

# DISTINCTIVE DEPENDABLE DRIVEN





## MESSAGE FROM THE PRESIDENT AND CEO

Enclosed are the financial statements, as well as Management's Discussion and Analysis, for the quarter and six months ended June 30, 2015 together with comparative figures for the same period of 2014. 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 second quarter of 2015 rose 13% to \$1,736,000 compared with \$1,537,000 in the second quarter of 2014. Earnings per share ("EPS") were 17% higher at 21 cents this year compared with 18 cents last year. Second quarter net earnings rose on higher revenue and a lower effective tax rate.

Adjusted net earnings, which comprise net earnings before non-operating stock-based compensation and business acquisition expenses, totalled \$1,885,000 in the second quarter of 2015, 18% above the \$1,593,000 earned in the second quarter of 2014. Adjusted EPS, based on the adjusted net earnings, were 23 cents in the second quarter, 21% higher than the 19 cents earned in last year's second quarter.

Revenue rose 2% to \$7,657,000 in the second quarter compared to \$7,529,000 last year on higher average funds employed and a stronger U.S. dollar. Interest cost was \$633,000 compared to \$729,000 a year ago. Overhead costs, comprising general and administrative expenses and depreciation, increased 12% to \$4,274,000 from \$3,809,000 in last year's second quarter mainly as a result of higher personnel costs and a stronger U.S. dollar.

The provision for credit and loan losses, which comprises net charge-offs and the non-cash reserves expense or recovery, declined to \$529,000 in the second quarter compared to \$641,000 last year. Business acquisition expenses, comprising amortization of intangibles associated with the Varion Capital Corp. (now doing business as Accord Equipment Finance) acquisition, totalled \$144,000 (2014 – \$126,000) in the second quarter.

Second quarter net earnings in Canada were \$614,000 compared to \$832,000 in the second quarter of 2014. They were \$1,122,000 in our U.S. operation compared to \$705,000 last year.

The Company's total funds employed were at \$158 million at June 30, 2015, 7% higher than the \$148 million last June 30. Equity was a record high \$66 million at June 30, 2015 compared to \$55 million at June 30, 2014. Book value per share was also a record high \$7.90 versus \$6.67 a year ago.

Net earnings for the first half of 2015 rose 47% to \$3,441,000 from the \$2,334,000 earned in the corresponding period of 2014. EPS increased to 41 cents this year compared with 28 cents last year. Net earnings increased mainly as a result of higher revenue and a lower effective tax rate.

Adjusted net earnings totalled \$3,749,000 in the first half of 2015, 33% above the \$2,828,000 earned in the first six months of 2014. Adjusted EPS were up 32% to 45 cents compared to 34 cents in the first half of 2014.

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Revenue, a first half year record, was 8% higher at \$15,216,000 compared to \$14,145,000 in the first half of 2014 as average funds employed rose 7% and the U.S. dollar strengthened. Interest expense declined to \$1,145,000 from \$1,247,000 in 2014. Overhead costs increased 9% to \$8,671,000 in 2015 compared with \$7,989,000 in 2014 for reasons noted above. The provision for credit and loan losses was 14% lower at \$1,009,000 in the first half of 2015 compared with \$1,168,000 last year. Business acquisition expenses totalled \$288,000 (2014 – \$320,000) in the first half of 2015.

For the first half of 2015, Canadian net earnings were \$1,241,000 compared to \$1,164,000 for the same period of 2014. U.S. net earnings were \$2,200,000 versus \$1,170,000 last year.

Our financial performance in the second quarter held steady even in the presence of what feels like a record number of new competitors entering our market. My hunch is that we are nearing the end of this particular cycle that has witnessed record liquidity furiously seeking higher yields than can be obtained in the routine capital markets. While Canadian interest rates have declined this year and economy teeters on the edge of a recession, I certainly am looking forward to the prospect of rising U.S. interest rates which the U.S. Federal Reserve has signaled will arrive later this year. That occurrence should be the beginning of more rational investment decisions.

In the meantime, we are noticing weaker operating results from a number of our commercial finance competitors along with U.S. banks continuing a futile struggle to prevent falling net interest margins. As far as the global economy is concerned, it's obvious now that we can expect growth to be noticeably lower this year than was forecast by the experts just three months ago. The slow down of a Chinese economy and the continuing drop

in commodity prices is leaving corporates uncertain about future demand.

All the above should be taken as relatively good news for Accord since expectations of changed market conditions, good or bad, have historically proven to be positive for your company. We are seeing no shortage of lending opportunities in our traditional markets and we are pressing ahead with new product innovations that will make Accord attractive to a wider borrowing audience.

At the Board of Directors meeting held today, a quarterly dividend of 9 cents per common share was declared payable September 1, 2015 to shareholders of record August 14, 2015. This represents an increase of 6% from the previous quarterly dividend.



Tom Henderson  
President and Chief Executive Officer  
Toronto, Ontario  
July 29, 2015



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

Quarter and six months ended June 30, 2015 compared with quarter and six months ended June 30, 2014

### Overview

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 and, where presented, the quarter and six months ended June 30, 2013. 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 July 29, 2015, should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements (the "Statements") and notes thereto for the quarter and six months ended June 30, 2015 and 2014, which are included as part of this 2015 Second Quarter Report, and as an update in conjunction with the discussion and analysis and fiscal 2014 audited consolidated financial statements and notes thereto included in the Company's 2014 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](http://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 some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be non-IFRS measures. The Company primarily derives these measures from amounts presented in its Statements, which are 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 monitoring its operating performance and financial position. 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) Adjusted net earnings, adjusted earnings per common share and adjusted ROE – adjusted net earnings presents net earnings before stock-based compensation, business acquisition expenses (namely, business transaction and integration costs and amortization of intangibles) and withholding tax paid on cross-border dividends from the Company's U.S. subsidiary to it. The Company considers these items 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 common share is adjusted net earnings for the period divided by the weighted average number of common shares outstanding in the period, while adjusted ROE is adjusted net earnings for the period expressed as a percentage of the average equity employed in the period;

- iii) 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;
- iv) Financial condition and leverage ratios – (a) equity expressed as a percentage of total assets; and (b) debt (bank indebtedness and notes payable) expressed as a percentage of equity. These percentages provide information on trends in the Company’s financial condition and leverage.
- v) Average funds employed – funds employed is another name that the Company uses for its finance receivables and loans (also referred to as “Loans” in this MD&A), an IFRS measure. Average funds employed are the average finance receivables and loans calculated over a particular period.

### Accord’s Business

Accord is a leading North American provider of asset-based financial services to businesses, namely, asset-based lending (including factoring), credit protection and receivables management, supply chain financing for importers and lease financing. The Company’s financial services are discussed in more detail in its 2014 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 17(a) to the Statements.

The Company, founded in 1978, operates four finance companies in North America, namely, Accord Financial Ltd. (“AFL”), Accord Financial Inc. (“AFIC”) and Varion Capital Corp. (“Varion”) (now doing business as Accord Equipment Finance (“AEF”)) in Canada, and Accord Financial, Inc. (“AFIU”) in the United States.

The Company’s business principally involves: (i) 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 and working capital lending by AEF; and (iii) non-recourse factoring by AFL, which principally involves providing credit protection and collection services, generally without financing.

### Results of Operations

*Quarter ended June 30, 2015 compared with quarter ended June 30, 2014*

Net earnings for the quarter ended June 30, 2015 increased by \$199,000 or 13% to \$1,736,000 compared to the \$1,537,000 earned in 2014. They were 37% above 2013’s second quarter net earnings of \$1,267,000. Net earnings increased compared to 2014 and 2013 mainly as a result of higher revenue and a lower effective income tax rate. The stronger U.S. dollar in the second quarter of 2015 compared to 2014 helped increase the Canadian dollar equivalent of net earnings from our U.S. operations by \$134,000.

Earnings per common (“EPS”) share increased by 17% to 21 cents from the 18 cents earned in the second quarter of 2014. They were 40% higher than the 15 cents earned in the second quarter of 2013.

Adjusted net earnings were \$1,885,000, 18% higher than the \$1,593,000 earned in the second quarter of 2014 and 32% higher than the \$1,430,000 earned in the second quarter of 2013. Adjusted EPS were 23 cents compared to the 19 cents earned in the second quarter of 2014 and 17 cents earned in 2013.

