

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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 of America.

2. Basis of presentation

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

3. Significant accounting policies

(a) Adoption of new accounting policies

Effective January 1, 2007 the Company adopted The Canadian Institute of Chartered Accountants ("CICA") new accounting standards comprising handbook sections 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", and 3251 "Equity". These standards provide guidance on the recognition, measurement and classification of financial assets, financial liabilities and non-financial derivatives. All financial assets, including derivatives, are measured at fair value on the consolidated balance sheets with the exception of loans, receivables, investments classified as held-to-maturity and certain private equity

investments, which are measured at cost or amortized cost. Financial liabilities that are held-for-trading or are derivatives or guarantees are measured at fair value on the consolidated balance sheets. Non-trading financial liabilities are measured at amortized cost. The new standards also establish the accounting requirements for hedges. Any hedge ineffectiveness is charged immediately to earnings. Accumulated other comprehensive income or loss is now included on the consolidated balance sheets as a separate component of shareholders' equity. The new standards also require that the Company present a consolidated statement of comprehensive income or loss. There were no changes in the carrying value of financial instruments as a result of adopting these new standards.

(b) Basis of consolidation

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries, namely, in Canada, Accord Business Credit Inc. and Montcap Financial Corporation and in the United States, Accord Financial, Inc. Inter-company balances and transactions are eliminated upon consolidation.

(c) 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.

(d) 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 due date. Interest charges on performing 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.

(e) Allowances for losses

The Company maintains a separate allowance for losses on both its factored

receivables and loans and its guarantee of managed receivables. The Company maintains these allowances for losses at amounts, which, in management's judgment, are sufficient to cover the fair value of 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.

Credit losses on factored receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. Losses on 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.

(f) Capital assets

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

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

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

(g) Goodwill

Goodwill 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 to income in the year in which the impairment is determined.

(h) 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.

(i) Foreign subsidiary

The assets and liabilities of the Company's self-sustaining foreign subsidiary are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenue and expenses are translated into Canadian dollars at the average monthly exchange rate then prevailing. Resulting foreign exchange gains and losses are credited or charged to other comprehensive income.

(j) 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.

(k) Earnings per common share

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

(l) 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.

(m) 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.

4. Factored receivables and loans

	2007	2006
Factored receivables	\$ 68,745,451	\$ 57,838,875
Loans to clients	37,136,332	23,444,858
Factored receivables and loans, gross	105,881,783	81,283,733
Less allowance for losses	1,942,000	1,421,000
Factored receivables and loans, net	\$103,939,783	\$ 79,862,733

The activity in the allowance for losses on factored receivables and loans account during 2007 and 2006 was as follows:

	2007	2006
Allowance for losses at January 1	\$ 1,421,000	\$ 1,460,000
Provision for credit and loan losses	1,630,274	1,784,755
Charge-offs	(1,238,529)	(1,922,571)
Recoveries	189,767	101,393
Foreign exchange adjustment	(60,512)	(2,577)
Allowance for losses at December 31	\$ 1,942,000	\$ 1,421,000

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, 2007, the gross amount of these managed receivables was \$100,189,507 (2006 - \$105,339,440).

Management has provided an amount of \$725,000 (2006 - \$720,000) as an allowance for losses on the guarantee of these managed receivables which represents the fair value of these guarantees. As these managed receivables are off-balance sheet, this liability 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 2007 and 2006 was as follows:

	2007	2006
Allowance for losses at January 1	\$ 720,000	\$ 794,000
Provision for credit losses	771,055	176,602
Charge-offs	(820,012)	(293,826)
Recoveries	53,957	43,224
Allowance for losses at December 31	\$ 725,000	\$ 720,000

The nature of the Company's business requires it to fund or assume credit risk on receivables offered to it by its clients. All credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of \$1,000,000, by the Company's Board of Directors. The Company monitors and controls its risks and exposures through financial, credit

and legal reporting systems and, accordingly, believes that it has in place procedures for evaluating and limiting the credit risks to which it is subject.

5. Investment in and advances to affiliate

During December 2006, the Company disposed of its 25% interest in Liquid Capital Corp. ("LCC") for \$75,000, which was included in revenue in 2006. Net of tax, the Company recorded a gain of \$57,063 on the sale. At December 31, 2006, the Company was owed \$417,927 by LCC, which monies were advanced to fund LCC's U.S. expansion. This amount was included in the total of factored receivables and loans. During 2006 interest income of \$48,312 was earned on the loan to LCC, while the Company paid commissions of \$257,467 to LCC in respect of business referred to it by LCC and its franchisees.

