



Interim Condensed Consolidated Financial Statements

MARCH 31, 2020

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	March 31,	December 31,
	2020	2019
	\$	\$
Assets		
Cash	37,388	51,720
Restricted funds <i>[note 5]</i>	19,705	33,381
Finance receivables <i>[note 4]</i>	362,895	313,227
Accounts receivable	80,971	88,160
Other assets	122,961	124,983
Retained reserve interest	26,308	25,558
Continuing involvement asset	139,143	126,689
Notes receivable <i>[note 9]</i>	30,390	31,966
Derivative financial instruments <i>[note 10]</i>	399	3,626
Leasehold improvements and other equipment	62,691	63,297
Intangible assets	250,308	252,653
Deferred tax assets	41,642	44,461
Goodwill	421,641	421,445
Total assets excluding assets held-for-sale	1,596,442	1,581,166
Assets held-for-sale <i>[note 3]</i>	121,335	142,972
Total assets	1,717,777	1,724,138
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	177,595	234,599
Continuing involvement liability	139,143	126,689
Derivative financial instruments <i>[note 10]</i>	23,760	3,061
Secured borrowings <i>[note 5]</i>	494,660	430,478
Other liabilities <i>[note 12]</i>	39,471	50,285
Total liabilities	874,629	845,112
Shareholders' equity	843,148	879,026
	1,717,777	1,724,138

See accompanying notes

Interim condensed consolidated statements of operations

[unaudited, in thousands of United States dollars, except for per share amounts]

	Three-month period ended March 31, 2020	Three-month period ended March 31, 2019
	\$	\$
Revenues		
Portfolio origination services	20,193	16,564
Portfolio management services	29,475	19,843
Portfolio advisory services	3,175	11,399
Marketing services	1,827	2,133
Total portfolio revenue	54,670	49,939
Interest income	5,538	6,098
Other revenue <i>[note 8]</i>	670	581
	60,878	56,618
Operating expenses and other		
Compensation and benefits	18,884	19,299
General and administrative expenses	14,285	9,734
Interest expense	5,070	6,451
Depreciation and amortization	1,621	1,306
Share-based compensation <i>[note 7]</i>	3,214	6,160
Other expenses <i>[note 8]</i>	7,064	44,255
	50,138	87,205
Income (loss) before income taxes from continuing operations	10,740	(30,587)
Provision for (recovery of) income taxes	3,025	(9,806)
Net income (loss) from continuing operations	7,715	(20,781)
Net loss from discontinued operations <i>[note 3]</i>	(2,692)	(2,160)
Net Income (loss) for the period	5,023	(22,941)
Earnings (loss) per common share - Basic		
Continuing operations <i>[note 11]</i>	0.02	(0.09)
Discontinued operations <i>[note 11]</i>	(0.01)	(0.01)
Total basic income (loss) per share <i>[note 11]</i>	0.01	(0.10)
Earnings (loss) per common share - Diluted		
Continuing operations <i>[note 11]</i>	0.02	(0.09)
Discontinued operations <i>[note 11]</i>	(0.01)	(0.01)
Total diluted earnings (loss) per share <i>[note 11]</i>	0.01	(0.10)

See accompanying notes

Interim condensed consolidated statements of comprehensive loss

[unaudited, in thousands of United States dollars]

	Three-month period ended March 31, 2020	Three-month period ended March 31, 2019
	\$	\$
Net income (loss) for the period	5,023	(22,941)
Other comprehensive income (loss)		
Cash flow hedges <i>[note 10]</i>	(20,320)	(2,056)
Net unrealized foreign exchange (loss) gain	(8,884)	4,374
Total other comprehensive (loss) income	(29,204)	2,318
Comprehensive loss for the period	(24,181)	(20,623)

See accompanying notes

Interim condensed consolidated statements of changes in shareholders' equity

[unaudited, in thousands of United States dollars]