The following table provides a reconciliation of net earnings to adjusted net earnings:

Three months ended June 30 (in thousands)	2015	2014
Net earnings	\$ 1,736	\$ 1,537
Adjustments, net of tax:		
Stock-based compensation	43	(44)
Business acquisition expenses	106	100
Adjusted net earnings	\$ 1,885	\$ 1,593

Revenue increased by 2% or \$128,000 to \$7,657,000 in the second quarter compared with \$7,529,000 last year and was 20% higher than the \$6,388,000 in the second quarter of 2013. Revenue

## Quarterly Financial Information

(unaudited, in thousands except earnings per share)

Quarter ended	Revenue	Net Earnings	Basic and Diluted Earnings Per Common Share
<b>2015 June 30</b>	<b>\$ 7,657</b>	<b>\$ 1,736</b>	<b>\$ 0.21</b>
<b>March 31</b>	<b>7,559</b>	<b>1,705</b>	<b>0.21</b>
2014 December 31	\$ 7,925	\$ 2,370	\$ 0.29
September 30	8,165	2,176	0.26
June 30	7,529	1,537	0.18
March 31	6,616	797	0.10
Fiscal 2014	\$ 30,235	\$ 6,879*	\$ 0.83
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*

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

increased compared to 2014 and 2013 mainly as a result of higher average funds employed and a stronger U.S. dollar. The stronger U.S. dollar this year compared to the second quarter of 2014 helped increase the Canadian dollar equivalent of our U.S. operations revenue by approximately \$290,000. Average funds employed were \$155 million in the second quarter of 2015 compared to \$146 million and \$107 million in the second quarter of 2014 and 2013, respectively.

Total expenses for the second quarter of 2015 increased by \$276,000 to \$5,581,000 compared to \$5,305,000 last year. General and administrative expenses ("G&A") increased by \$459,000, while business acquisition expenses and depreciation increased by \$18,000 and \$6,000, respectively. The provision for credit and loan losses and interest expense decreased by \$111,000 and \$96,000, respectively.

Interest expense declined by 13% to \$633,000 in the second quarter of 2015 compared to \$729,000 last year as a result of lower interest rates this year.

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 12% or \$459,000 to \$4,239,000 in the current quarter compared to \$3,780,000 last year mainly as a result of increased personnel costs, including stock-based compensation,

and a stronger U.S. dollar which caused our U.S. operations G&A to rise by approximately \$120,000 in the quarter compared to last year. The Company continues to manage its controllable expenses closely.

The provision for credit and loan losses declined by 17% to \$529,000 in the second quarter of 2015 compared to \$641,000 last year as a result of a lower reserves expense. The provision for the second quarter of 2015 and 2014 comprised:

Three months ended June 30 (in thousands)	2015	2014
Net charge-offs	\$ 475	\$ 415
Reserves expense related to increase in total allowances for losses	54	226
	\$ 529	\$ 641

Net charge-offs increased by \$60,000 to \$475,000 in the current quarter, while the non-cash reserves expense declined by \$172,000 to \$54,000. 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 charge-offs.

Business acquisition expenses in the current quarter solely comprised the amortization of intangibles acquired as part of the Varion acquisition on January 31, 2014. In the second quarter of 2014, transaction and integration costs associated with the Varion acquisition were also incurred. For the quarter ended June 30, 2015, these expenses totalled \$144,000 (2014 – \$126,000; amortization of intangibles – \$123,000; transaction and integration costs – \$3,000).

Income tax expense decreased by 51% to \$340,000 in the current quarter compared to \$687,000 in the second quarter of 2014 as a result of a decline in the Company's effective income tax rate and a 7% decrease in pre-tax earnings. The Company's effective income tax rate declined to 16.4% in the second quarter of 2015 compared to 30.9% last year as a result of a lower effective tax rate on income from our U.S. operations.

Canadian operations reported 26% lower net earnings in the second quarter of 2015 compared to 2014 (see note 16 to the Statements). Net earnings declined by \$218,000 to \$614,000 on lower revenue and higher expenses. Revenue declined by 3% or \$131,000 to \$5,098,000. Expenses increased by \$180,000 to

\$4,256,000. G&A rose by \$280,000 to \$3,060,000, while business acquisition expenses and interest expense were \$18,000 and \$2,000 higher, respectively. Depreciation was \$5,000 higher. The provision for credit and loan losses declined by \$125,000 to \$411,000. Income tax expense decreased by 29% to \$228,000 on a 27% decline in pre-tax earnings.

U.S. operations reported a 59% increase in net earnings in the second quarter of 2015 compared to 2014. Net earnings rose by \$417,000 to \$1,122,000 on higher revenue and a lower effective income tax rate. Revenue was \$242,000 or 10% higher at \$2,560,000. Expenses increased by \$79,000 to \$1,326,000. G&A rose by \$180,000 to \$1,180,000, while the provision for losses was \$13,000 higher at \$118,000. Depreciation was slightly higher at \$11,000. Interest expense decreased by \$115,000 to \$17,000. Income tax expense declined by \$254,000 to \$112,000.

*Six months ended June 30, 2015 compared with six months ended June 30, 2014*

Net earnings in the first half of 2015 increased by \$1,107,000 or 47% to \$3,441,000 compared to \$2,334,000 last year. Net earnings increased compared to 2014 mainly as a result of higher revenue and a lower effective income tax rate. The stronger U.S. dollar in the first six months of 2015 helped to increase the Canadian dollar equivalent of net earnings from our U.S. operations by approximately \$270,000 compared to the first half of 2014. EPS for the current six months were 41 cents, 46% higher than the 28 cents earned last year. ROE in the first half of 2015 was 10.8% compared to 8.5% last year.

Adjusted net earnings totalled \$3,749,000 in the first half of 2014, 33% above last year's \$2,828,000. Adjusted EPS rose 32% to 45 cents compared to 34 cents in the first half of 2014. Adjusted ROE for the first half of 2015 was 11.7% compared to 10.3% in 2014.

The following table provides a reconciliation of net earnings to adjusted net earnings:

Six months ended June 30 (in thousands)	2015	2014
Net earnings	\$ 3,441	\$ 2,334
Adjustments, net of tax:		
Stock-based compensation	97	245
Business acquisition expenses	211	249
Adjusted net earnings	\$ 3,749	\$ 2,828

Revenue for the first half of 2015 increased by \$1,071,000 or 8% to a first half year record \$15,216,000 compared with \$14,145,000 last year. Average funds employed in the first half of 2015 grew by 7% to \$148 million compared to \$138 million last year and were 40% above the \$106 million in the first half of 2013. The stronger U.S. dollar this year helped increase revenue by approximately \$565,000.

Total expenses for the current six months increased by \$389,000 or 4% to \$11,112,000 compared to \$10,724,000 last year. G&A rose by \$670,000, while depreciation increased by \$13,000. The provision for credit and loan losses, interest expenses and business acquisition expenses declined by \$159,000, \$102,000 and \$33,000, respectively.

Interest expense declined by 8% to \$1,145,000 compared to \$1,247,000 last year on lower interest rates. Average borrowings were 4% higher in the first six months of 2015.

G&A increased by 8% to \$8,602,000 compared to \$7,932,000 last year mainly due to higher personnel costs and a stronger U.S. dollar this year which caused an increase in G&A of approximately \$250,000.

The provision for credit and loan losses declined by 14% to \$1,009,000 in the first half of 2015 compared to \$1,168,000 last year as a result of a lower reserves expense. The provision for the first half of 2015 and 2014 comprised:

Six months ended June 30 (in thousands)	2015	2014
Net charge-offs	\$ 841	\$ 758
Reserves expense related to increase in total allowances for losses	168	410
	\$ 1,009	\$ 1,168

Net charge-offs rose by \$83,000 to \$841,000 in the first half of 2015 compared to last year, while the reserves expense decreased by \$242,000 to \$168,000.

Business acquisition expenses for the first six months of 2015 solely comprised the amortization of intangibles acquired as part of the Varion acquisition. In the first half of 2014, transaction and integration costs associated with the Varion acquisition were also incurred. For the six months ended June 30, 2015, these expenses totalled \$288,000 (2014 – \$320,000; amortization of intangibles – \$205,000; transaction and integration costs – \$115,000).