6. Capital assets

	2007	2006
Cost	\$ 2,485,388	\$ 2,703,615
Less accumulated depreciation	1,888,791	1,970,687
	\$ 596,597	\$ 732,928

7. Goodwill

	2007	2006
Goodwill	\$ 1,629,867	\$ 1,916,116
Less accumulated amortization	676,537	795,355
	\$ 953,330	\$ 1,120,761

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. During 2007 and 2006, the Company conducted annual impairment reviews and determined there was no impairment to the carrying value of goodwill. The change in the goodwill balance in 2007 relates to the translation of the Company's goodwill balance of US\$961,697 into Canadian dollars at a different prevailing year-end exchange rate.

8. Bank indebtedness

Revolving lines of credit totalling approximately \$90 million 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, 2007, the amounts outstanding under these lines of credit totalled \$48,206,627 (2006 - \$26,686,667). The Company was in compliance with the loan covenants under these lines of credit as at December 31, 2007.

9. Consolidation of Montreal operations

On September 8, 2005, the Company announced that it was consolidating its Montreal factoring and asset-based lending operations into one office and that there would be staff and facility reductions. General and administrative expenses of \$205,936 were incurred by the Company in 2006 in respect of this consolidation. The office consolidation process was completed in 2006.

10. 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:

	2007		2006	
	Notes payable	Interest expense	Notes payable	Interest expense
Related parties	\$8,334,760	\$458,478	\$7,705,970	\$381,427
Third parties	1,232,352	75,926	1,488,794	65,653
	\$9,567,112	\$534,404	\$9,194,764	\$447,080

11. 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. At December 31, 2007 and 2006, there were no preferred shares issued and outstanding.

(b) Issued and outstanding

The common shares issued and outstanding are as follows:

	Number	Amount
Balance at Jan. 1, 2006	9,929,871	\$ 5,975,338
Issued on exercise of stock options	86,000	343,900
Shares repurchased for cancellation	(573,100)	(357,598)
Transfer from contributed surplus	—	29,005
Balance at Jan. 1, 2007	9,442,771	\$ 5,990,645
Issued on exercise of stock options	53,000	245,350
Shares repurchased for cancellation	(41,600)	(27,321)
Transfer from contributed surplus	—	7,240
Balance at Dec. 31, 2007	9,454,171	\$ 6,215,914

The fair value of those stock options exercised is transferred from contributed surplus to capital stock upon exercise.

(c) Share repurchase program

On August 3, 2005, the Company received approval from the Toronto Stock Exchange ("TSX") to commence a normal course issuer bid (the "2005 Bid") for up to 497,278 of its common shares at prevailing market prices on the TSX. The 2005 Bid commenced August 5, 2005 and terminated on August 4, 2006. Under the 2005 Bid, the Company repurchased and cancelled 291,400 shares at an average price of \$7.89 per share for a total consideration of \$2,297,821. This amount was applied to reduce share capital and retained earnings by \$177,245 and \$2,120,576, respectively.

On August 2, 2006, the Company received approval from the TSX to commence a new normal course issuer bid (the "2006 Bid") for up to 488,158 of its common shares at prevailing market prices on the TSX. The 2006 Bid commenced August 8, 2006 and terminated on August 7, 2007. Under the 2006 Bid, the Company repurchased and cancelled 321,700 shares at an average price of \$7.62 per share for a total consideration of \$2,451,975. This amount was applied to reduce share capital by \$204,091 and retained earnings by \$2,247,884.

On August 1, 2007, the Company received approval from the TSX to commence a new 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 will terminate on the earlier of August 7, 2008 or the date on which a total of 474,723 common shares have been repurchased pursuant to its terms. All shares repurchased pursuant to the 2007 Bid will be cancelled. During the year ended December 31, 2007, the Company repurchased and cancelled 40,300 common shares acquired under the 2007 Bid at an average price of \$8.00 per common share for a total consideration of \$322,534, which was applied to reduce share capital by \$26,496 and retained earnings by \$296,038.