	Common share capital	Preferred share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	817,919	144,918	99,330	65,075	(20,265)	1,106,977
Employee stock options exercised	1,351	—	—	—	—	1,351
Employee stock option expense	—	—	(300)	—	—	(300)
Common share repurchases	(201,328)	—	—	—	—	(201,328)
Comprehensive (loss) income for the period	—	—	—	(22,941)	2,318	(20,623)
Dividends – preferred shares	—	—	—	(2,477)	—	(2,477)
Dividends – common shares	—	—	—	(3,565)	—	(3,565)
Balance, March 31, 2019	617,942	144,918	99,030	36,092	(17,947)	880,035
Balance, December 31, 2019	615,530	144,918	107,136	24,875	(13,433)	879,026
Employee stock options exercised <i>[note 6]</i>	82	—	—	—	—	82
Employee stock options expense	—	—	94	—	—	94
Stock options adjustment	(1,177)	—	—	—	—	(1,177)
Common share repurchases <i>[note 6]</i>	(4,076)	—	—	—	—	(4,076)
Comprehensive income (loss) for the period	—	—	—	5,023	(29,204)	(24,181)
Dividends – preferred shares <i>[note 6]</i>	—	—	—	(2,350)	—	(2,350)
Dividends – common shares <i>[note 6]</i>	—	—	—	(4,270)	—	(4,270)
Balance, March 31, 2020	610,359	144,918	107,230	23,278	(42,637)	843,148

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Three-month period ended March 31, 2020	Three-month period ended March 31, 2019
	\$	\$
Operating activities		
Net income (loss) for the period from continuing operations	7,715	(20,781)
Items not affecting cash:		
Depreciation and amortization	1,621	1,306
Share-based compensation	3,214	6,160
Amortization of intangible assets	6,453	6,453
Amortization of deferred financing costs	704	1,649
Deferred purchase price consideration	611	1,358
Non-controlling interest expense	—	546
	20,318	(3,309)
Changes in operating assets and liabilities:		
Change in finance receivables, net	(49,668)	67,329
Other operating assets and liabilities	(72,339)	(4,347)
Cash (used in) provided by operating activities - continuing operations	(101,689)	59,673
Investing activities		
Decrease (increase) in restricted funds	13,676	(4,761)
Acquisition of non-controlling interest	—	(89,255)
(Increase) decrease in notes receivable	(661)	4,634
Purchase of property, equipment and leasehold improvements	(1,015)	(1,181)
Cash provided by (used in) investing activities - continuing operations	12,000	(90,563)
Financing activities		
Option exercises	82	1,351
Common share repurchases	(4,076)	(201,328)
Payments of lease liabilities	(721)	—
Borrowings, net	63,477	250,440
Dividends paid	(2,350)	(2,477)
Cash provided by financing activities - continuing operations	56,412	47,986
Net changes in cash provided by discontinued operations	18,945	28,114
Net (decrease) increase in cash during the period	(14,332)	45,210
Cash, beginning of period	51,720	51,992
Cash, end of period	37,388	97,202
Supplemental cash flow information		
Cash taxes paid, net	4,239	—
Cash interest paid	5,376	6,298

See accompanying notes

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

1. Corporate Information

ECN Capital Corp. ("ECN Capital" or the "Company") is a leading provider of business services to United States ("U.S.") based banks, credit unions, life insurance companies and investment funds (collectively its "Partners"). ECN Capital originates, manages and advises on credit assets on behalf of its Partners, specifically unsecured consumer loan portfolios, secured loan portfolios and credit card portfolios. Its Partners are seeking high quality assets to match with their deposits or liabilities. Headquartered in South Florida and Toronto, the registered office is located at 200 Bay Street, Suite 1625, Toronto, Ontario, Canada. ECN Capital has approximately 610 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange ("TSX") under the symbol "ECN".

2. Basis of Presentation and Summary of Significant Accounting Policies

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with *International Accounting Standard 34, Interim Financial Reporting*, as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements. They should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2019, which include information necessary or useful to understanding the Company's business and financial statement presentation.

These interim condensed consolidated financial statements are presented in thousands of U.S. dollars, except where otherwise noted.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 14, 2020.

Critical accounting estimates and use of judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgments are made based on information available as at the date the interim condensed consolidated financial statements are issued.

As at March 31, 2020, due to the emergence of the novel coronavirus identified as COVID-19, we are subject to a greater degree of uncertainty in making the estimates and judgments required to apply our significant accounting policies. The ultimate impacts of COVID-19 on our business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, which are highly uncertain and cannot be predicted. The uncertainty of future results and cash flows may impact our estimates and judgments underlying the carrying

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

values of our finance receivables, held-for-trading financial assets, goodwill, intangible assets and retained reserve interest asset, the adequacy of our credit loss provisions, the fair value of our assets held-for-sale and the realization of our deferred tax assets. We continue to work on the Company's forecasts, assumptions, valuation models and other analyses that support the current carrying value of these assets. Accordingly, actual results may be materially different from those recorded amounts.