Income tax expense decreased by \$425,000 or 39% to \$663,000 compared to \$1,088,000 in the first half of 2014 as a result of a decline in the Company's effective income tax rate. The Company's effective income tax rate decreased to 16.2% this year compared to 31.8% last year as a result of a lower effective income tax rate on income from our U.S. operations.

Canadian operations reported a 7% increase in net earnings in the first six months of 2015 compared to 2014 (see note 16 to the Statements). Net earnings rose by \$77,000 to \$1,241,000 compared to \$1,164,000 last year on higher revenue. Revenue increased by \$198,000 or 2% to \$10,059,000. Expenses rose by \$111,000 to \$8,352,000. G&A was \$338,000 higher at \$6,188,000, while interest expense increased by \$72,000 to \$1,130,000 and depreciation rose by \$8,000. The provision for credit and loan losses declined by \$275,000 to \$700,000, while business acquisition expenses decreased by \$32,000 to \$288,000. Income tax expense rose by \$10,000 or 2% to \$466,000 on a 5% rise in pre-tax earnings.

U.S. operations reported an 88% rise in net earnings compared to the first half of 2014. Net earnings increased by \$1,030,000 to \$2,200,000 compared to \$1,170,000 last year. Revenue increased by \$872,000 or 20% to \$5,177,000. Expenses increased by \$277,000 or 11% to \$2,780,000. G&A increased by \$332,000 to \$2,414,000, while the provision for loan losses rose by \$116,000 to \$309,000. Depreciation expense was \$4,000 higher. Interest expense declined by \$175,000 to \$35,000. Income tax expense decreased by \$435,000 to \$197,000.

## Review of Financial Position

Equity at June 30, 2015 was a record high \$65,629,000, an increase of \$4,297,000 compared to \$61,332,000 at December 31, 2014 and \$10,257,000 above the \$55,372,000 at June 30, 2014. Book value per common share was also a record high \$7.90 at June 30, 2015 compared to \$7.38 at December 31, 2014 and \$6.67 a year earlier. The increase in equity resulted from a rise in retained earnings and a higher accumulated other comprehensive income ("AOCI") balance. The components of equity are discussed below. Please also see the consolidated statements of changes in equity on page 15 of this Second Quarter Report.

Total assets were \$173,785,000 at June 30, 2015 compared to \$154,624,000 at December 31, 2014 and \$165,976,000 at June 30,

2014. Total assets largely comprised Loans. Excluding inter-company loans, identifiable assets located in the United States were 39% of total assets at June 30, 2015 compared to 38% and 33%, respectively, at December 31, 2014 and June 30, 2014.

Loans, before the allowance for losses thereon, totalled \$157,662,000 at June 30, 2015, 14% higher than the \$138,109,000 at December 31, 2014 and 6% higher than the \$149,201,000 at June 30, 2014.

As detailed in note 4 to the Statements, the Company's Loans comprised:

(in thousands)	June 30, 2015	Dec. 31, 2014	June 30, 2014
Factored receivables	\$ 97,165	\$ 89,367	\$ 107,036
Loans to clients	54,269	42,988	36,981
Lease receivables	6,228	5,754	5,184
Finance receivables and loans	157,662	138,109	149,201
Less allowance for losses	1,944	1,763	1,991
Finance receivables and loans, net	\$ 155,718	\$ 136,346	\$ 147,210

The Company's factored receivables increased by 9% to \$97,165,000 at June 30, 2015 compared to \$89,367,000 at December 31, 2014 but were 9% lower than the \$107,036,000 at June 30, 2014. Loans to clients, which mainly comprise advances against non-receivable assets such as inventory and equipment, rose to \$54,269,000 at June 30, 2015, 26% higher than the \$42,988,000 at December 31, 2014 and 47% higher than the \$36,981,000 at June 30, 2014. Lease receivables, representing AEF's net investment in equipment leases, grew to \$6,228,000 at June 30, 2015. Net of the allowance for losses thereon, Loans increased by 14% to \$155,718,000 at June 30, 2015 compared to \$136,346,000 at December 31, 2014 and were 6% higher than the \$147,210,000 at June 30, 2014. The Company's Loans at June 30, 2015 mainly 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, as well as AEF's lease receivables and equipment and related loans to approximately 430 clients. Four clients each comprised over 5% of gross Loans at June 30, 2015, of which the largest client comprised 8%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables usually 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 \$53 million at June 30, 2015 compared to \$80 million at December 31, 2014 and \$53 million at June 30, 2014. Managed receivables comprise the receivables of approximately 110 clients at June 30, 2015. The 25 largest clients comprised 79% of non-recourse volume in the first half of 2015. 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 June 30, 2015, the 25 largest customers accounted for 60% of the total managed receivables, of which the largest five comprised 29%. The Company monitors the retail industry and the credit risk related to its managed receivables very closely. The managed receivables are regularly reviewed and continue to be well rated.

The Company's total portfolio, which comprises both gross Loans, as detailed above, and managed receivables totalled \$211 million at June 30, 2015 compared to \$218 million at December 31, 2014 and \$202 million at June 30, 2014.

As described in note 17(a) to the Statements, the Company's business involves funding or assuming the credit risk on the receivables offered to it by its clients, as well as 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 AEF's leasing operations, transactions up to \$75,000 are approved by credit managers or more senior staff, while amounts between \$75,001 and \$250,000 are approved by AEF's general manager or an officer of AEF. Amounts over \$250,000 are approved by both AEF'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. AEF'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, 4.9% were past due more than 60 days at June 30, 2015. 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 asset-based lending 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 financed 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 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 asset-based lending and 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 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. 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 17(a) to the Statements provides details of the Company's credit exposure by industrial sector.

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 where necessary. The Company maintains separate allowances for losses on both its Loans and its guarantee of managed receivables, at amounts which, in management's judgment, are sufficient to cover losses thereon. The allowance for losses on Loans increased by 10% to \$1,944,000 at June 30, 2015 compared to \$1,763,000 at December 31, 2014 as a result of a 14% increase in Loans in the first half of 2015. The allowance was 2% lower than the \$1,991,000 at June 30, 2014. The allowance for losses on the guarantee of managed receivables increased by 7% to \$203,000 at June 30, 2015 compared to \$190,000 at December 31, 2014 and was 17% higher than the \$174,000 at June 30, 2014. 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 six months of 2015 and 2014 is set out in note 4 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be reasonable and appropriate.

Cash increased to \$8,510,000 at June 30, 2015 compared with \$7,103,000 at December 31, 2014 and \$4,405,000 at June 30, 2014. 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, which comprise certain assets securing defaulted loans that the Company obtained title to or repossessed, are stated at their estimated net realizable value and totalled \$1,811,000 at June 30, 2015 compared to \$2,172,000 at December 31, 2014 and \$4,551,000 last June 30. The assets will

be sold as market conditions permit. The estimated net realizable value of the assets at June 30, 2015 and 2014 and December 31, 2014 was estimated based upon professional appraisals of the assets. Please refer to note 5 to the Statements for details of changes in the assets held for sale in the first half of 2015 and 2014. During the first half of 2015, the Company sold certain assets held for sale with a book value of \$1,157,000 for \$1,165,000 resulting in a gain on sale of \$8,000. The Company also repossessed certain equipment securing defaulted loans with an estimated net realizable value of \$734,000.

Intangible assets were acquired as part of the Varion acquisition last January and comprise existing customer contracts and broker relationships. Intangible assets, net of accumulated amortization, totalled \$1,784,000 at June 30, 2015 compared to \$2,072,000 at December 31, 2014 and \$2,318,000 at June 30, 2014. Please refer to note 6 to the Statements.

Goodwill totalled \$3,084,000 at June 30, 2015 compared to \$2,998,000 at December 31, 2014 and \$2,741,000 at June 30, 2014. Goodwill of \$1,883,000 was acquired as part of the Varion acquisition. Goodwill of US\$962,000 is also carried in the Company's U.S. operations and is translated into Canadian dollars at the prevailing period-end exchange rate; foreign exchange adjustments arise on retranslation. Please refer to note 7 to the Statements.

Income taxes receivable, other assets, deferred tax assets and capital assets at June 30, 2015 and 2014 and December 31, 2014 were not material.

