidiary are translated into Canadian dollars at the exchange rate prevailing at the balance sheet 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.

(i) Foreign currency translation

Assets and liabilities denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing

at the balance sheet date. Revenue and expenses are translated into Canadian dollars at the prevailing average monthly exchange rate. Translation gains and losses are credited or charged to earnings.

(j) Earnings per common share

Earnings per common share are calculated using the treasury stock method to compute the dilutive effect of stock options.

(k) Stock-based compensation

The Company accounts for stock-based compensation awards, including stock options and share appreciation rights ("SARs") issued to employees and directors, using fair value based methods.

(l) Derivative financial instruments

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

(m) Assets held for sale

Assets acquired on realizing security on defaulted loans are held for sale and are stated at the lower of cost or net realizable value (fair value less costs of disposal).

(n) Change in accounting policy: Financial instruments - disclosures

In June 2009, The Canadian Institute of Chartered Accountants ("CICA") issued amendments to Handbook Section 3862, Financial Instruments - Disclosures, to expand disclosures of financial instruments consistent with new disclosure requirements necessary under International Financial Reporting Standards ("IFRS"). These amendments were effective for the Company commencing January 1, 2009 and introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for 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.

4. Factored receivables and loans

	2009	2008
Factored receivables	\$ 73,832,506	\$ 70,886,805
Loans to clients	17,602,127	32,090,195
Factored receivables and loans, gross	91,434,633	102,977,000
Less allowance for losses	1,528,000	2,987,000
Factored receivables and loans, net	\$ 89,906,633	\$ 99,990,000

The Company's allowance for losses on factored receivables and loans (collectively, "loans") at December 31, 2009 comprised only a general allowance. At December 31, 2008 the allowance for losses comprised a general allowance of \$1,535,000 and specific allowances against a number of non-performing loans of \$1,452,000. The non-performing loans at December 31, 2008 totalled \$4,948,994, net of the specific allowances. During 2009, charge-offs were taken against the non-performing loans at December 31, 2008 and as at December 31, 2009 there were no specific allowances outstanding.

The activity in the allowance for losses on factored receivables and loans account during 2009 and 2008 was as follows:

	2009	2008
Allowance for losses at January 1	\$ 2,987,000	\$ 1,942,000
Provision for credit and loan losses	2,564,705	3,171,825
Charge-offs	(4,823,689)	(2,481,692)
Recoveries	870,674	246,982
Foreign exchange adjustment	(70,690)	107,885
Allowance for losses at December 31	\$ 1,528,000	\$ 2,987,000

The Company has also entered into agreements with clients whereby it has assumed the credit risk with respect to the majority of the clients' receivables. At December 31, 2009, the gross amount of these managed receivables was \$155,359,571 (2008 - \$133,754,008). At that date, management provided an amount of \$1,089,000 (2008 - \$686,000) as a general

allowance for losses on the guarantee of these managed receivables, which represents the estimated fair value of these guarantees. As these managed receivables are off-balance sheet, this allowance is included in the total of accounts payable and other liabilities.

The activity in the allowance for losses on the guarantee of managed receivables account during 2009 and 2008 was as follows:

	2009	2008
Allowance for losses at January 1	\$ 686,000	\$ 725,000
Provision for credit losses	1,083,144	676,626
Charge-offs	(743,262)	(887,585)
Recoveries	63,118	171,959
Allowance for losses at December 31	\$ 1,089,000	\$ 686,000

The nature of the Company's business involves funding or assuming the credit risk on receivables offered to it by its clients. The Company controls the credit risk associated with its factored receivables and loans and managed receivables in a variety of ways. For details of the Company's policies and procedures in this regard, please refer to note 19(a).

5. Assets held for sale

During 2009 the Company obtained title to certain long-lived assets securing a defaulted loan. The loan was written down by \$1,127,000 to the net realizable value of the assets at the date title was obtained and this amount is included in the provision for credit and loan losses for 2009. Subsequently, the Company determined the net realizable value of the assets was further diminished and an impairment charge of \$1,265,280 was taken to write down the assets to their net realizable value as of December 31, 2009.

The assets are currently being actively marketed for sale and will be sold as market conditions permit. The net realizable value of the assets at December 31, 2009 was determined based on a professional appraisal of, and unaccepted offers received for, the assets.

