



Interim Condensed Consolidated Financial Statements

MARCH 31, 2021

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	March 31, 2021	December 31, 2020
	\$	\$
Assets		
Cash	34,518	37,977
Restricted funds <i>[note 5]</i>	6,210	9,226
Finance receivables <i>[note 4]</i>	438,462	374,025
Accounts receivable	91,056	78,779
Other assets <i>[note 9]</i>	99,073	99,891
Retained reserve interest	29,519	29,390
Continuing involvement asset	171,863	164,188
Notes receivable <i>[note 10]</i>	35,068	35,933
Derivative financial instruments <i>[note 11]</i>	15,357	10,406
Leasehold improvements and other equipment	20,018	18,893
Intangible assets	250,458	257,931
Deferred tax assets	59,680	60,445
Goodwill	422,353	422,353
Total assets excluding assets held-for-sale	1,673,635	1,599,437
Assets held-for-sale <i>[note 3]</i>	104,917	106,768
Total assets	1,778,552	1,706,205
 Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities <i>[note 9]</i>	166,862	151,953
Continuing involvement liability	171,863	164,188
Derivative financial instruments <i>[note 11]</i>	7,529	8,868
Borrowings on term senior credit facility <i>[note 5]</i>	505,684	462,083
Senior unsecured debentures <i>[note 5]</i>	56,036	55,109
Other liabilities <i>[note 13]</i>	52,971	41,443
Total liabilities	960,945	883,644
Shareholders' equity	817,607	822,561
	1,778,552	1,706,205

See accompanying notes

On behalf of the Board:



 William Lovatt
 Director



 Steve Hudson
 Director

Interim condensed consolidated statements of operations

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

	Three-month period ended March 31, 2021 \$	Three-month period ended March 31, 2020 \$
Revenues		
Portfolio origination services	27,014	20,193
Portfolio management services	30,867	29,475
Portfolio advisory services	2,000	3,175
Marketing services	2,904	1,827
Total portfolio revenue	62,785	54,670
Interest income	7,479	5,538
Other revenue <i>[note 8]</i>	3,753	670
	74,017	60,878
Operating expenses and other		
Compensation and benefits	24,538	18,884
General and administrative expenses	14,023	14,285
Interest expense	6,091	5,070
Depreciation and amortization	2,769	1,621
Share-based compensation <i>[note 7]</i>	6,870	3,214
Other expenses <i>[note 8]</i>	9,391	7,064
	63,682	50,138
Income before income taxes from continuing operations	10,335	10,740
Provision for income taxes	2,029	3,025
Net income from continuing operations	8,306	7,715
Net loss from discontinued operations <i>[note 3]</i>	—	(2,692)
Net income for the period	8,306	5,023
Earnings (loss) per common share - Basic		
Continuing operations <i>[note 12]</i>	0.02	0.02
Discontinued operations <i>[note 12]</i>	—	(0.01)
Total basic earnings (loss) per share <i>[note 12]</i>	0.02	0.01
Earnings (loss) per common share - Diluted		
Continuing operations <i>[note 12]</i>	0.02	0.02
Discontinued operations <i>[note 12]</i>	—	(0.01)
Total diluted earnings (loss) per share <i>[note 12]</i>	0.02	0.01

See accompanying notes

Interim condensed consolidated statements of comprehensive income (loss)

[unaudited, in thousands of United States dollars]

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Net income for the period	8,306	5,023
Other comprehensive income (loss)		
Cash flow hedges <i>[note 11]</i>	1,840	(20,320)
Net unrealized foreign exchange gain (loss)	1,137	(8,884)
Deferred tax benefit	(831)	—
Total other comprehensive income (loss)	2,146	(29,204)
Comprehensive income (loss) for the period	10,452	(24,181)

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 (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019	615,530	144,918	107,136	24,875	(13,433)	879,026
Employee stock options exercised	82	—	—	—	—	82
Employee stock option expense	—	—	94	—	—	94
Stock options adjustment	(1,177)	—	—	—	—	(1,177)
Common share repurchases	(4,076)	—	—	—	—	(4,076)
Comprehensive income (loss) for the period	—	—	—	5,023	(29,204)	(24,181)
Dividends – preferred shares	—	—	—	(2,350)	—	(2,350)
Dividends – common shares	—	—	—	(4,270)	—	(4,270)
Balance, March 31, 2020	610,359	144,918	107,230	23,278	(42,637)	843,148
Balance, December 31, 2020	608,707	139,143	107,961	(16,056)	(17,194)	822,561
Employee stock options exercised <i>[note 6]</i>	225	—	—	—	—	225
Employee stock options expense	—	—	1,017	—	—	1,017
Common share repurchases <i>[note 6]</i>	(7,020)	—	—	—	—	(7,020)
Preferred share repurchases <i>[note 6]</i>	—	(1,403)	—	—	—	(1,403)
Comprehensive income for the period	—	—	—	8,306	2,146	10,452
Dividends – preferred shares <i>[note 6]</i>	—	—	—	(2,395)	—	(2,395)
Dividends – common shares <i>[note 6]</i>	—	—	—	(5,830)	—	(5,830)
Balance, March 31, 2021	601,912	137,740	108,978	(15,975)	(15,048)	817,607