Total liabilities increased by \$14,864,000 to \$108,156,000 at June 30, 2015 compared to \$93,292,000 at December 31, 2014 but were \$2,448,000 lower than the \$110,604,000 at June 30, 2014. The increase since December 31, 2014 mainly resulted from higher bank indebtedness.

Amounts due to clients decreased by \$312,000 to \$6,326,000 at June 30, 2015 compared to \$6,638,000 at December 31, 2014 but were \$2,674,000 higher than the \$3,652,000 at June 30, 2014. 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 \$16,641,000 to \$80,636,000 at June 30, 2015 compared with \$63,995,000 at December 31, 2014 but was \$3,313,000 lower than the \$83,949,000 at June 30, 2014. The increase since December 31, 2014 mainly resulted from funding the rise in Loans. The Company had approved credit lines with a number of banks totalling \$136 million at June 30, 2015 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.

Notes payable decreased to \$16,623,000 at June 30, 2015 compared to \$16,808,000 at December 31, 2014 and \$18,547,000 at June 30, 2014. The decrease in notes payable since last June 30 resulted from note redemptions. Please see Related Party Transactions section below and note 9 to the Statements.

Accounts payable and other liabilities, income taxes payable, deferred income and deferred tax liabilities at June 30, 2015 and 2014 and December 31, 2014 were not material.

Capital stock totalled \$6,896,000 at June 30, 2015 and 2014 and December 31, 2014. There were 8,307,713 common shares outstanding at those dates. Please see note 10 to the Statements and the consolidated statements of changes in equity on page 15 of this report for details of changes in capital stock in the first half of 2015 and 2014. At the date of this MD&A, July 29, 2015, 8,307,713 common shares were outstanding.

Retained earnings totalled \$53,244,000 at June 30, 2015 compared to \$51,215,000 at December 31, 2014 and \$48,082,000 at June 30, 2014. In the first half of 2015, retained earnings increased by \$2,029,000 which comprised net earnings of \$3,441,000 less dividends paid of \$1,412,000 (17 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 half of 2015 and 2014.

The Company's AOCI account solely comprises the cumulative unrealized foreign exchange income arising on the translation of the assets and liabilities of the Company's foreign subsidiaries. The AOCI balance totalled \$5,446,000 at June 30, 2015 compared to \$3,178,000 at December 31, 2014 and \$351,000 at June 30, 2014.

Please refer to note 14 to the Statements and the consolidated statements of changes in equity on page 15 of this report, which details movements in the AOCI account during the first half of 2015 and 2014. The \$2,268,000 rise in the first six months of 2015 resulted from a rise in the value of the U.S. dollar against the Canadian dollar. The U.S. dollar strengthened from \$1.1601 at December 31, 2014 to \$1.2490 at June 30, 2015 increasing the Canadian dollar equivalent book value of the Company's net investment in its foreign subsidiaries of approximately US\$26 million by \$2,268,000 in the first half of 2015.

## 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)	June 30, 2015	Dec. 31, 2014	June 30, 2014
Debt* / Equity	148%	132%	185%
Equity / Assets	38%	40%	33%

\*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 \$136 million at June 30, 2015 and had borrowed \$81 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 \$8,510,000 at June 30, 2015 compared to \$7,103,000 at December 31, 2014. 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 six months ended June 30, 2015 compared with six months ended June 30, 2014*

Cash inflow from net earnings before changes in operating assets and liabilities and income tax payments totalled \$4,550,000 in the first half of 2015 compared to \$4,064,000 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 \$11,911,000 in the first half of 2015 compared to an outflow of \$34,053,000 last year. The net cash outflow in the current quarter largely resulted from financing Loans of \$16,330,000. In the first half of 2014, the net cash outflow principally resulted from financing Loans of \$32,248,000. 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 \$45,000 (2014 – \$4,258,000) in the first half of 2015 and comprised net capital assets additions. In 2014, cash consideration of \$4,170,000 was paid as part of the Varion acquisition, while \$88,000 related to net capital asset additions.

Net cash inflow from financing activities totalled \$12,682,000 in the first six months of 2015 compared to an inflow of \$39,145,000 last year. The net cash inflow in the current six months resulted from an increase in bank indebtedness of \$14,280,000. Partially offsetting these inflows were dividend payments of \$1,412,000 and notes payable, net, redeemed of \$186,000. The net cash inflow in the first half of 2014 resulted from an increase in bank indebtedness of \$38,179,000 and notes payable, net, issued of \$3,725,000. Partially offsetting these inflows were funds of \$1,430,000 used to redeem Varion's preferred shares immediately upon acquisition and dividend payments of \$1,329,000.

The effect of exchange rate changes on cash totalled \$681,000 and \$129,000 in the first half of 2015 and 2014, respectively.

Overall, there was a net cash inflow of \$1,407,000 in the first half of 2015 compared to an inflow of \$963,000 in the first half of 2014.

**Contractual Obligations and Commitments at June 30, 2015**

(in thousands of dollars)	Payments due in			Total
	Less than 1 year	1 to 3 years	4 to 5 years	
Operating lease obligations	\$ 396	\$ 360	\$ —	\$ 756
Purchase obligations	111	—	—	111
Total	\$ 507	\$ 360	\$ —	\$ 867

**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 that vary with bank Prime or Libor. Notes payable at June 30, 2015 were \$16,623,000 compared with \$16,808,000 at December 31, 2014 and \$18,547,000 at June 30, 2014. Of these notes payable, \$15,115,000 (December 31, 2014 – \$14,907,000; June 30, 2014 – \$16,673,000) was owing to related parties and \$1,508,000 (December 31, 2014 – \$1,901,000; June 30, 2014 – \$1,874,000) to third parties. Interest expense on these notes in the current quarter and first half of 2015 totalled \$109,000 (2014 – \$111,000) and \$219,000 (2014 – \$215,000), respectively.

## Financial Instruments

All financial assets and liabilities, with the exception of cash, derivative financial instruments, the guarantee of managed receivables and the Company's share appreciation rights liability, are recorded at cost. The exceptions noted are recorded at fair value. Financial assets or 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 June 30, 2015, the Company had entered into forward foreign exchange contracts with a financial institution that must be exercised by the Company between July 2, 2015 and October 30, 2015 and which oblige the Company to sell Canadian dollars and buy US\$1,350,000 at exchange rates ranging from 1.2111 to 1.2590. 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 buy Canadian dollars from and sell US\$1,350,000 to the client thereby offsetting most risks to the Company. These contracts are discussed further in note 13 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 client's 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 4 to the Statements.

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

## Control Environment

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and

CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal Control over Financial Reporting ("ICFR") is a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As at June 30, 2015, management evaluated and concluded on the effective design of the Company's DC&P and ICFR, and determined that there were no material changes to the Company's ICFR during the three months then ended that materially affected, or were reasonably likely to materially affect, the Company's ICFR. The Company is in the process of completing its transition to the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

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 17 to the Statements, which discuss 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 mainly in Canada and the United States. Economic weakness in either of the Company's principal markets can affect its ability to do new business as quality prospects become limited, although in a weak economy competition may lessen, 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 financing its clients' receivables and making asset-based loans, including lease financing. The Company's portfolio totalled \$211 million at June 30, 2015. Operating results can be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 17(a) to the Statements.

### **Interest rate risk**

The Company's agreements with its clients (affecting interest revenue) and lenders (affecting interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its floating rate borrowings, the Company is exposed to some degree to interest rate fluctuations. 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 17(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 the results of its foreign subsidiaries are translated into Canadian dollars. This has also impacted the value of the Company's net Canadian dollar investment in its foreign subsidiaries, which had in the past reduced the AOCI component of equity to a loss position, although this has recovered to a sizable gain position at June 30, 2015. Please see notes 14 and 17(c)(i) to the Statements.

### Potential acquisitions and investments

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth. 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 funds employed continue to be near record levels and revenue for the first half of 2015 was a record. The pipeline of prospects remains strong and it is anticipated that the Company's asset-based financing units will be able to build upon the

momentum of the last twelve months despite operating in very competitive markets. Our credit protection and receivables management business has, and continues to face, intense competition from multinational credit insurers but is now stabilized and seeing some growth in its factoring volume. The Company's leasing business continues to expand and introduce new products, such that we expect growth to accelerate over the next few years. Overall, the Company expects to improve upon last year's record results and has done so in the first half of 2015. The Company continues to seek opportunities to acquire companies or portfolios to increase its business and is optimistic about its prospects for future growth.