6. Capital assets

	2009	2008
Cost	\$ 2,624,921	\$ 2,747,802
Less accumulated depreciation	2,104,792	2,112,792
	\$ 520,129	\$ 635,010

7. Goodwill

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2009 and 2008, the Company conducted annual impairment reviews and determined there was no impairment to the carrying value of goodwill. The change in the net goodwill balance in 2009 relates to the translation of the Company's net goodwill balance of US\$961,697 into Canadian dollars at a different prevailing year-end exchange rate.

8. Bank indebtedness

Revolving lines of credit have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. These lines of credit are collateralized primarily by factored receivables and loans to clients. At December 31, 2009, the amounts outstanding under these lines of credit totalled \$36,798,397 (2008 - \$35,876,905). The Company was in compliance with the loan covenants under these lines of credit as at December 31, 2009 and 2008.

9. 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 and bear interest at the bank prime rate less one half of one percent per annum. Notes payable and related interest expense were as follows:

	2009		2008	
	Notes payable	Interest expense	Notes payable	Interest expense
Related parties	\$ 7,695,372	\$ 161,371	\$ 9,665,558	\$ 379,220
Third parties	1,558,129	28,091	1,278,590	57,910
	\$ 9,253,501	\$ 189,462	\$10,944,148	\$ 437,130

10. Capital stock, contributed surplus, stock options and share appreciation rights

(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.

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 of Directors ("Board"). At December 31, 2009 and 2008, there

were no first preferred shares outstanding.

(b) Issued and outstanding

The common shares issued and outstanding are as follows:

	Number	Amount
Balance at Jan. 1, 2008	9,454,171	\$ 6,215,914
Issued on exercise of stock options	138,000	510,200
Shares repurchased for cancellation	(154,000)	(107,870)
Transfer from contributed surplus	—	113,337
Balance at Jan. 1, 2009	9,438,171	\$ 6,731,581
Issued on exercise of stock options	49,000	193,550
Shares repurchased for cancellation	(78,200)	(56,035)
Transfer from contributed surplus	—	39,385
Balance at Dec. 31, 2009	9,408,971	\$ 6,908,481

The fair value of stock options previously recorded in contributed surplus is transferred to capital stock when exercised.

(c) Share repurchase program

On August 1, 2007, the Company received approval from the Toronto Stock Exchange ("TSX") to commence a normal course issuer bid (the "2007 Bid") for up to 474,723 of its common shares at prevailing market prices on the TSX. The 2007 Bid commenced August 8, 2007 and terminated on August 7, 2008. Under the 2007 Bid, the Company repurchased and cancelled 75,600 shares at an average price of \$7.83 per share for total consideration of \$591,782. This amount was applied to reduce share capital by \$49,705 and retained earnings by \$542,077.

On August 5, 2008, the Company received approval from the TSX to commence a normal course issuer bid (the "2008 Bid") for up to 477,843 of its common shares at prevailing market prices on the TSX. The 2008 Bid commenced August 8, 2008 and terminated on August 7, 2009. Under the 2008 Bid, the Company repurchased and cancelled 183,500 shares at an average price of \$6.10 per share for total consideration of \$1,120,171. This amount was applied to reduce share capital by \$130,877 and retained earnings by \$989,294.

On August 5, 2009, the Company received approval from the TSX to commence a new normal course issuer bid (the "2009 Bid") for up to 471,118 of its common shares at prevailing market prices on the TSX. The 2009 Bid commenced on August 8, 2009 and will terminate on August 7, 2010 or the date on which a total of 471,118 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2009 Bid will be cancelled. During the year ended December 31, 2009, the Company repurchased and cancelled 13,400 common shares acquired under the 2009 Bid at an average price of \$5.27 per common share for total consideration of \$70,618. This amount was applied to reduce share capital by \$9,818 and retained earnings by \$60,800.

During the year ended December 31, 2009, the Company repurchased and cancelled 78,200 common shares acquired under the 2008 and 2009 Bids at an average price of \$5.82 per common share for total consideration of \$455,021. This amount was applied to reduce share capital by \$56,035 and retained earnings by \$398,986. During the year ended December 31, 2008, the Company repurchased and cancelled 154,000 common shares acquired under the 2007 and 2008 Bids at an average price of \$6.53 per common share for total consideration of \$1,005,017. This amount which was applied to reduce share capital by \$107,870 and retained earnings by \$897,147.