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

3. Business Acquisitions and Disposals

Acquisition of Credit Card Team

In the fourth quarter of 2019, the Company, through the Kessler Group ("KG"), acquired 100% of the equity interests of a credit card platform, including an established team of credit card executives, for cash consideration of \$10.3 million. As at March 31, 2020, based on the Company's preliminary evaluation, the combined purchase price of these acquisitions is allocated as follows:

	\$
Consideration paid:	
Cash	10,287
Fair value of identifiable assets and liabilities:	
Goodwill	8,574
Intangible assets	1,000
Short-term receivables and other assets	713
Net assets acquired	10,287

Costs related to these transactions were \$0.9 million, including banking, legal, accounting, due diligence and other transaction-related expenses.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

Discontinued operations

Discontinued operations for the three-month periods ended March 31, 2020 and 2019 include the results of the Company's Rail Finance, Aviation Finance, and Canada Commercial and Vendor ("C&V") Finance business segments as shown below:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Revenues	477	433
Operating expenses and other costs		
Compensation and benefits	1,143	552
Other operating expenses	2,442	2,648
Interest expense	389	—
Share-based compensation	1	2
	3,975	3,202
Loss from discontinued operations before income taxes	(3,498)	(2,769)
Recovery of income taxes	(806)	(609)
Net loss from discontinued operations	(2,692)	(2,160)

Assets held-for-sale

The following table presents the Company's assets held-for-sale as at March 31:

	March 31, 2020	December 31, 2019
Rail Finance	34,413	35,581
Aviation Finance	77,732	97,480
C&V Finance	9,190	9,911
	121,335	142,972

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

4. Finance Receivables

The following table presents the Company's finance receivables based on the type of contract:

	March 31, 2020	December 31, 2019
	\$	\$
Manufactured housing loans	119,241	101,548
Dealer advances	52,882	52,436
Credit card portfolio structured loans	71,850	74,330
Gross finance receivable at amortized cost	243,973	228,314
Allowance for credit losses	(627)	(508)
Net finance receivables at amortized cost	243,346	227,806
Held-for-trading financial assets	119,549	85,421
Total finance receivables	362,895	313,227

Manufactured housing loans and dealer advances

Manufactured housing loans are primarily comprised of secured floorplan loans issued by Triad Financial Services, Inc. to finance dealer inventory. Dealer advances consist primarily of staged fundings with respect to committed home improvement loans to key dealers of Service Finance.

Credit card portfolio structured loans

Credit card portfolio structured loans are comprised of secured loans to participate in the acquisition of \$0.9 billion of credit card receivables in partnership with institutional investors as part of the Company's strategy to build a credit card asset management platform. These loans were purchased as part of syndicated arrangements with institutional investors through unconsolidated structured entities.

Held-for-trading financial assets

The loans balance as at March 31, 2020 includes \$99.2 million (December 31, 2019 - \$61.5 million) in home improvement loans and \$20.3 million (December 31, 2019 - \$23.9 million) in manufactured housing loans, which are classified as held-for-trading. Finance receivables are classified as held-for-trading if the related loans were originated with the intention of selling the instrument in the near term. Held-for-trading finance receivables are measured on the consolidated financial statements at fair value through profit and loss. These loans are considered Level 3 assets and the Company measures the fair value of these loans based on a valuation model using internal inputs. Upon origination, the Company's internal valuation may determine a fair value that is in excess of the origination or transaction value of the loan. In these circumstances, the Company will not recognize such gains until the fair value estimated by the internal model is substantiated by a market-observable event such as an executed sales contract.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

The following table presents the delinquency status of the net investment in finance receivables of continuing operations, by contract balance:

	March 31, 2020		December 31, 2019	
	\$	%	\$	%
31 - 60 days past due	188	0.08	—	—
61 - 90 days past due	161	0.07	—	—
Greater than 90 days past due	125	0.05	115	0.05
Total past due	474	0.20	115	0.05
Current	243,499	99.80	228,199	99.95
Total net investment	243,973	100.00	228,314	100.00

The following table presents selected characteristics of the finance receivables of continuing operations:

	March 31, 2020	December 31, 2019
	\$	\$
Net investment, continuing operations	\$243,973	\$228,314
Weighted average floating interest rate	7.24 %	7.40 %

The following tables provide net investments in finance receivables segregated by Stage:

	March 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
Low risk	135,182	114	—	135,296
Medium risk	108,317	235	—	108,552
High risk	—	—	125	125
Gross carrying amount	243,499	349	125	243,973

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
Low risk	77,648	—	—	77,648
Medium risk	150,349	—	—	150,349
High risk	193	—	124	317
Gross carrying amount	228,190	—	124	228,314

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

Low risk: Loans that have below average probability of default with credit risk that is lower than the Company's risk appetite and risk tolerance levels. While the Company does originate loans under this category, these loans may have lower yield due to high credit quality.

