



Interim Condensed Consolidated Financial Statements

JUNE 30, 2019

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	June 30,	December 31,
	2019	2018
	\$	\$
Assets		
Cash	29,518	51,992
Restricted funds <i>[note 5]</i>	32,285	18,929
Finance receivables <i>[note 4]</i>	311,455	402,418
Short-term receivables and other assets	203,976	152,366
Retained reserve interest	22,941	22,020
Notes receivable <i>[note 9]</i>	24,989	38,146
Derivative financial instruments <i>[note 10]</i>	694	433
Leasehold improvements and other equipment	38,707	15,905
Intangible assets	254,949	264,727
Deferred tax assets	44,155	35,467
Goodwill	413,067	413,067
Total assets excluding assets held-for-sale	1,376,736	1,415,470
Assets held-for-sale <i>[note 3]</i>	230,191	333,963
Total assets	1,606,927	1,749,433
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	208,675	200,782
Derivative financial instruments <i>[note 10]</i>	3,488	6,118
Secured borrowings <i>[note 5]</i>	437,726	335,436
Other liabilities <i>[note 12]</i>	69,049	100,120
Total liabilities	718,938	642,456
Shareholders' equity	887,989	1,106,977
	1,606,927	1,749,433

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 June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$	\$	\$
Revenues				
Portfolio origination services	27,227	20,969	45,367	34,401
Portfolio management services	22,055	12,114	41,143	20,694
Portfolio advisory services	7,008	4,389	18,964	4,389
Total portfolio revenue	56,290	37,472	105,474	59,484
Interest income	5,497	2,837	11,946	4,317
Other revenue <i>[note 8]</i>	216	1,225	1,201	3,124
	62,003	41,534	118,621	66,925
Operating expenses and other				
Compensation and benefits	18,847	13,719	38,146	24,900
General and administrative expenses	10,740	8,861	21,323	16,577
Interest expense	7,005	7,376	13,303	12,755
Depreciation and amortization	712	589	1,322	1,093
Share-based compensation <i>[note 7]</i>	2,970	2,534	9,130	5,868
Other items <i>[note 8]</i>	8,002	16,180	52,257	19,595
	48,276	49,259	135,481	80,788
Income (loss) before income taxes from continuing operations	13,727	(7,725)	(16,860)	(13,863)
Provision for (recovery of) income taxes	2,871	(5,733)	(6,935)	(10,288)
Net income (loss) from continuing operations	10,856	(1,992)	(9,925)	(3,575)
Net (loss) income from discontinued operations <i>[note 3]</i>	(932)	4,641	(3,092)	9,515
Net income (loss) for the period	9,924	2,649	(13,017)	5,940
Earnings (loss) per common share - Basic				
Continuing operations <i>[note 11]</i>	0.04	(0.01)	(0.06)	(0.02)
Discontinued operations <i>[note 11]</i>	—	0.01	(0.01)	0.02
Total basic earnings (loss) per share <i>[note 11]</i>	0.04	—	(0.07)	—
Earnings (loss) per common share - Diluted				
Continuing operations <i>[note 11]</i>	0.03	(0.01)	(0.06)	(0.02)
Discontinued operations <i>[note 11]</i>	—	0.01	(0.01)	0.02
Total diluted earnings (loss) per share <i>[note 11]</i>	0.03	—	(0.07)	—

See accompanying notes

Interim condensed consolidated statements of comprehensive income (loss)

[unaudited, in thousands of United States dollars]

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$	\$	\$
Net income (loss) for the period	9,924	2,649	(13,017)	5,940
Other comprehensive income (loss)				
Cash flow hedges <i>[note 10]</i>	(406)	2,144	(2,462)	2,818
Net unrealized foreign exchange gain (loss)	4,484	(4,373)	8,858	(10,193)
	4,078	(2,229)	6,396	(7,375)
Deferred tax expense	—	176	—	(90)
Total other comprehensive income (loss)	4,078	(2,405)	6,396	(7,285)
Comprehensive income (loss) for the period	14,002	244	(6,621)	(1,345)

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, 2017	1,023,479	144,918	96,437	248,914	(15,356)	1,498,392
Adjustment to opening retained earnings	—	—	—	(6,951)	—	(6,951)
Employee stock options exercised	224	—	—	—	—	224
Employee stock option expense	—	—	4,848	—	—	4,848
Common share repurchases	(140,392)	—	—	—	—	(140,392)
Comprehensive income (loss) for the period	—	—	—	5,940	(7,285)	(1,345)
Dividends – Preferred shares	—	—	—	(5,134)	—	(5,134)
Dividends – Common shares	—	—	—	(5,896)	—	(5,896)
Balance, June 30, 2018	883,311	144,918	101,285	236,873	(22,641)	1,343,746
Balance, December 31, 2018	817,919	144,918	99,330	65,075	(20,265)	1,106,977
Employee stock options exercised <i>[note 6]</i>	1,310	—	—	—	—	1,310
Employee stock options expense	—	—	25	—	—	25
Common share repurchases <i>[note 6]</i>	(201,549)	—	—	—	—	(201,549)
Comprehensive loss for the period	—	—	—	(13,017)	6,396	(6,621)
Dividends – Preferred shares <i>[note 6]</i>	—	—	—	(4,931)	—	(4,931)
Dividends – Common shares <i>[note 6]</i>	—	—	—	(7,222)	—	(7,222)
Balance, June 30, 2019	617,680	144,918	99,355	39,905	(13,869)	887,989