(d) Contributed surplus

	2009	2008
Balance at January 1	\$ 82,225	\$ 195,562
Transfer to capital stock (note 10(b))	(39,385)	(113,337)
Balance at December 31	\$ 42,840	\$ 82,225

(e) Stock option plans

The Company has established an employee stock option plan. Under the terms of the plan, an aggregate of 1,000,000 common shares has been reserved for issue upon the exercise of options granted to key managerial employees of the Company and its subsidiaries. According to the terms of the plan, options may be earned upon the achievement by the Company of certain minimum earnings.

The Company has also established a non-executive directors' stock option plan. Under the terms of

the plan, an aggregate of 500,000 common shares has been reserved for issue upon the exercise of options granted to non-executive directors of the Company.

Options are granted to purchase common shares at prices not less than the market price of such shares on the grant date. The Company has issued no options to employees or directors since May 2004.

During 2009, there were 49,000 (2008 - 138,000) stock options exercised for cash proceeds of \$193,550 (2008 - \$510,200), which were credited to capital stock.

The following table is a summary of stock option activity:

	2009	2008
Outstanding at Jan. 1	91,000	229,000
Exercised	(49,000)	(138,000)
Outstanding at Dec. 31	42,000	91,000

The following stock options were earned, exercisable and outstanding at December 31:

Exercise price	Expiry date	2009	2008
Employee stock option plan:			
\$ 3.95	July 2, 2009	—	49,000
\$ 7.25	July 5, 2010	42,000	42,000
		42,000	91,000
Weighted average exercise price		\$ 7.25	\$ 5.47

(f) Share appreciation rights

The Company has an established SARs plan whereby SARs are granted to directors and key managerial employees of the Company. The maximum number of SARs which may be issued in any fiscal year under the plan is 2.5% of the total number of issued and outstanding common shares of the Company. The SARs will have a strike price at the time of grant equal to the volume weighted average trading price of the Company's common shares on the TSX for the 10 trading days that the shares were traded immediately preceding the date of grant, or other 10 day trading period that the Board may determine. An employee will have the right to sell part or all of their SARs after holding them for a minimum of 24 months. Each employee's SARs not sold to the Company will automatically be sold on the last business day on or preceding the fifth anniversary following such grant.

Directors have no minimum holding period and can only exercise their SARs when they cease to be members of the Board, at which time, exercise will be compulsory.

11. Stock-based compensation

The Company accounts for stock-based compensation, including stock option grants and SARs, using fair value-based methods. Stock options are granted to employees and non-executive directors at prices not less than the market price of such shares on the grant date. These options vest over a period of three years provided certain earnings criteria are met. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of the stock options on the grant date. This fair value is expensed over the award's vesting period. Note 10(f) sets out details of the Company's SARs plan. Changes in the fair value of outstanding SARs are calculated at each balance sheet date. The change will be recorded in general and administrative expenses, with a corresponding entry to accounts payable and other liabilities.

During 2009, 100,000 SARs were granted by the Company to directors and employees at a strike price of \$6.03, while in 2008 95,000 SARs were granted at a strike price of \$7.25. At December 31, 2009 the 195,000 (2008 – 95,000) outstanding SARs had no intrinsic value. The 82,500 SARs issued to employees were not vested. No stock options were granted by the Company in 2009 and 2008.

12. Income taxes

The Company's income tax expense comprises:

	2009	2008
Current income tax expense	\$ 1,804,644	\$ 2,567,174
Future income tax (recovery) expense	(412,644)	45,826
Income tax expense	\$ 1,392,000	\$ 2,613,000

The Company's income tax expense varies from the amount that would be computed using the Canadian statutory income tax rate of 33.0% (2008 - 33.5%) due to the following:

	2009	%
Tax computed at statutory rates	\$ 1,478,602	33.0
Decrease resulting from:		
Lower effective tax rate on income of subsidiaries	(38,099)	(0.8)
Other	(48,503)	(1.1)
Income tax expense	\$ 1,392,000	31.1

	2008	%
Tax computed at statutory rates	\$ 2,564,144	33.5
Increase resulting from:		
Higher effective tax rate on income of subsidiaries	45,683	0.6
Other	3,173	—
Income tax expense	\$ 2,613,000	34.1