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Operating activities		
Net income for the period from continuing operations	8,306	7,715
Items not affecting cash:		
Depreciation and amortization	2,769	1,621
Share-based compensation	6,870	3,214
Amortization of intangible assets	8,429	6,453
Amortization of deferred financing costs	1,102	704
Deferred purchase price consideration	962	611
	28,438	20,318
Changes in operating assets and liabilities:		
Change in finance receivables, net	(64,437)	(49,668)
Other operating assets and liabilities	4,129	(67,739)
Cash used in operating activities - continuing operations	(31,870)	(97,089)
Investing activities		
Decrease in restricted funds	3,016	13,676
Decrease (increase) in notes receivable	865	(661)
Purchase of property, equipment and leasehold improvements	(995)	(1,015)
Cash provided by investing activities - continuing operations	2,886	12,000
Financing activities		
Option exercises	225	82
Common share repurchases	(7,020)	(4,076)
Preferred share repurchases	(1,403)	—
Payments of lease liabilities	(744)	(721)
Borrowings on term senior credit facility, net of repayments	42,692	63,477
Dividends paid	(8,225)	(6,950)
Cash provided by financing activities - continuing operations	25,525	51,812
Net changes in cash provided by discontinued operations	—	18,945
Net decrease in cash during the period	(3,459)	(14,332)
Cash, beginning of period	37,977	51,720
Cash, end of period	34,518	37,388
Supplemental cash flow information		
Cash taxes paid, net	1,170	4,239
Cash interest paid	5,672	5,376

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, 2021

1. Corporate Information

ECN Capital Corp. ("ECN Capital" or the "Company") is a leading provider of business services to North American based banks, credit unions, life insurance companies, pension funds and investment funds (collectively its "Partners"). ECN Capital originates, manages and advises on credit assets on behalf of its Partners, specifically unsecured loan portfolios, secured loan portfolios and credit card portfolios. Its Partners are seeking high quality assets to match with their deposits or other liabilities. These services are offered through three operating businesses: Service Finance, Triad Financial Services and The Kessler Group ("KG"). Headquartered in South Florida and Toronto, the registered office is located at 200 Bay Street, Suite 1625, Toronto, Ontario, Canada. ECN Capital has approximately 590 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, 2020, 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 12, 2021.

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. The estimates and judgments are made based on information available as at the date the interim condensed consolidated financial statements are issued.

Notes to interim condensed consolidated financial statements

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

March 31, 2021

As at March 31, 2021, 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 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 update 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.

3. Business Acquisitions and Disposals

Discontinued operations

Discontinued operations for the three-month period ended March 31, 2020 include the results of the Company's Rail Finance, Aviation Finance, and Canada and U.S. Commercial and Vendor ("C&V") Finance business segments (the "Legacy Businesses") as shown below. For the three-month period ended March 31, 2021, the results of operations of the Legacy Businesses were not material to the Company's consolidated results of operations.

	Three-month period ended March 31, 2020
	<u>\$</u>
Revenues	<u>477</u>
Operating expenses and other costs	
Compensation and benefits	1,143
Other operating expenses	2,442
Interest expense	389
Share-based compensation	1
	<u>3,975</u>
Loss from discontinued operations before income taxes	(3,498)
Recovery of income taxes	(806)
Net loss from discontinued operations	<u>(2,692)</u>

Notes to interim condensed consolidated financial statements

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

March 31, 2021

Assets held-for-sale

The following table presents the Company's assets held-for-sale:

	March 31, 2021	December 31, 2020
	\$	\$
Rail Finance	35,771	32,837
Aviation Finance	60,917	64,844
C&V Finance	8,229	9,087
	104,917	106,768

4. Finance Receivables

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

	March 31, 2021	December 31, 2020
	\$	\$
Manufactured housing loans	126,813	113,817
Dealer advances	53,400	54,584
Credit card portfolio structured loans	51,325	56,242
Gross finance receivable at amortized cost	231,538	224,643
Allowance for credit losses	(894)	(868)
Net finance receivables at amortized cost	230,644	223,775
Held-for-trading financial assets	207,818	150,250
Total finance receivables	438,462	374,025

Manufactured housing loans and dealer advances

Manufactured housing loans are primarily comprised of secured floorplan loans issued by Triad Financial Services 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 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.