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
Operating activities		
Net loss for the period from continuing operations	(9,925)	(3,575)
Items not affecting cash:		
Depreciation and amortization	1,322	1,093
Share-based compensation	9,130	5,868
Amortization of intangible assets	12,906	6,191
Amortization of deferred financing costs	2,072	1,430
Deferred purchase price consideration	2,581	—
Non-controlling interest expense	872	—
	18,958	11,007
Changes in non-cash operating assets and liabilities:		
Change in finance receivables, net	90,963	(43,851)
Other non-cash operating assets and liabilities	(5,935)	(101,240)
Cash provided by (used in) operating activities - continuing operations	103,986	(134,084)
Investing activities		
(Increase) decrease in restricted funds	(13,356)	32,036
Acquisition of the Kessler Group and non-controlling interest	(89,255)	(221,200)
Decrease in notes receivable	5,696	2,266
Cash used in investing activities - continuing operations	(96,915)	(186,898)
Financing activities		
Option exercises	1,310	224
Common share repurchases	(201,549)	(140,392)
Borrowings (repayments), net	100,500	(228,892)
Dividends paid	(8,359)	(11,030)
Cash used in financing activities - continuing operations	(108,098)	(380,090)
Net changes in cash provided by discontinued operations	78,553	735,396
Net (decrease) increase in cash during the period	(22,474)	34,324
Cash, beginning of period	51,992	17,295
Cash, end of period	29,518	51,619
Supplemental cash flow information		
Cash taxes paid	1,428	28,528
Cash interest paid	13,024	23,887

See accompanying notes

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2019

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 and life insurance companies [collectively our "Partners"]. ECN Capital originates, manages and advises on prime consumer credit portfolios on behalf of its Partners, specifically unsecured consumer loan portfolios, secured loan portfolios and credit card portfolios. Our 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 560 employees and operates [principally] in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange 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, 2018, 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 August 7, 2019.

Adoption of International Financial Reporting Standards 16 - Leases ["IFRS 16"]

On January 1, 2019, the Company adopted IFRS 16 which has replaced *IAS 17, Leases* ["IAS 17"]. The Company uses the modified retrospective approach and has implemented the following accounting policies in respect of right-of-use assets and lease liabilities as a result of the IFRS 16 adoption.

Right-of-Use Assets

The Company measures right-of-use assets at amortized cost less any accumulated depreciation and impairment charges. Right-of-use assets are recognized at the time that the underlying asset is available for use ("lease commencement date").

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Lease Liabilities

Lease liabilities are measured at the discounted present value of lease payments over the term of the lease. Following initial recognition at the time of the lease commencement date, the Company increases the lease liability for accretion and reduces the lease liability for any payments made.

As a result of the adoption of IFRS 16, the Company recorded an asset of \$18,416 and an offsetting liability to the lessor in the same amount.

3. Business Acquisitions and Disposals

Investment in the Kessler Group

On May 31, 2018, the Company completed its investment in Kessler Financial Services (The "Kessler Group"). Under the terms of the agreement, the Company paid cash consideration of \$221.2 million for an 80% equity interest in the Kessler Group. Subsequent to the acquisition, the Company sold a 4% interest in the Kessler Group to a member of senior management at the same valuation. In addition, the Company has entered into an incentive compensation plan with senior management that will be based on the achievement of a prescribed rate of return on average equity over the next five years.

The table below presents the final allocation of fair values to the net assets acquired as at May 31, 2018. Costs related to this transaction were \$13.1 million, including banking, legal, accounting, due diligence and other transaction-related expenses.

	\$
Consideration paid:	
Cash	221,200
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	30,190
Accounts receivable and other	33,485
Fixed assets	2,626
Goodwill	123,833
Intangible assets	118,000
Accounts payable and other liabilities	(31,634)
Redemption liability related to non-controlling interest	(55,300)
Net assets acquired	221,200

On March 21, 2019, the Company acquired 20% of its interest in the Kessler Group from a non-controlling shareholder for \$89.3 million. On the initial acquisition of the 80% interest in the Kessler Group, this non-controlling interest was recorded as a liability and as such the purchase of this 20% interest has been treated as the settlement of a liability. The excess between the liability recorded on the balance sheet on March 21, including \$7.5 million in accrued contingent purchase consideration, and the purchase price amounted to \$26.5 million and together with \$1.6 million in transaction costs was recorded in Other expenses in the consolidated statements of operations (note 8).