During the year ended December 31, 2007, the Company repurchased and cancelled 41,600 common shares acquired under the 2006 and 2007 Bids at an average price of \$8.00

per common share for a total consideration of \$332,634, which was applied to reduce share capital by \$27,321 and retained earnings by \$305,313. During the year ended December 31, 2006, the Company repurchased and cancelled 573,100 common shares acquired under the 2005 and 2006 Bids at an average price of \$7.79 per common share for a total consideration of \$4,466,086, which was applied to reduce share capital by \$357,598 and retained earnings by \$4,108,488.

(d) Contributed surplus

	2007	2006
Contributed surplus at Jan. 1	\$ 201,396	\$ 219,943
Stock-based compensation expense (note 12)	1,406	10,458
Transfer to capital stock (note 11(b))	(7,240)	(29,005)
Contributed surplus at Dec. 31	\$ 195,562	\$ 201,396

(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 and currently does not plan to do so.

During 2007, there were 53,000 (2006 - 86,000) stock options exercised for cash proceeds of \$245,350 (2006 - \$343,900), which were credited to capital stock.

The following table is a summary of stock options outstanding:

	2007	2006
Outstanding at Jan. 1	282,000	368,000
Exercised	(53,000)	(86,000)
Outstanding at Dec. 31	229,000	282,000
Earned and exercisable at Dec. 31	229,000	268,000

The following stock options remain outstanding at December 31, 2007:

Exercise price	Expiry date	Outstanding, earned and exercisable
Employee stock option plan:		
\$ 3.50	July 2, 2008	60,000
3.85	July 2, 2008	51,000
3.95	July 2, 2009	62,000
7.25	July 5, 2010	42,000
Non-executive directors' stock option plan:		
\$ 3.75	March 4, 2008	14,000
		229,000
Weighted average exercise price		\$ 4.40

The following stock options were outstanding at December 31, 2006:

Exercise price	Expiry date	Outstanding	Earned and exercisable
Employee stock option plan:			
\$ 4.75	July 3, 2007	45,000	45,000
3.50	July 2, 2008	60,000	60,000
3.85	July 2, 2008	51,000	51,000
3.95	July 2, 2009	70,000	70,000
7.25	July 5, 2010	42,000	28,000
Non-executive directors' stock option plan:			
\$ 3.75	March 4, 2008	14,000	14,000
		282,000	268,000
Weighted average exercise price		\$ 4.45	\$ 4.30

(f) Share appreciation rights

During 2007, the Company established a SARs plan whereby SARs may be 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 ten trading days that shares were traded immediately preceding the date of grant. 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 be automatically 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 of Directors, at which time exercise will be compulsory.

12. 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 11(f) sets out details of the Company's SARs plan. No SARs have been granted by the Company to date. Changes in the fair value of outstanding SARs will be calculated at the balance sheet date when grants do take place. The change will be recorded in general and administrative expenses, with a corresponding entry to accounts payable and other liabilities.

No stock options were granted by the Company in 2007 and 2006. In 2007 the stock-based compensation expense recorded in general and administrative expenses in respect of stock option grants was \$1,406 (2006 - \$10,458), with a corresponding increase in contributed surplus. This expense pertains to options granted for which the vesting period of such options

includes, in whole or in part, the year ended December 31, 2007.

13. Income taxes

The Company's income tax expense comprises:

	2007	2006
Current income tax expense	\$ 2,952,284	\$ 1,989,059
Future income tax expense	360,716	1,793,941
Income tax expense	\$ 3,313,000	\$ 3,783,000

The Company's income tax expense varies from the amount that would be computed using the Canadian statutory income tax rate of 36.1% (2006 - 36.1%) due to the following:

	2007	%
Tax computed at statutory rates	\$ 3,465,587	36.1
(Decrease) increase resulting from:		
Lower effective tax rate on income of subsidiaries	(198,089)	(2.1)
Other	45,502	0.5
Income tax expense	\$ 3,313,000	34.5

	2006	%
Tax computed at statutory rates	\$ 3,934,900	36.1
(Decrease) increase resulting from:		
Lower effective tax rate on income of subsidiaries	(203,660)	(1.9)
Other	51,760	0.5
Income tax expense	\$ 3,783,000	34.7