Notes to interim condensed consolidated financial statements

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

March 31, 2021

Held-for-trading financial assets

The loans balance as at March 31, 2021 includes \$152.4 million (December 31, 2020 - \$93.2 million) in home improvement loans and \$55.4 million (December 31, 2020 - \$57.1 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.

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

	March 31, 2021		December 31, 2020	
	\$	%	\$	%
31 - 60 days past due	—	—	3	—
61 - 90 days past due	—	—	—	—
Greater than 90 days past due	155	0.07	—	—
Total past due	155	0.07	3	—
Current	231,383	99.93	224,640	100.00
Total net investment	231,538	100.00	224,643	100.00

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

	March 31, 2021	December 31, 2020
	\$	\$
Net investment, continuing operations	\$231,538	\$224,643
Weighted average interest rate	6.66 %	6.70 %

Notes to interim condensed consolidated financial statements

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

March 31, 2021

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

	March 31, 2021			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	109,241	—	—	109,241
Medium risk	121,773	—	—	121,773
High risk	367	66	91	524
Default	—	—	—	—
Gross carrying amount	231,381	66	91	231,538

	December 31, 2020			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	113,901	—	—	113,901
Medium risk	110,600	—	—	110,600
High risk	—	84	58	142
Default	—	—	—	—
Gross carrying amount	224,501	84	58	224,643

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.

Notes to interim condensed consolidated financial statements

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

March 31, 2021

Allowance for credit losses

The Company's allowance for credit losses is shown in the table below:

	Stage 1 (Performing)	Stage 2 (Under- performing)	Stage 3 (Non- performing)	Total
	\$	\$	\$	\$
Balance as at December 31, 2019	433	—	75	508
Provision for credit losses	119	—	—	119
Charge-offs, net of recoveries	—	—	—	—
Stage transfers	10	—	(10)	—
Balance as at March 31, 2020	562	—	65	627
Balance as at December 31, 2020	829	2	37	868
Provision for credit losses	(85)	25	81	21
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	35	(2)	(33)	—
Balance as at March 31, 2021	779	25	90	894

Notes to interim condensed consolidated financial statements

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

March 31, 2021

5. Borrowings**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. The following table summarizes the Company's outstanding balance on its term senior credit facility:

	March 31, 2021		December 31, 2020	
	Balance outstanding	Weighted average interest rate ^[1]	Balance outstanding	Weighted average interest rate ^[1]
	\$	%	\$	%
Term senior credit facility	515,692	2.84	473,000	2.91
Deferred financing costs	(10,008)		(10,917)	
Total secured borrowings	505,684		462,083	

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

As at March 31, 2021, the unutilized balance of the facility was \$484,308 (December 31, 2020 - \$527,000).

Senior unsecured debentures

On September 4, 2020, the Company issued C\$75 million (US\$57.1 million) aggregate principal amount of listed senior unsecured debentures due December 31, 2025 (the "Debentures") at a price of C\$1,000 per Debenture. The Debentures will bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020.

Notes to interim condensed consolidated financial statements

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

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The Debentures will not be redeemable by the Company prior to December 31, 2023 (the "First Call Date"). On and after the First Call Date and prior to December 31, 2024, the Debentures will be redeemable, in whole or in part, at the Company's option at a redemption price equal to 103.0% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On and after December 31, 2024 and prior to the maturity date of December 31, 2025, the Debentures will be redeemable, in whole or in part, at the Company's option at par plus accrued and unpaid interest. The Company has the option to satisfy its obligations to repay the principal amount of the Debentures due at redemption or maturity by issuing and delivering that number of common shares in the capital of the Company in accordance with the terms of the indenture.

The following table summarizes the outstanding balance of the Company's Debentures:

	March 31, 2021	December 31, 2020
	\$	\$
Senior unsecured debentures	59,704	58,939
Deferred financing costs	(3,668)	(3,830)
Total unsecured debentures	56,036	55,109

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2021.

Restricted funds

Restricted cash in collection accounts as at March 31, 2021 was \$6,210 (December 31, 2020 - \$9,226) and represents cash we have collected on behalf of certain counterparties where an offsetting liability is recorded 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, 2021

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.