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  
Senior Vice President, Chief Financial Officer  
Toronto, Ontario  
July 29, 2015

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2015	December 31, 2014	June 30, 2014
<b>Assets</b>			
Cash	\$ 8,509,860	\$ 7,103,273	\$ 4,404,916
Finance receivables and loans, net (note 4)	155,718,261	136,345,686	147,209,993
Income taxes receivable	391,591	1,234,569	546,661
Other assets	1,525,948	2,004,166	2,531,953
Assets held for sale (note 5)	1,810,706	2,172,491	4,550,844
Deferred tax assets, net	598,797	313,441	1,332,519
Capital assets	362,376	380,576	339,829
Intangible assets (note 6)	1,784,018	2,071,794	2,317,926
Goodwill (note 7)	3,083,666	2,998,172	2,741,487
	<b>\$ 173,785,223</b>	<b>\$ 154,624,168</b>	<b>\$ 165,976,128</b>
<b>Liabilities</b>			
Due to clients	\$ 6,325,965	\$ 6,638,393	\$ 3,651,898
Bank indebtedness (note 8)	80,636,109	63,994,915	83,948,824
Accounts payable and other liabilities	2,561,490	3,343,377	2,302,709
Income taxes payable	869,855	1,226,963	912,925
Notes payable (note 9)	16,622,896	16,808,168	18,546,518
Deferred income	487,418	551,367	477,623
Deferred tax liabilities	652,766	729,026	763,688
	<b>108,156,499</b>	<b>93,292,209</b>	<b>110,604,185</b>
<b>Equity</b>			
Capital stock (note 10)	6,896,153	6,896,153	6,896,153
Contributed surplus	42,840	42,840	42,840
Retained earnings	53,243,814	51,215,217	48,081,946
Accumulated other comprehensive income (note 14)	5,445,917	3,177,749	351,004
	<b>65,628,724</b>	<b>61,331,959</b>	<b>55,371,943</b>
	<b>\$ 173,785,223</b>	<b>\$ 154,624,168</b>	<b>\$ 165,976,128</b>
<b>Common shares outstanding</b>	<b>8,307,713</b>	<b>8,307,713</b>	<b>8,307,713</b>

### Notice to Reader

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

## CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

Three and six months ended June 30	Three months		Six months	
	2015	2014	2015	2014
<b>Revenue</b>				
Interest and other income (note 4)	\$ 7,657,156	\$ 7,529,059	\$ 15,216,034	\$ 14,145,284
<b>Expenses</b>				
Interest	633,244	729,036	1,144,670	1,246,940
General and administrative	4,239,593	3,780,381	8,602,380	7,932,640
Provision for credit and loan losses	529,485	640,953	1,008,847	1,167,742
Depreciation	34,596	29,039	68,452	55,875
Business acquisition expenses				
Business transaction and integration costs	—	2,845	—	115,274
Amortization of intangibles	143,888	123,066	287,776	205,109
	\$ 5,580,806	\$ 5,305,320	\$ 11,112,125	\$ 10,723,580
Earnings before income tax expense	2,076,350	2,223,739	4,103,909	3,421,704
Income tax expense	340,000	687,000	663,000	1,088,000
<b>Net earnings</b>	\$ 1,736,350	\$ 1,536,739	\$ 3,440,909	\$ 2,333,704
<b>Basic and diluted earnings per common share</b>	\$ 0.21	\$ 0.18	\$ 0.41	\$ 0.28
<b>Basic and diluted weighted average number of common shares</b>	8,307,713	8,307,713	8,307,713	8,293,807

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and six months ended June 30	Three months		Six months	
	2015	2014	2015	2014
Net earnings	\$ 1,736,350	\$ 1,536,739	\$ 3,440,909	\$ 2,333,704
Other comprehensive (loss) income: unrealized foreign exchange (loss) gain on translation of self-sustaining foreign subsidiaries	(450,724)	(1,299,508)	2,268,168	77,437
<b>Comprehensive income</b>	\$ 1,285,626	\$ 237,231	\$ 5,709,077	\$ 2,411,141

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Capital Stock		Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
	Number of common shares outstanding	Amount				
Balance at December 31, 2013	8,221,498	\$ 6,036,589	\$ 42,840	\$ 47,077,476	\$ 273,567	\$ 53,430,472
Comprehensive income	—	—	—	2,333,704	77,437	2,411,141
Common shares issued on acquisition of Varion Capital Corp.	86,215	859,564	—	—	—	859,564
Dividends paid	—	—	—	(1,329,234)	—	(1,329,234)
Balance at June 30, 2014	8,307,713	\$ 6,896,153	\$ 42,840	\$ 48,081,946	\$ 351,004	\$ 55,371,943
<b>Balance at December 31, 2014</b>	<b>8,307,713</b>	<b>\$ 6,896,153</b>	<b>\$ 42,840</b>	<b>\$ 51,215,217</b>	<b>\$ 3,177,749</b>	<b>\$ 61,331,959</b>
Comprehensive income	—	—	—	3,440,909	2,268,168	5,709,077
Dividends paid	—	—	—	(1,412,312)	—	(1,412,312)
<b>Balance at June 30, 2015</b>	<b>8,307,713</b>	<b>\$ 6,896,153</b>	<b>\$ 42,840</b>	<b>\$ 53,243,814</b>	<b>\$ 5,445,917</b>	<b>\$ 65,628,274</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six months ended June 30	2015	2014
Cash provided by (used in)		
<b>Operating activities</b>		
Net earnings	\$ 3,440,909	\$ 2,333,704
Items not affecting cash:		
Allowance for losses, net of charge-offs and recoveries	167,564	409,735
Deferred income	(68,920)	(26,877)
Depreciation	68,452	55,875
Gain on disposal of assets held for sale	(8,369)	—
Gain on sale of capital assets	—	(1,828)
Amortization of intangibles	287,776	205,109
Deferred tax (recovery) expense	(345,884)	14,245
Current income tax expense	1,008,884	1,073,755
	4,550,412	4,063,718
Changes in operating assets and liabilities		
Finance receivables and loans	(16,329,966)	(32,248,004)
Due to clients	(412,924)	(1,456,442)
Other assets	736,060	(2,229,011)
Accounts payable and other liabilities	(837,289)	(333,854)
Assets held for sale	910,912	1,604
Income tax paid, net	(528,052)	(1,850,854)
	(11,910,847)	(34,052,843)
<b>Investing activities</b>		
Acquisition of Varion Capital Corp.	—	(4,169,744)
Additions to capital assets, net	(45,024)	(87,987)
	(45,024)	(4,257,731)
<b>Financing activities</b>		
Bank indebtedness	14,280,040	38,178,936
Notes payable (redeemed) issued, net	(186,079)	3,725,351
Redemption of Varion Capital Corp. preferred shares	—	(1,430,467)
Dividends paid	(1,412,312)	(1,329,234)
	12,681,649	39,144,586
<b>Effect of exchange rate changes on cash</b>	680,809	128,718
Increase in cash	1,406,587	962,730
Cash at beginning of period	7,103,273	3,442,186
Cash at end of period	\$ 8,509,860	\$ 4,404,916
<b>Supplemental cash flow information</b>		
Net cash used in operating activities includes:		
Interest paid	\$ 1,021,633	\$ 1,172,565



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2015 and 2014

### 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, 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 ("Statements") are expressed in Canadian dollars, the Company's functional and presentation currency, and are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

These Statements do not include all of the information and footnotes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared using the accounting policies that the Company expects to utilize in its consolidated financial statements for the year ending December 31, 2015, the more significant of which are detailed in note 3. These accounting policies are based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These Statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2014.

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 relate to the determination of the allowance for losses relating to finance receivables and loans and to the guarantee of managed receivables (notes 3(d) and 4), the determination of the value of intangible assets and goodwill on acquisition (notes 6 and 7), as well as the net realizable value of assets held for sale (notes 3(g) and 5) and deferred tax assets and liabilities. Management believes that these estimates are reasonable and appropriate.

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

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

*\* a component of accounts payable and other liabilities*

The condensed interim unaudited consolidated financial statements for the three and six months ended June 30, 2015 were approved for issue by the Company's Board of Directors ("Board") on July 29, 2015.