Medium risk: Loans that have an average probability of default with credit risk that is within the Company's risk appetite and risk tolerance. The Company actively originates loans under this category due to higher yields.

High risk: Loans that were originated within the Company's risk appetite but have subsequently experienced an increase in credit risk that is outside of the Company's typical risk appetite and risk tolerance levels. The Company will generally not originate loans in this category.

Default: Loans that are over 120 days past due or loans for which there is objective evidence of impairment.

Allowance for credit losses

The Company's allowance for credit losses is reported in accordance with IFRS 9 and is shown in the table below as at March 31, 2020 and March 31, 2019:

	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Balance as at December 31, 2018	475	89	80	644
Provision for credit losses	22	20	83	125
Stage transfers	(4)	3	—	(1)
Balance as at March 31, 2019	493	112	163	768
Balance as at December 31, 2019	433	—	75	508
Provision for credit losses	119	—	—	119
Stage transfers	10	—	(10)	—
Balance as at March 31, 2020	562	—	65	627

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

5. Secured Borrowings

	March 31, 2020		December 31, 2019	
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Balance outstanding	Weighted average interest rate ⁽¹⁾
	\$	%	\$	%
Term senior credit facility	507,067	2.69	443,590	3.47
Deferred financing costs	(12,407)		(13,112)	
Total secured borrowings	494,660		430,478	

(1) Represents the weighted average stated interest rate of outstanding debt at year-end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2020.

Term senior credit facility

The Company is party to a \$1,000,000 term senior credit facility, amended October 16, 2019, which is syndicated to a group of eight Canadian, U.S. and international banks with a maturity date of December 31, 2023. The facility bears interest at the prime rate plus 0.70% or one-month bankers' acceptance rate plus 1.70% per annum on outstanding Canadian denominated balances and US base rate plus 0.70% per annum or one-month LIBOR rate plus 1.70% per annum on outstanding US denominated balances. The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property.

As at March 31, 2020, the Company had unutilized borrowing capacity of \$492,933 (December 31, 2019 - \$556,410).

Restricted funds

Restricted cash in collection accounts as at March 31, 2020 was \$19,705 (December 31, 2019 - \$33,381) and represents cash we have collected on behalf of certain counterparties where we have recorded an offsetting liability in accounts payable and accrued liabilities.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

6. Share Capital

The Company is currently authorized to issue (i) an unlimited number of common shares without nominal or par value and (ii) an unlimited number of preferred shares, issuable in series.

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2018	306,643,351	817,919
Common share repurchases	(70,666,666)	(201,328)
Exercise of options	3,329,762	1,351
Balance, March 31, 2019	239,306,447	617,942
Balance, December 31, 2019	240,127,585	615,530
Normal Course Issuer Bid repurchases	(1,273,624)	(4,076)
Exercise of options	164,985	82
Share issuance for purchase of non-controlling interest in KG ⁽¹⁾	2,990,737	—
Stock options adjustment	—	(1,177)
Balance, March 31, 2020	242,009,683	610,359

(1) Effective December 31, 2019, the Company acquired the remaining 4% non-controlling interest of KG for share consideration of approximately \$11.1 million, or 2,990,737 common shares, representing the fair value of the non-controlling interest liability previously recorded in conjunction with the initial investment in KG. These common shares were issued during the first quarter of 2020.

Normal Course Issuer Bid

On August 16, 2019, the TSX approved the renewal of the Company's Normal Course Issuer Bid ("NCIB") for commencement on August 20, 2019. Pursuant to the renewal, the Company may repurchase up to an additional 22,228,161 common shares, representing approximately 10% of the public float. The NCIB will end on the earlier of August 19, 2020 and the completion of purchases under the NCIB. During the three-month period ended March 31, 2020, the Company purchased 1,273,624 shares for a total of \$4.1 million (C\$5.7 million) or C\$4.50 per common share pursuant to the NCIB.