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

	2007	2006
Future income tax assets:		
Allowances for losses	\$ 267,837	\$ 179,473
Tax loss carryforwards	15,546	380,647
Capital assets	44,000	63,400
Other	15,365	73,187
	342,748	696,707
Future income tax liabilities:		
Basis differential on goodwill	(112,413)	(102,788)
Other	(7,038)	(9,906)
	(119,451)	(112,694)
Future income taxes, net	\$ 223,297	\$ 584,013

14. 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:

	2007	2006
Basic weighted average number of common shares outstanding	9,463,231	9,802,730
Effect of dilutive stock options	112,156	133,143
Diluted weighted average number of common shares outstanding	9,575,387	9,935,873

No options were excluded from the calculation of diluted shares outstanding in 2007 and 2006 because they were considered to be anti-dilutive for earnings per common share purposes.

15. 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, 2007, the Company was contingently liable with respect to unaccepted letters of credit issued on behalf of clients in the amount of \$1,776,416 (2006 - \$1,840,645). In addition, the Company was contingently liable with respect to letters of guarantee issued on behalf of clients in the amount of \$469,633 (2006 - \$394,483). These amounts have been considered in determining the allowance for losses on factored receivables and loans.

16. Lease commitments

The Company is committed under operating leases, principally office space leases, which expire between 2008 and 2017. The minimum rentals payable under 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:

2008	\$ 314,476
2009	315,203
2010	318,113
2011	320,296
2012	238,613
Thereafter	488,398
	\$ 1,995,099

17. Financial instruments

The Company has entered into forward foreign exchange contracts with a financial institution that mature between January 3, 2008 and May 30, 2008 and oblige the Company to sell Canadian dollars and buy US\$1,175,000 at an exchange rate of 0.9526. The contracts were entered into by the Company on behalf of one of its clients 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 the US\$1,175,000 to the client. The favorable and unfavorable fair values of these contracts have been recorded on the Company's balance sheet in other assets and accounts payable and other liabilities, respectively.

As at December 31, 2006, the Company had entered into a forward foreign exchange contract with a financial institution that matured on June 15, 2007 and obliged the Company to sell Canadian dollars and buy US\$3,000,000 at an exchange rate of 1.398. The contract was entered into by the Company for the purpose of managing its foreign exchange exposure on a US\$3,000,000 loan. The Company recognized a liability of \$643,800 in respect of the contract at December 31, 2006, which represented the fair value of this derivative financial instrument as at that date. This liability was included in the total of accounts payable and other liabilities at December 31, 2006. There was no gain or loss to the Company as a result of entering into this contract.

18. Accumulated other comprehensive loss

Accumulated other comprehensive loss comprises the unrealized foreign exchange 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. This was formerly the cumulative translation adjustment account. Movements in this balance during 2007 and 2006 were as follows:

	2007	2006
Balance at January 1	\$ (4,254,507)	\$ (4,368,051)
Unrealized foreign exchange (loss) gain on translation of self-sustaining foreign operation, net of tax	(4,640,380)	113,544
Balance at December 31	\$ (8,894,887)	\$ (4,254,507)

19. 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.

2007 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	\$ 73,432	\$ 33,701	\$ —	\$ 107,133
Revenue	\$ 22,085	\$ 6,796	\$ (535)	\$ 28,346
Expenses				
Interest	3,295	232	(535)	2,992
General and administrative	10,025	3,118	—	13,143
Provision for credit and loan losses	2,169	233	—	2,402
Depreciation	169	40	—	209
Income tax expense	2,124	1,189	—	3,313
	17,782	4,812	(535)	22,059
Net earnings	\$ 4,303	\$ 1,984	\$ —	\$ 6,287

2006 (in thousands)	Canada	United States	Inter-company	Consolidated
Identifiable assets	\$ 60,184	\$ 33,963	\$ (9,468)	\$ 84,679
Revenue	\$ 21,966	\$ 7,622	\$ (724)	\$ 28,864
Expenses				
Interest	2,895	220	(724)	2,391
General and administrative	10,129	3,161	—	13,290
Provision for credit and loan losses	1,257	704	—	1,961
Depreciation	268	54	—	322
Income tax expense	2,423	1,360	—	3,783
	16,972	5,499	(724)	21,747
Net earnings	\$ 4,994	\$ 2,123	\$ —	\$ 7,117

20. 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.

21. Comparative figures

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2007.