### 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. Intercompany balances and transactions are eliminated upon consolidation.

#### **b) Revenue recognition**

Revenue principally comprises interest, including discount fees, and factoring commissions from the Company's asset-based financial services, including factoring and leasing, 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 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 which 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 and residual values expected 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 in the asset value, 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 allowances for losses on 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.

Losses on finance receivables and loans are charged to the allowance for losses account when collectability becomes questionable and the underlying collateral is considered insufficient to secure the loan balance. Credit losses on managed receivables are charged to the respective allowance for losses account when debtors are known to be bankrupt or insolvent. 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) Foreign subsidiaries**

The Company's foreign subsidiaries report in U.S. dollars and their assets and liabilities 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.

#### **f) Stock-based compensation**

The Company accounts for SARs and stock options issued to employees using fair value-based methods. The Company utilizes the Black-Scholes option-pricing model to calculate

the fair value of the SARs and stock options on the grant date. Changes in the fair value of outstanding SARs are calculated at each reporting date, as well as at settlement date. The fair value of the awards is recorded in general and administrative expenses over the awards vesting period, or immediately if fully vested.

#### **g) Assets held for sale**

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

#### **h) Future accounting policies**

IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements, in regards to the 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.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), will replace the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts in the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. IFRS 15 is effective for the fiscal year beginning January 1, 2018. The extent of the impact of adoption of IFRS 15 has not yet been determined.

#### 4. Finance receivables and loans

	June 30, 2015	Dec. 31, 2014	June 30, 2014
Factored receivables	\$ 97,165,559	\$ 89,367,097	\$ 107,036,270
Loans to clients	54,268,631	42,987,431	36,981,144
Lease receivables	6,228,071	5,754,158	5,183,579
Finance receivables and loans, gross	157,662,261	138,108,686	149,200,993
Less allowance for losses	1,944,000	1,763,000	1,991,000
Finance receivables and loans, net	\$155,718,261	\$136,345,686	\$ 147,209,993

Lease receivables comprise Varion's net investment in leases as described in note 3(c). Varion's lease receivables at June 30, 2015 are expected to be collected over a period of up to five years.

The Company's allowance for losses on finance receivables and loans to clients at the above dates comprised a collective allowance. The activity in the allowance for losses on finance receivables and loans account during the six months ended June 30, 2015 and 2014 was as follows:

	2015	2014
Allowance for losses at January 1	\$ 1,763,000	\$ 1,512,000
Allowance assumed on acquisition of Varion	—	95,384
Provision for loan losses	936,653	945,375
Charge-offs	(788,596)	(579,639)
Recoveries	6,507	17,000
Foreign exchange adjustment	26,436	880
Allowance for losses at June 30	\$ 1,944,000	\$ 1,991,000

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 June 30, 2015, the gross amount of these managed receivables was \$53,356,678 (December 31, 2014 – \$80,015,938; June 30, 2014 – \$52,880,617). At June 30, 2015, management provided an amount of \$203,000 (December 31, 2014 – \$190,000; June 30, 2014 – \$174,000) 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 six months ended June 30, 2015 and 2014 was as follows:

	2015	2014
Allowance for losses at January 1	\$ 190,000	\$ 147,000
Provision for credit losses	72,194	222,367
Charge-offs	(82,556)	(258,178)
Recoveries	23,362	62,811
Allowance for losses at June 30	\$ 203,000	\$ 174,000

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 17(a).

At June 30, 2015, the Company held cash collateral of \$1,785,742 (December 31, 2014 – \$2,329,095; June 30, 2014 – \$1,858,448) to help reduce the risk of loss on certain of the Company's finance receivables and loans.

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 at the beginning of 2015. The changes

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 three and six months ended June 30, 2015 totalled \$6,037,949 (2014 – \$5,830,764) and \$11,907,074 (2014 – \$10,897,244), respectively.

## 5. Assets held for sale

The net realizable value of the assets held for sale at June 30, 2015 and 2014 and movements therein during the six months then ended were as follows:

	2015	2014
Assets held for sale at January 1	\$ 2,172,491	\$ 4,539,910
Acquired	733,950	—
Disposed	(1,156,815)	—
Foreign exchange adjustment	61,080	10,934
Assets held for sale at June 30	\$ 1,810,706	\$ 4,550,844

During 2015 and prior years, the Company acquired title to certain assets securing defaulted loans. These assets will be sold as market conditions permit. The net realizable value of the assets at the above dates was estimated based upon professional appraisals of the assets.

The assets disposed of in 2015 were sold for \$1,165,184 resulting in a gain of \$8,369 over book value. The gain was included in other income.

## 6. Intangible assets

The Company's intangible assets at June 30, 2015 were as follows:

	Existing customer contracts	Broker relationships	Total
<b>Cost</b>			
January 1, 2015 and June 30, 2015	\$ 1,179,097	\$ 1,343,938	\$ 2,523,035
<b>Accumulated amortization</b>			
January 1, 2015	(264,117)	(187,124)	(451,241)
Amortization expense	(185,708)	(102,068)	(287,776)
June 30, 2015	(449,825)	(289,192)	(739,017)
<b>Book value</b>			
January 1, 2015	914,980	1,156,814	2,071,794
June 30, 2015	\$ 729,272	\$ 1,054,746	\$ 1,784,018

The Company's intangible assets at June 30, 2014 were as follows:

	Existing customer contracts	Broker relationships	Total
<b>Cost</b>			
January 1, 2014	\$ —	\$ —	\$ —
Varion acquisition	1,179,097	1,343,938	2,523,035
June 30, 2014	1,179,097	1,343,938	2,523,035
<b>Accumulated amortization</b>			
January 1, 2014	—	—	—
Amortization expense	(120,053)	(85,056)	(205,109)
June 30, 2014	(120,053)	(85,056)	(205,109)
<b>Book value</b>			
January 1, 2014	—	—	—
June 30, 2014	\$ 1,059,044	\$ 1,258,882	\$ 2,317,926

## 7. Goodwill

	2015	2014
Balance at January 1	\$ 2,998,172	\$ 1,022,861
Varion acquisition	—	1,715,356
Foreign exchange adjustment	85,494	3,270
Balance at June 30	\$ 3,083,666	\$ 2,741,487

Goodwill is tested for impairment annually. During 2014, the Company conducted an annual impairment review and determined there was no impairment to the carrying value of goodwill. 2015'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 recognized each period-end when this balance is translated into Canadian dollars at the prevailing period-end exchange rate.

## 8. Bank indebtedness

Revolving lines of credit totalling approximately \$136,000,000 have been established with a number of banks bearing interest varying with the bank prime rate or LIBOR. These lines of credit are collateralized primarily by finance receivables and loans. At June 30, 2015, the amounts outstanding under these lines of credit totalled \$80,636,109 (December 31, 2014 – \$63,994,915; June 30, 2014 – \$83,948,824). The Company was in compliance with all loan covenants under these lines of credit at June 30, 2015 and 2014 and December 31, 2014.

## 9. 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 demand, and bear interest at rates below those of the Company's main bank line of credit. Notes payable were as follows:

	June 30, 2015	Dec. 31, 2014	June 30, 2014
Related parties	\$ 15,115,234	\$ 14,907,291	\$ 16,672,534
Third parties	1,507,662	1,900,877	1,873,984
	<b>\$ 16,622,896</b>	\$ 16,808,168	\$ 18,546,518

Interest expense on the notes payable for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months		Six Months	
	2015	2014	2015	2014
Related parties	\$ 99,402	\$ 99,823	\$ 198,572	\$ 191,478
Third parties	9,385	11,621	20,558	23,083
	<b>\$ 108,787</b>	\$ 111,444	<b>\$ 219,130</b>	\$ 214,561

## 10. 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 June 30, 2015 and 2014 and December 31, 2014, there were no first preferred shares outstanding.

### b) Issued and outstanding

The Company's issued and outstanding common shares during the six months ended June 30, 2015 and 2014 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 and six months ended June 30, 2015, dividends of \$706,156 (2014 - \$664,617) and \$1,412,312 (2014 - \$1,329,234),

respectively, or \$0.085 (2014 - \$0.08) and \$0.17 (2014 - \$0.16) per common share, respectively, were declared and paid.