The following table summarizes the Company's outstanding common shares:

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2019	240,127,585	615,530
Common share 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
Balance, December 31, 2020	244,540,489	608,707
Common share repurchases	(1,120,038)	(7,020)
Exercise of options	291,062	225
Balance, March 31, 2021	243,711,513	601,912

[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.

The following tables summarize the Company's outstanding preferred share capital:

	Preferred shares - Series A	
	Shares	Amount
	#	\$
Balance, December 31, 2020	3,892,200	70,614
Preferred share repurchases	(37,400)	(721)
Balance, March 31, 2021	3,854,800	69,893

	Preferred shares - Series C	
	Shares	Amount
	#	\$
Balance, December 31, 2020	3,760,800	68,529
Preferred share repurchases	(36,000)	(682)
Balance, March 31, 2021	3,724,800	67,847

Notes to interim condensed consolidated financial statements

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

March 31, 2021

Normal Course Issuer Bids

On September 14, 2020, the TSX approved the renewal of the Company's Normal Course Issuer Bid (the "Common Share Bid") for common shares of the Company and the Company's notice of intention to commence a Normal Course Issuer Bid (the "Preferred Share Bid" and, together with the Common Share Bid, the "NCIBs") for the Company's Series A 6.50% Rate Reset Preferred Shares (the "Series A Preferred Shares") and Series C 6.25% Rate Reset Preferred Shares (the "Series C Preferred Shares") for commencement on September 17, 2020. Pursuant to the NCIBs, the Company may repurchase up to an additional 22,432,925 common shares, 399,900 Series A Preferred Shares and 399,800 Series C Preferred Shares, representing approximately 10% of the public float of each of the common shares, the Series A Preferred Shares and Series C Preferred Shares. The NCIBs will end on the earlier of September 16, 2021 or the completion of purchases under the applicable NCIB.

During the three-month period ended March 31, 2021, the Company purchased 1,120,038 common shares for a total of \$7.0 million (C\$8.8 million) or C\$7.87 per common share pursuant to the Common Share Bid. During the three-month period ended March 31, 2021, the Company purchased 37,400 Series A Preferred Shares for a total of \$0.7 million (\$0.9 million) or C\$24.42 per share and 36,000 Series C Preferred Shares for a total of \$0.7 million (C\$0.9 million) or C\$24.02 per share pursuant to the Preferred Share Bid.

Common share dividends

During the three-month period ended March 31, 2021, the Company declared \$5,830 or C\$0.03 per common share in dividends (March 31, 2020 - \$4,270 or C\$0.025 per common share).

Preferred share dividends

During the three-month period ended March 31, 2021, the Company paid \$1,242 or C\$0.40625 per Series A share in dividends (March 31, 2020 - \$1,198 or C\$0.40625 per Series A share).

During the three-month period ended March 31, 2021, the Company paid \$1,153 or C\$0.390625 per Series C share in dividends (March 31, 2020 - \$1,152 or C\$0.390625 per Series C share).

Notes to interim condensed consolidated financial statements

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7. Share-Based Compensation

Share-based compensation expense

Share-based compensation expense consists of the following:

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Performance share units and restricted share units	5,109	2,903
Stock options	1,017	93
Deferred share units	744	218
Share-based compensation - continuing operations	6,870	3,214

During the three-month period ended March 31, 2021, the Company granted 681,826 PSUs to senior executives and employees of the Company.

During the three-month period ended March 31, 2021, the Company granted 3,807,512 stock options to employees with a weighted average exercise price of C\$7.24 per share.

During the three-month period ended March 31, 2021, the Company granted 179,113 DSUs to members of the Company's Board of Directors.

8. Other Revenue and Other Expenses

Other revenue consists of the following for the periods ended March 31, 2021 and March 31, 2020:

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Legacy Businesses revenue	1,678	—
Other fees	859	223
Foreign exchange and other	807	791
Gain (loss) on corporate investments	409	(344)
Total other revenue - continuing operations	3,753	670

Notes to interim condensed consolidated financial statements

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

March 31, 2021

Other expenses consist of the following for the periods ended March 31, 2021 and March 31, 2020:

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Amortization of intangible assets	8,429	6,453
Accretion of deferred purchase consideration	962	611
Total other expenses - continuing operations	9,391	7,064

9. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	March 31, 2021	December 31, 2020
	\$	\$
Corporate investments	44,575	46,812
Prepaid expenses and other assets	30,307	29,100
Taxes receivable	24,191	23,979
Total	99,073	99,891

Equity accounted investments are included in corporate investments and are equity accounted private company investments with a carrying value of approximately \$23.5 million.