Preferred share dividends

The following table summarizes the Company's outstanding preferred share capital:

	Preferred shares	
	Shares	Amount
	#	\$
Series A 6.50% Rate Reset Preferred Shares	4,000,000	72,477
Series C 6.25% Rate Reset Preferred Shares	4,000,000	72,441
Balance, March 31, 2020	8,000,000	144,918

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

During the three-month period ended March 31, 2020, the Company paid \$1,198 or C\$0.40625 per Series A share in dividends. During the three-month period ended March 31, 2019, the Company paid \$1,228 or C\$0.40625 per Series A share in preferred share dividends.

During the three-month period ended March 31, 2020, the Company paid \$1,152 or C\$0.390625 per Series C share in dividends. During the three-month period ended March 31, 2019, the Company paid \$1,179 or C\$0.390625 per Series C share in preferred share dividends.

Common share dividends

During the three-month period ended March 31, 2020, the Company declared \$4,270 or C\$0.025 per common share in dividends (March 31, 2019 - \$3,565 or C\$0.02 per common share). The dividend for the three-month period ended March 31, 2020 was paid on April 15, 2020.

7. Share-Based Compensation

Share-based compensation expense

Share-based compensation expense consists of the following for the periods ended:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Stock options	93	335
Deferred share units	218	1,564
Performance share units and restricted share units	2,903	4,261
Share-based compensation - continuing operations	3,214	6,160

During the three-month period ended March 31, 2020, the Company did not grant any stock options.

During the three-month period ended March 31, 2020, the Company granted 241,862 DSUs to members of the Company's Board of Directors.

During the three-month period ended March 31, 2020, the Company granted 2,079,333 PSUs to senior executives and employees of the Company. There were no RSUs granted during the three-month period ended March 31, 2020.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

8. Other Revenue and Other Expenses

Other revenue consists of the following for the periods ended March 31:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
(Loss) gain on corporate investments	(344)	376
Other fees	223	97
Foreign exchange and other	791	108
Total other revenue - continuing operations	670	581

Other expenses consist of the following for the periods ended March 31:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Amortization of intangible assets	6,453	6,453
Accretion of deferred purchase consideration	611	1,358
Non-controlling interest	—	546
Restructuring costs	—	40,687
Gain on economic currency hedge	—	(4,789)
Total other expenses - continuing operations	7,064	44,255

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

9. Related Party Transactions

Notes receivable

Notes receivable of \$30,390 as at March 31, 2020 (December 31, 2019 - \$31,966) represent loans to certain employees and officers of the Company granted in order to help finance the purchase of the Company's shares. Interest is accrued on the loans based on applicable U.S. interest rates and the principal is payable on demand in the event of non-payment of interest. The notes receivable are secured by ECN Capital shares purchased with full recourse to the employee/officer.

The changes in the notes receivable during the periods were as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Notes receivable, beginning of period	42,067	51,744
Additions	2,794	5,180
Interest income	191	1,066
Repayments (interest and principal)	(624)	(7,628)
Reclassifications to short-term receivables and other assets (non-related party) ⁽¹⁾	(2,237)	(10,127)
Foreign exchange	(2,106)	1,832
	40,085	42,067
Set-off amounts	(9,695)	(10,101)
Notes receivable, end of period	30,390	31,966

(1) These amounts primarily include loans to former employees that are being repaid pursuant to a fixed repayment schedule and remain secured by ECN Capital shares. As of March 31, 2020, \$5.4 million of these loans remained outstanding.

10. Derivative Financial Instruments

Cash flow hedging relationships

In the normal course of business, and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk and foreign exchange forward agreements to manage foreign currency exposure. All derivative instruments are designated in hedging relationships.

Total return swaps

The Company also enters into total return swaps to hedge the variability in cash flows associated with forecasted future obligations to members of the Company's Board of Directors, senior executives and eligible employees on vesting of DSUs, RSUs and PSUs attributable to changes in the Company's stock price related to its liability with respect to these instruments. These

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

derivatives are designated as hedges for accounting purposes, and as such, the gains or losses of the hedging derivative are offset by the gains or losses of the hedged item.