On July 29, 2015, the Company declared a quarterly dividend of \$0.09 per common share, payable September 1, 2015 to shareholders of record at the close of business on August 14, 2015.

## 11. Share appreciation rights and stock-based compensation

The Company's stock-based compensation relates solely to its SARs. During the three and six months ended June 30, 2015, the Company recorded a stock-based compensation expense of \$59,550 and \$135,600, respectively. During the three months ended June 30, 2014, the Company recorded a stock-based recovery of \$61,125, while during the six months ended June 30, 2014 it booked an expense of \$349,992. The Company's SARs plan is discussed in more detail in note 12(d) to its audited consolidated financial statements for the fiscal year ended December 31, 2014 included in its 2014 Annual Report.

The following SARs were outstanding at:

SARs grant price	Grant date	June 30, 2015	Dec. 31, 2014	June 30, 2014
\$ 6.03	July 28, 2009	7,500	7,500	7,500
\$ 5.50	May 7, 2010	15,000	30,000	30,000
\$ 7.95	May 4, 2011	55,000	55,000	55,000
\$ 7.56	July 26, 2011	5,000	5,000	5,000
SARs vested and outstanding		<b>82,500</b>	97,500	97,500

At June 30, 2015, the Company had accrued \$298,950 (December 31, 2014 - \$228,300; June 30, 2014 - \$213,675) in respect of its liability for outstanding SARs.

## 12. 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 that 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 \$382,448 at June 30, 2015 (December 31, 2014 – \$186,005; June 30, 2014 – \$837,050). In addition, at June 30, 2015, December 31 and June 30, 2014, the Company was contingently liable with respect to letters of guarantee issued on behalf of its clients in the amount of \$150,000. These amounts were considered in determining the allowance for losses on finance receivables and loans.

### 13. Derivative financial instruments

At June 30, 2015, the Company had entered into forward foreign exchange contracts with a financial institution which must be exercised by the Company between July 2, 2015 and October 30, 2015 and which oblige the Company to sell Canadian dollars and buy US\$1,350,000 at exchange rates ranging from 1.2111 to 1.2590. 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\$1,350,000 to the client.

At December 31, 2014, the Company had entered into forward foreign exchange contracts with a financial institution that matured between January 30, 2015 and March 31, 2015 and obliged the Company to sell Canadian dollars and buy US\$700,000 at exchange rates ranging from 1.1235 to 1.1250, while at June 30, 2014, the Company had entered into a forward foreign exchange contract with a financial institution that matured between July 31, 2014 and September 30, 2014 and obliged 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 bought Canadian dollars from and sold US\$700,000 and \$900,000, respectively, to the client.

The favorable and unfavorable fair values of the above contracts were recorded on the Company's consolidated statements of financial position in other assets and accounts payable and other liabilities, respectively. The fair value of the contracts was classified as Level 2 under IFRS 7. During the six months ended June 30, 2015 and 2014 there was no movement between the three-level fair value hierarchy described in note 3(p) to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2014.

### 14. Accumulated other comprehensive income

Accumulated other comprehensive income ("AOCI") solely comprises the unrealized foreign exchange gain arising on translation of the assets and liabilities of the Company's foreign subsidiaries that report in U.S dollars. Changes in the AOCI balance during the six months ended June 30, 2015 and 2014 are set out in the consolidated statements of changes in equity.

### 15. 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.

### 16. Segmented information

The Company operates and manages its businesses in one dominant industry segment – providing asset-based financial services to industrial and commercial enterprises, principally in Canada and the United States. There were no significant changes to capital assets during the periods under review. For additions to intangible assets and goodwill which were acquired as part of the Varion purchase on January 31, 2014 and are part of Canadian operations, please refer to notes 6 and 7.

Three months ended June 30, 2015:

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 105,980	\$ 67,805	\$ —	\$ 173,785
Revenue	\$ 5,098	\$ 2,560	\$ (1)	\$ 7,657
Expenses				
Interest	617	17	(1)	633
General and administrative	3,060	1,180	—	4,240
Provision for credit and loan losses	411	118	—	529
Depreciation	24	11	—	35
Business acquisition expenses	144	—	—	144
	4,256	1,326	(1)	5,581
Earnings before income tax expense	842	1,234	—	2,076
Income tax expense	228	112	—	340
Net earnings	\$ 614	\$ 1,122	\$ —	\$ 1,736

Three months ended June 30, 2014:

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 126,821	\$ 55,027	\$ (15,872)	\$ 165,976
Revenue	\$ 5,229	\$ 2,318	\$ (18)	\$ 7,529
Expenses				
Interest	615	132	(18)	729
General and administrative	2,780	1,000	—	3,780
Provision for credit and loan losses	536	105	—	641
Depreciation	19	10	—	29
Business acquisition expenses	126	—	—	126
	4,076	1,247	(18)	5,305
Earnings before income tax expense	1,153	1,071	—	2,224
Income tax expense	321	366	—	687
Net earnings	\$ 832	\$ 705	\$ —	\$ 1,537

Six months ended June 30, 2015:

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 105,980	\$ 67,805	\$ —	\$ 173,785
Revenue	\$ 10,059	\$ 5,177	\$ (20)	\$ 15,216
Expenses				
Interest	1,130	35	(20)	1,145
General and administrative	6,188	2,414	—	8,602
Provision for credit and loan losses	700	309	—	1,009
Depreciation	46	22	—	68
Business acquisition expenses	288	—	—	288
	8,352	2,780	(20)	11,112
Earnings before income tax expense	1,707	2,397	—	4,104
Income tax expense	466	197	—	663
Net earnings	\$ 1,241	\$ 2,200	\$ —	\$ 3,441

Six months ended June 30, 2014:

(in thousands)	Canada	United States	Inter-company	Total
Identifiable assets	\$ 126,821	\$ 55,027	\$ (15,872)	\$ 165,976
Revenue	\$ 9,861	\$ 4,305	\$ (21)	\$ 14,145
Expenses				
Interest	1,058	210	(21)	1,247
General and administrative	5,850	2,082	—	7,932
Provision for credit and loan losses	975	193	—	1,168
Depreciation	38	18	—	56
Business acquisition expenses	320	—	—	320
	8,241	2,503	(21)	10,723
Earnings before income tax expense	1,620	1,802	—	3,422
Income tax expense	456	632	—	1,088
Net earnings	\$ 1,164	\$ 1,170	\$ —	\$ 2,334

## 17. Financial risk management

The Company is exposed to credit, liquidity and market risks related to the use of financial instruments in its operations. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework through its Audit Committee. In this respect, the Audit Committee meets with management and the Company's Risk Management Committee

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

#### a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. In the Company's case, credit risk arises with respect to its loans to and other financial transactions with clients, its guarantee of managed receivables, and any other financial transaction with a counterparty that the Company deals with. The carrying amount of these loans and managed receivables represents the Company's maximum credit exposure and is the most significant measurable risk that it faces. The nature of the Company's factoring and asset-based lending, 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 asset-based lending and 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 \$250,000 are approved by Varion's general manager or an officer, while amounts over \$250,000 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, 4.9% were past due more than 60 days at June 30, 2015 (December 31, 2014 – 2.9%; June 30, 2014 – 5.3%). 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 credit protection and receivables management 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 financed 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 the Company's credit protection and receivables management 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 June 30, 2015, the Company had not guaranteed accounts receivable in excess of \$10 million for any customer.

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

Industrial sector (in thousands)	June 30, 2015	
	Gross finance receivables and loans	% of total
Financial and professional services	\$ 53,243	34
Manufacturing	50,751	32
Wholesale and distribution	35,262	22
Retail	7,449	5
Other	10,957	7
	<b>\$ 157,662</b>	<b>100</b>

Industrial sector (in thousands)	June 30, 2014	
	Gross finance receivables and loans	% of total
Financial and professional services	\$ 53,839	36
Wholesale and distribution	41,836	23
Manufacturing	34,799	28
Other	18,727	13
	<b>\$ 149,201</b>	<b>100</b>

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

Industrial sector (in thousands)	June 30, 2015	
	Managed receivables	% of total
Retail	\$ 45,217	85
Other	8,140	15
	<b>\$ 53,357</b>	<b>100</b>

Industrial sector (in thousands)	June 30, 2014	
	Managed receivables	% of total
Retail	\$ 44,173	84
Other	8,708	16
	<b>\$ 52,881</b>	<b>100</b>

As set out in notes 3(d) and 4 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 approximately \$136,000,000 have been established at a number of banking institutions, bearing interest varying with the bank prime rate or LIBOR. At June 30, 2015, the Company had borrowed \$80,636,109 (December 31, 2014 – \$63,994,915; June 30, 2014 – \$83,948,824) against these facilities. These lines of credit are collateralized primarily by finance receivables

and loans. The Company was in compliance with all loan covenants under these lines of credit as at June 30, 2015. 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 June 30, 2015, 91% of these notes were due to related parties and 9% 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.