The following table presents the liabilities reported in accounts payable and accrued liabilities:

	March 31, 2021	December 31, 2020
	\$	\$
Accounts payable and accrued liabilities	64,079	52,096
Accrued payroll and share-based compensation liabilities	48,212	50,376
Unearned revenue ^[1]	44,113	44,699
Dealer liability - restricted cash	10,458	4,782
Total	166,862	151,953

[1] Represents upfront payments received from Partners of the Company for future management and advisory services.

Notes to interim condensed consolidated financial statements

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

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10. Related Party Transactions

Notes receivable

Notes receivable of \$35,068 as at March 31, 2021 (December 31, 2020 - \$35,933) 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 notes receivable for the three-month periods ended March 31, 2021 and March 31, 2020 were as follows:

	March 31, 2021	March 31, 2020
	\$	\$
Notes receivable, beginning of period	47,553	42,067
Additions	20	2,794
Interest income	237	191
Repayments (interest and principal)	(916)	(624)
Reclassifications to short-term receivables and other assets (non-related party) ^[1]	—	(2,237)
Foreign exchange	353	(2,106)
	47,247	40,085
Defeased amounts	(12,179)	(9,695)
Notes receivable, end of period	35,068	30,390

[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 at March 31, 2021, \$4.7 million of these loans remained outstanding.

Notes to interim condensed consolidated financial statements

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

March 31, 2021

11. 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 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 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, 2021 and March 31, 2020:

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Foreign exchange agreements recorded in other revenue	807	791
Fair value gains (losses) recorded in other comprehensive income	1,840	(20,320)

Notes to interim condensed consolidated financial statements

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

March 31, 2021

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, 2021		December 31, 2020	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Foreign exchange agreements	174,424	994	38,000	201
Total return swaps	26,535	14,363	34,705	10,205
	200,959	15,357	72,705	10,406
Derivative liabilities				
Interest rate contracts	400,000	7,068	400,000	8,463
Foreign exchange agreements	—	—	79,782	405
Total return swaps	19,292	461	—	—
	419,292	7,529	479,782	8,868

12. Earnings Per Share

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Net income from continuing operations	8,306	7,715
Cumulative dividends on preferred shares	2,395	2,350
Net income from continuing operations attributable to common shareholders	5,911	5,365
Net income (loss) from discontinued operations attributable to common shareholders	—	(2,692)
Total net income attributable to common shareholders	5,911	2,673
Weighted average number of common shares outstanding - basic	244,502,334	240,627,524
Basic earnings per share from continuing operations	\$ 0.02	\$ 0.02
Basic earnings (loss) per share from discontinued operations	\$ —	\$ (0.01)
Total basic earnings per share	\$ 0.02	\$ 0.01
Weighted average number of common shares outstanding - diluted	251,317,206	245,896,461
Diluted earnings per share from continuing operations	\$ 0.02	\$ 0.02
Diluted earnings (loss) per share from discontinued operations	\$ —	\$ (0.01)
Total diluted earnings per share	\$ 0.02	\$ 0.01

Notes to interim condensed consolidated financial statements

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

March 31, 2021

13. 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, 2021	December 31, 2020
	\$	\$
Borrowings on term senior credit facility	505,684	462,083
Senior unsecured debentures	56,036	55,109
Accounts payable and accrued liabilities	166,862	151,953
Other liabilities ^[1]	52,971	41,443
	781,553	710,588
Shareholders' equity	817,607	822,561
	1,599,160	1,533,149

[1] Other liabilities primarily include a \$17.9 million (2020 - \$18.8 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a \$16.3 million (2020 - \$14.6 million) lease liability.

14. 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) Triad Financial Services - Manufactured Home Loans; and (c) KG - Consumer Credit Card Portfolios and Related Financial Products. The Company's Chief Operating Decision Maker, 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, 2021 and March 31, 2020 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, 2021

	For the three-month period ended March 31, 2021				
	Service Finance - Home Improvement Loans	Triad Financial Services - Manufactured Home Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Corporate & Other	Total
	\$	\$	\$	\$	\$
Revenues	31,469	18,901	19,741	3,906	74,017
Operating expenses					
Compensation and benefits	6,916	6,814	6,470	4,338	24,538
General and administrative expenses	5,057	3,828	1,350	3,788	14,023
Interest expense	524	831	339	4,397	6,091
Depreciation and amortization	976	317	315	1,161	2,769
Share-based compensation	1,665	97	1,763	3,345	6,870
Other expenses	3,834	310	4,785	462	9,391
	18,972	12,197	15,022	17,491	63,682
Income (loss) before income taxes from continuing operations	12,497	6,704	4,719	(13,585)	10,335

Notes to interim condensed consolidated financial statements

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

March 31, 2021

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