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three-month periods ended March 31:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Foreign exchange agreements recorded in other revenue	791	13
Fair value losses recorded in other comprehensive income	(20,320)	(2,056)

Notional amounts and fair values of derivative instruments

The following table summarizes the notional principal and fair values of the derivative financial instruments outstanding:

	March 31, 2020		December 31, 2019	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Interest rate contracts	—	—	419,527	1,777
Foreign exchange agreements	48,522	399	37,351	410
Total return swaps	—	—	29,303	1,439
	48,522	399	486,181	3,626
Derivative liabilities				
Interest rate contracts	533,317	16,126	125,963	3,061
Foreign exchange agreements	—	—	—	—
Total return swaps	30,984	7,634	—	—
	564,301	23,760	125,963	3,061

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

11. Earnings Per Share

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Net income (loss) from continuing operations attributable to shareholders	7,715	(20,781)
Cumulative dividends on preferred shares	2,350	2,405
Net income (loss) from continuing operations attributable to common shareholders	5,365	(23,186)
Net loss from discontinued operations attributable to common shareholders	(2,692)	(2,160)
Total net income (loss) attributable to common shareholders	2,673	(25,346)
Weighted average number of common shares outstanding - basic	240,627,524	250,289,146
Basic income (loss) per share from continuing operations	\$ 0.02	\$ (0.09)
Basic loss per share from discontinued operations	\$ (0.01)	\$ (0.01)
Total income (loss) per share	\$ 0.01	\$ (0.10)
Weighted average number of common shares outstanding - diluted	245,896,461	250,289,146
Diluted earnings (loss) per share from continuing operations	\$ 0.02	\$ (0.09)
Diluted loss per share from discontinued operations	\$ (0.01)	\$ (0.01)
Total diluted earnings (loss) per share	\$ 0.01	\$ (0.10)

12. Capital Disclosures

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value.

The Company's capitalization is as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Secured borrowings	494,660	430,478
Accounts payable and accrued liabilities	177,595	234,599
Other liabilities ^[1]	39,471	50,285
	711,726	715,362
Shareholders' equity	843,148	879,026
	1,554,874	1,594,388

[1] Includes a \$24.9 million (2019 - \$26.2 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a \$16.5 million (2019 - \$17.1 million) lease liability recognized in connection with the adoption of IFRS 16.

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

13. Segmented Information

Operating segments

ECN Capital's operating results are categorized into three core operating segments and a Corporate segment. The Company's core operating segments consist of: (a) Service Finance - Home Improvement Loans; (b) KG - Consumer Credit Card Portfolios and Related Financial Products; and (c) Triad Financial Services - Manufactured Home Loans. The Company's Chief Operating Decision Maker ("CODM"), the CEO, reviews the operating results, assesses performance and makes capital allocation decisions at the business segment level. Therefore, each of the Company's business segments is an operating and reporting segment for financial reporting purposes.

The financial reporting of ECN Capital's three core business segments is consistent with the manner in which management currently evaluates the operating segment performance.

The interim condensed consolidated statements of operations by segment for the three-month periods ended March 31 are shown in the following tables:

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

	For the three-month period ended March 31, 2020				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	26,112	18,760	15,137	869	60,878
Operating and other expenses					
Compensation and benefits	4,977	5,559	5,109	3,239	18,884
General and administrative expenses	5,223	1,681	3,166	4,215	14,285
Interest expense	610	659	1,013	2,788	5,070
Depreciation and amortization	256	438	281	646	1,621
Share-based compensation	340	498	691	1,685	3,214
Other expenses	1,908	4,610	310	236	7,064
	13,314	13,445	10,570	12,809	50,138
Income (loss) before income taxes from continuing operations	12,798	5,315	4,567	(11,940)	10,740

Notes to interim condensed consolidated financial statements

[in thousands of U.S. dollars, except where otherwise noted and per share amounts]

March 31, 2020

	For the three-month period ended March 31, 2019				
	Service Finance - Home Improvement Loans	KG - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	\$	\$	\$	\$	\$
Revenues	19,758	24,562	11,634	664	56,618
Operating and other expenses					
Compensation and benefits	4,258	7,707	4,508	2,826	19,299
General and administrative expenses	3,106	2,096	1,983	2,549	9,734
Interest expense	1,710	354	742	3,645	6,451
Depreciation and amortization	175	467	314	350	1,306
Share-based compensation	1,273	701	96	4,090	6,160
Other expenses	1,908	37,810	1,310	3,227	44,255
	12,430	49,135	8,953	16,687	87,205
Income (loss) before income taxes from continuing operations	7,328	(24,573)	2,681	(16,023)	(30,587)