At June 30, 2015, the Company had gross finance receivables and loans totalling \$157,662,000 (December 31, 2014 – \$138,109,000; June 30, 2014 – \$149,201,000) which substantially exceeded its total liabilities of \$108,156,000 at that date (December 31, 2014 – \$93,155,000; June 30, 2014 – \$110,604,000). The Company's receivables normally have payment terms of 30 to 60 days from invoice date. Together with its unused credit lines, management believes that current cash balances and liquid short-term assets are more than sufficient to meet its financial obligations as they fall due.

All assets and liabilities, other than lease receivables and equipment loans, capital assets, deferred tax, intangible assets and goodwill, are expected to be settled within 12 months at the values stated in these statements.

#### **(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.

#### **c(i) Currency risk**

The Company is exposed to currency risk primarily in its foreign subsidiaries, which report in U.S. dollars, to the full extent of the foreign subsidiaries net assets of approximately

US\$26,000,000 at June 30, 2015. The Company's investment in its foreign subsidiaries 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 subsidiaries 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 AOCI component of equity (note 14). The Company is also subject to foreign currency risk on the earnings of its foreign subsidiaries, which are unhedged. Based on the foreign operations results for the six months ended June 30, 2015, a one cent change in the U.S. dollar against the Canadian dollar would change the Company's annual net earnings by approximately \$36,000. It would also change other comprehensive income and the AOCI component of equity by approximately \$260,000.

The Company's Canadian operations have some assets and liabilities denominated in foreign currencies, principally finance receivables and loans, cash, bank indebtedness and due to clients and notes payable. 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 June 30, 2015, the Company's unhedged foreign currency positions in its Canadian operations totalled \$61,000 (December 31, 2014 – \$128,000; June 30, 2014 – \$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 1% 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.

#### **c(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 floating and short-term fixed rate (usually 30 days) 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. However, in the Company's leasing business, lease receivables and term loans to clients are usually at fixed effective interest rates, while related bank borrowings are currently at floating rates.

The following table summarizes the interest rate sensitivity gap at June 30, 2015:

(in thousands)	Floating rate	0 to 12 months	1 to 3 years	4 to 5 years	Non-rate sensitive	Total
<b>Assets</b>						
Cash	\$ 5,285	\$ —	\$ —	\$ —	\$ 3,224	\$ 8,509
Finance receivables and loans, net	149,463	3,989	3,940	892	(2,566)	155,718
All other assets	—	392	—	—	9,166	9,558
	154,748	4,381	3,940	892	9,824	173,785
<b>Liabilities</b>						
Due to clients	—	—	—	—	6,326	6,326
Bank indebtedness	5,357	75,279	—	—	—	80,636
Notes payable	16,623	—	—	—	—	16,623
All other liabilities	—	870	—	—	3,701	4,571
<b>Equity</b>	—	—	—	—	65,629	65,629
	21,980	76,149	—	—	75,656	173,785
	\$132,768	\$ (71,768)	\$ 3,940	\$ 892	\$ (65,832)	\$ —

Based on the Company's interest rate positions as at June 30, 2015, a sustained 100 basis point rise in interest rates across all currencies and maturities would increase net earnings by approximately \$600,000 over a one year period. A decrease of 100 basis points in interest rates would reduce net earnings to a somewhat lesser extent.

## 18. Capital management

The Company considers its capital structure to include equity and debt, namely, its bank indebtedness and notes payable. The

Company's objectives when managing capital are to: (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 debt to equity and its equity to total assets. As a percentage, these ratios were 148% (December 31, 2014 – 132%; June 30, 2014 – 185%) and 38% (December 31, 2014 – 40%; June 30, 2014 – 33%), respectively, at June 30, 2015 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 June 30, 2015, AFIC and AFIU are required to maintain a debt to TNW ratio of less than 4.0 on a combined basis. Varion is required to maintain a debt to TNW ratio of less than 3.0. The Company was fully compliant with its banking covenants at June 30, 2015. There were no changes in the Company's approach to capital management from previous periods.

## 19. Subsequent events

At July 29, 2015 there were no subsequent events occurring after June 30, 2015 that required disclosure.

## A Brief History of Accord

### 1978 – 1983

- Accord commences operations in 1978 in Toronto and Montreal after raising \$2 million in starting capital.
- The first full year of operations (1979) sees factoring volume reach \$92 million.
- A rights issue in 1980 brings more capital into the Company to finance growth.
- In 1982 Accord earns \$477,000. It would be the first of 33 consecutive years of profitability.

### 1984 – 1988

- Accord buys Kerlen Factors Ltd. in 1984, its first acquisition.
- All long-term debt is retired in 1985, well ahead of maturity.
- In 1986 the Canadian factoring business of Heller Financial is acquired.
- 1987 is a big year. Volume tops \$612 million, bank debt, incurred in the Heller acquisition, is completely repaid. The Company initiates quarterly dividend payments.
- Accord joins Factors Chain International, the world's largest factoring network, in 1988. Earnings reach a new peak of \$1.6 million.

### 1989 – 1993

- In 1990 the Company acquires U.F. Financial Services Inc.
- New records are set in volume, revenue and earnings in 1991. Shareholders' equity climbs to \$8.6 million.
- Accord goes public in 1992 and begins trading at \$1.95 per share. The Company acquires majority control of JTA Factoring in the U.S., and 100% of Montcap Financial Corp. in Canada, establishing a complete North American presence.
- Factoring volume reaches a peak of \$1.1 billion in 1993.

### 1994 – 1998

- In 1996 Accord acquires the balance of Accord Financial, Inc. (formerly JTA Factoring). The Company also acquires Skyview International Finance Corp. which specializes in import finance.
- In 1998 the Company acquires the factoring portfolio of Richards Capital Corp., Dallas.
- In 1998 Accord celebrates its 20<sup>th</sup> anniversary with record earnings. Shareholders' equity reaches \$27.8 million.

### 1999 – 2003

- In 1999 Accord forges an alliance with Export Development Canada to promote export factoring.
- Earnings reach a peak of \$7.4 million on record revenue of \$31 million in 2000.
- Tom Henderson is promoted to CEO of Accord Financial, Inc. in 2001.
- The Company celebrates its 25<sup>th</sup> anniversary in 2003 as volume hits a new high of \$1.4 billion.

### 2004 – 2008

- Earnings reach a new peak of \$7.6 million in 2004. A special one-time dividend of \$1.50 per share is paid, putting \$14.6 million back in the hands of shareholders.
- In 2005 the Company acquires iTrade Finance, a specialty company financing international transactions.
- In 2008 Accord marks its 30<sup>th</sup> anniversary, but the celebrations are muted by a sharp economic downturn. A strong U.S. dollar boosts shareholders' equity to \$48.2 million, up from \$39.2 million the previous year. In spite of this, Accord's shares fall to \$5.81 at year-end from \$8.00 a year earlier.

### 2009 – 2013

- Accord sets record highs in 2010 in revenue (\$31.4 million), earnings (\$8.3 million) and earnings per share (88 cents).
- In 2013 Accord marks its 35<sup>th</sup> year in business. The Company's dividend payout reaches 32 cents per share per annum, marking 26 years of continuous dividends for its shareholders.

### 2014 –

- Completed the strategic acquisition of Varion Capital Corp., a Canadian lease finance company on January 31, 2014.
- 2014 is another record-breaking year, with record factoring volume of \$2.2 billion, average funds employed of \$143 million and adjusted earnings per share of 98 cents.
- Dividend payout increased to 33 cents per share per annum, the 27<sup>th</sup> year of continuous dividends to shareholders.



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