The tax effects that give rise to future income tax assets and liabilities at December 31 are as follows:

	2009	2008
Future income tax assets:		
Allowances for losses	\$ 274,356	\$ 348,902
Impairment charge	470,428	—
Capital assets	9,000	24,000
Other	—	10,353
	753,784	383,255
Future income tax liabilities:		
Goodwill	(172,259)	(168,815)
Other	(5,150)	(3,167)
	(177,409)	(171,982)
Future income taxes, net	\$ 576,375	\$ 211,273

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

Basic earnings per common share have been calculated based on the weighted average number of common shares outstanding in the year without the inclusion of dilutive effects. Diluted earnings per common share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding in the year, which, in the Company's case, consist solely of stock options.

The following is a reconciliation of common shares used in the calculation:

	2009	2008
Basic weighted average number of common shares outstanding	9,420,390	9,490,837
Effect of dilutive stock options	3,994	40,095
Diluted weighted average number of common shares outstanding	9,424,384	9,530,932

Certain options were excluded from the calculation of diluted shares outstanding in 2009 and 2008 because they were considered to be anti-dilutive for earnings per common share purposes.

14. 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.
- (b) At December 31, 2009, the Company was contingently liable with respect to letters of credit issued on behalf of clients in the amount of \$858,553 (2008 - \$2,273,300). These amounts have been considered in determining the allowance for losses on factored receivables and loans.

15. Lease commitments

The Company is committed under operating leases, principally office space leases, which expire between 2012 and 2017. The minimum rentals payable under these long-term operating leases, exclusive of certain operating costs and property taxes for which the Company is responsible, over the next five years and thereafter are as follows:

2010	\$ 325,187
2011	325,310
2012	242,268
2013	114,917
2014	114,917
Thereafter	258,564
	<u>\$ 1,381,163</u>

16. Financial instruments

The Company has entered into forward foreign exchange contracts with a financial institution, which must be exercised by the Company between January 4, 2010 and May 28, 2010 and which obligate the Company to sell Canadian dollars and buy US\$1,157,000 at exchange rates ranging from 1.0654 to 1.1081. These contracts were entered into by the Company on behalf of a number of clients and similar forward foreign exchange contracts were entered into between the Company and the clients, whereby the Company will buy Canadian dollars from and sell US\$1,157,000 to the clients. The favorable and unfavorable fair values of these contracts were recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively. There has been no gain or loss to the Company as a result of entering into these contracts.

As at December 31, 2008, the Company had entered into a forward foreign exchange contract with a financial institution that matured January 30, 2009 and obliged the Company to sell Canadian dollars

and buy US\$400,000 at an exchange rate of 1.1545. The contract was entered into by the Company on behalf of one of its clients and a similar forward foreign exchange contract was entered into between the Company and the client, whereby the Company would buy Canadian dollars from and sell US\$400,000 to the client. The favorable and unfavorable fair values of the contract were recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively. There was no gain or loss to the Company as a result of entering into this contract.

The contracts have all been classified as Level 2.

17. Accumulated other comprehensive loss

Accumulated other comprehensive loss comprises the unrealized foreign exchange gain or loss arising on translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary, which are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Movements in this balance during 2009 and 2008 were as follows:

	2009	2008
Balance at January 1	\$ (2,178,068)	\$ (8,894,887)
Unrealized (loss) gain on translation of self-sustaining foreign operation in year	(5,200,822)	6,716,819
Balance at December 31	<u>\$ (7,378,890)</u>	<u>\$ (2,178,068)</u>

18. Fair values of financial assets and liabilities

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

19. 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. The Company's risk management policies are established to identify, analyze, limit, control and monitor the risks faced by the Company. Risk management policies and systems are reviewed regularly to reflect changes in the risk environment faced by the Company.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company's case, credit risk arises with

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

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

Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of receivables current and past due. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payments terms of 30 to 60 days from invoice date. Of the total managed receivables for which the Company guarantees payment, 8.2% (2008 - 9.3%) were past due more than 60 days at December 31, 2009. In the Company's recourse factoring business, receivables become "ineligible" for lending purposes when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually

charged back to clients, thereby eliminating the Company's credit risk on such older receivables.

The Company employs a client rating system to assess credit risk in its recourse factoring business, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring business it employs a customer credit scoring system to assess the credit risk associated with those client receivables that it guarantees (managed receivables). Credit risk is primarily managed by ensuring that the receivables factored are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate on a regular and ongoing basis. For a factoring company, the financial strength of its clients' customers is often more important than the financial strength of the clients themselves. The Company also minimizes credit risk by limiting to \$10,000,000 the maximum amount it will lend to any one client, enforcing strict advance rates, disallowing certain types of receivables, and charging back or making receivables ineligible for lending purposes as they become older. The Company will also confirm the validity of the receivables that it purchases. In its non-recourse business exposure to certain customers upon which credit guarantees have been granted may exceed \$10 million. All customer credit in excess of \$2.5 million is approved by the Company's Credit Committee on a case by case basis. At December 31, 2009, the Company had guaranteed accounts receivable in excess of \$10 million in respect of two customers.

The following table summarizes the Company's credit exposure relating to its factored receivables and loans by industrial sector at December 31, 2009:

Industrial sector	Gross factored receivables and loans	% of total
	(in thousands)	
Manufacturing	\$ 40,759	45
Wholesale and distribution	21,774	24
Financial and professional services	16,719	18
Transportation	5,168	6
Other	7,015	7
	\$ 91,435	100

The following table summarizes the Company's credit exposure relating to its managed receivables by industrial sector at December 31, 2009:

Industrial sector	Managed receivables (in thousands)	% of total
Retail	\$ 130,980	84
Engineering	7,942	5
Other	16,438	11
	\$ 155,360	100

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's principal obligations are its bank indebtedness, notes payable, due to clients and accounts payable and other liabilities. Revolving credit lines totalling approximately \$102,000,000 have been established at a number of banking institutions bearing interest varying with the bank prime rate or LIBOR. At December 31, 2009, the Company had borrowed approximately \$37,000,000 (2008 - \$36,000,000) against these facilities (see note 8). These lines of credit are collateralized primarily by factored receivables and loans to clients. The Company was in compliance with all loan covenants under these lines of credit as at December 31, 2009 and 2008. Notes payable (see note 9) are due on demand and are to individuals or entities and consist of advances from shareholders, management, employees, other related individuals and third parties. As at December 31, 2009, 83% of these notes were due to related parties and 17% to third parties. Due to clients principally consist of collections of receivables not yet remitted to the Company's clients. Contractually, the Company remits

collections within a week of receipt. Accounts payable and other liabilities comprise a number of different obligations the majority of which are payable within six months.

The Company had gross factored receivables and loans totalling approximately \$91,000,000 at December 31, 2009, which substantially exceeded its total liabilities of approximately \$55,000,000 at that date. The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

(c) Market risk

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

(i) Currency risk

The Company is exposed to currency risk primarily in its self-sustaining U.S. subsidiary, which operates exclusively in U.S. dollars, to the full extent of the U.S. subsidiary's net assets of approximately US\$31,000,000 at December 31, 2009. The Company's investment in its U.S. subsidiary is not hedged as it is long-term in nature. Unrealized foreign exchange gains or losses arise on the translation of the assets and liabilities of the Company's self-sustaining U.S. subsidiary into Canadian dollars at the balance sheet date. Resulting foreign exchange gains or losses are credited or charged to other comprehensive income or loss with a corresponding entry to the accumulated other comprehensive income or loss component of shareholders' equity (see note 17). The Company is also subject to foreign currency risk on the earnings of its U.S. subsidiary, which are unhedged. Based on the U.S. subsidiary's results in the year ended December 31, 2009, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately \$2,000. It would also change other comprehensive income or loss and the accumulated other comprehensive income or loss component of shareholders' equity by approximately \$310,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign

currencies, principally factored receivables and loans, cash, bank indebtedness and due to clients. These assets and liabilities are usually economically hedged, although the Company enters into foreign exchange contracts from time to time to hedge its currency risk when there is no economic hedge. At December 31, 2009, the Company's unhedged foreign currency positions in its Canadian operations did not exceed \$460,000 (2008 - \$150,000). 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 when necessary to address short-term imbalances. The impact of a one percent change in its unhedged positions 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 (revenue) and lenders (interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to a large degree. However, as the Company's factored receivables and loans substantially exceed its borrowings, the Company is exposed to interest rate risk as a result of the difference, or gap, between interest sensitive assets and liabilities. This gap largely exists because of, and fluctuates with, the quantum of the Company's shareholders' equity.

The following table shows the interest rate sensitivity gap at December 31, 2009:

(in thousands)	Floating rate	Within 3 months	Non-rate sensitive	Total
Assets				
Factored receivables and loans, net	\$ 80,311	\$ 4,922	\$ 4,674	\$ 89,907
Assets held for sale	—	—	4,997	4,997
Cash	284	—	55	339
All other assets	—	—	2,694	2,694
	80,595	4,922	12,420	97,937
Liabilities				
Bank indebtedness	29,966	6,832	—	36,798
Due to clients	—	—	4,517	4,517
Notes payable	9,253	—	—	9,253
All other liabilities	—	—	4,013	4,013
Shareholders' equity	—	—	43,356	43,356
	39,219	6,832	51,886	97,937
	\$ 41,376	\$ (1,910)	\$ (39,466)	\$ —

Based on the Company's interest rate positions as at December 31, 2009, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately \$395,000 over a one-year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

20. Capital disclosure

The Company considers its capital structure to include shareholders' equity and debt, namely, its bank indebtedness and notes payable. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (b) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (c) 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 equity to total assets, principally factored receivables and loans, and its debt to shareholders' equity. As a percentage, the ratios totalled 44% (2008 - 47%) and 106% (2008 - 97%), respectively, at December 31, 2009 indicating the Company's continued financial strength and overall low degree of leverage. The Company's debt, and leverage, will usually rise with an increase in factored receivables and loans and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's credit facilities include debt to tangible net worth ("TNW") covenants. Specifically, 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\$18 million and a ratio of total liabilities to TNW of less than 3.0. The Company was fully compliant with these covenants at December 31, 2009 and 2008. There were no changes in the Company's approach to capital management from the previous year.

21. Segmented information

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

2009 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	\$ 54,944	\$ 42,993	\$ —	\$ 97,937
Revenue	\$ 16,985	\$ 7,102	\$ (42)	\$ 24,045
Expenses				
Interest	1,147	75	(42)	1,180
General and administrative	9,695	3,595	—	13,290
Provision for credit and loan losses	1,928	1,720	—	3,648
Impairment of assets held for sale	—	1,265	—	1,265
Depreciation	154	27	—	181
	12,924	6,682	(42)	19,564
Earnings before income tax expense	4,061	420	—	4,481
Income tax expense	1,309	83	—	1,392
Net earnings	\$ 2,752	\$ 337	\$ —	\$ 3,089
2008 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	\$ 55,911	\$ 47,587	\$ —	\$103,498
Revenue	\$ 20,264	\$ 7,836	\$ (40)	\$ 28,060
Expenses				
Interest	2,666	245	(40)	2,871
General and administrative	10,042	3,449	—	13,491
Provision for (recovery of) credit and loan losses	3,878	(29)	—	3,849
Depreciation	169	26	—	195
	16,755	3,691	(40)	20,406
Earnings before income tax expense	3,509	4,145	—	7,654
Income tax expense	1,137	1,476	—	2,613
Net earnings	\$ 2,372	\$ 2,669	\$ —	\$ 5,041

22. International financial reporting standards

The CICA will transition financial reporting for Canadian public entities to IFRS effective for fiscal years beginning on or after January 1, 2011. The impact of the transition on the Company's consolidated financial statements is being determined. The Company has completed the diagnostic assessment phase by identifying the differences between GAAP and IFRS. Given the present IFRS framework applicable at this time, the Company has identified

first time adoption exemptions applicable to the Company and the financial statement and note disclosures that are required. Based on the current information available, no changes in the Company's accounting policies are anticipated when transitioning to IFRS. However, the Company will review new International Accounting Standards that are introduced in the future to determine if they have any impact on the Company.



www.accordfinancial.com

In Canada

Accord Financial Corp.
(800) 967-0015

Accord Financial Ltd.
(800) 967-0015

Accord Financial Inc.
(800) 231-2977

In the U.S.

Accord Financial, Inc.
(800) 231-2757