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Discontinued operations

Discontinued operations for the three and six-month periods ended June 30, 2019 and 2018 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		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Revenues	2,286	14,084	2,719	31,659
Operating expenses and other costs				
Compensation and benefits	1,249	358	1,801	1,679
Other operating expenses	2,231	2,075	4,879	4,569
Interest expense	—	2,911	—	6,552
Provision for credit losses	—	43	—	95
Share-based compensation	2	16	4	83
	3,482	5,403	6,684	12,978
(Loss) income from discontinued operations before income taxes	(1,196)	8,681	(3,965)	18,681
(Recovery) provision for income taxes	(264)	4,040	(873)	9,166
Net (loss) income from discontinued operations	(932)	4,641	(3,092)	9,515

Assets held for sale

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

	June 30, 2019	December 31, 2018
Rail Finance	37,065	64,062
Aviation Finance	181,952	248,995
C&V Finance	11,174	20,906
	230,191	333,963

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4. Finance Receivables

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

	June 30, 2019	December 31, 2018
	\$	\$
Manufactured housing loans	95,366	78,140
Dealer advances	43,758	17,946
Credit card portfolio loans	60,567	32,904
Gross finance receivable at amortized cost	199,691	128,990
Allowance for credit losses	(833)	(644)
Net finance receivables at amortized cost	198,858	128,346
Held-for-trading financial assets	112,597	274,072
Total finance receivables	311,455	402,418

Manufactured housing loans and dealer advances

Manufactured housing loans are comprised primarily of \$89.6 million (December 31, 2018 - \$77.6 million) in secured floorplan loans issued by Triad Financial Services, Inc. to finance dealer inventory. Dealer advances of \$43.8 million (December 31, 2018 - \$17.9 million) consist primarily of staged fundings with respect to committed home improvement loans to key dealers of Service Finance.

Credit card portfolio loans

Credit card portfolio loans are comprised of \$60.6 million (December 31, 2018 - \$32.9 million) in secured loans to facilitate the acquisition of credit card receivables as part of the Company's strategy to build a credit card asset management platform.

Held-for-trading financial assets

The loans balance as at June 30, 2019 includes \$112.6 million (December 31, 2018 - \$274.1 million) in home improvement loans, which are classified as held-for-trading, originated by Service Finance. 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.

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

	June 30, 2019		December 31, 2018	
	\$	%	\$	%
31 - 60 days past due	415	0.21	369	0.29
61 - 90 days past due	171	0.09	147	0.11
Greater than 90 days past due	391	0.20	108	0.08
Total past due	977	0.50	624	0.48
Current	198,714	99.50	128,366	99.52
Total net investment	199,691	100.00	128,990	100.00

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

	June 30, 2019	December 31, 2018
	\$	\$
Net investment, continuing operations ^[1]	\$199,691	\$128,990
Weighted average floating interest rate	7.12%	5.92%

[1] There were no finance receivables outstanding as at June 30, 2019 related to discontinued operations. For December 31, 2018, amounts have been adjusted to exclude discontinued operations.

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

	June 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-Performing)	(Non-Performing)	
	\$	\$	\$	\$
Low risk	99,970	303	20	100,293
Medium risk	97,826	825	57	98,708
High risk	—	—	690	690
Gross carrying amount	197,796	1,128	767	199,691

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-Performing)	(Non-Performing)	
	\$	\$	\$	\$
Low risk	25,970	213	32	26,215
Medium risk	100,980	1,480	—	102,460
High risk	—	—	315	315
Gross carrying amount	126,950	1,693	347	128,990

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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 which 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 which 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 June 30, 2019 and 2018:

	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
	\$	\$	\$	\$
Balance as at January 1, 2018	5,220	3,891	—	9,111
Provision for credit losses	52	—	—	52
Balance as at March 31, 2018	5,272	3,891	—	9,163
Provision for credit losses	43	—	—	43
Charge-offs, net of recoveries	(1,457)	(3,093)	—	(4,550)
Stage transfers	—	(712)	712	—
Impact of foreign exchange rates	(36)	—	—	(36)
Balance as at June 30, 2018	3,822	86	712	4,620
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
Provision for credit losses	20	19	26	65
Charge-offs, net of recoveries	—	—	—	—
Stage transfers	9	(9)	—	—
Balance as at June 30, 2019	522	122	189	833

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June 30, 2019

5. Secured Borrowings

	June 30, 2019		December 31, 2018	
	Balance outstanding	Weighted average interest rate ^[1]	Balance outstanding	Weighted average interest rate ^[1]
	\$	%	\$	%
Term senior credit facility ^[2]	450,500	4.09	350,000	4.20
Deferred financing costs	(12,774)		(14,564)	
Total secured borrowings	437,726		335,436	

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

[2] The revolving senior credit facility is secured by a general security agreement in favor of the lenders consisting of first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 2019.

Term senior credit facility

On December 31, 2018, the Company amended the term senior credit facility, reducing its size to \$1,000,000. The amended facility is syndicated to a group of seven Canadian, US and international banks with a maturity date of December 31, 2022. 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.

At June 30, 2019, the Company has available capacity of \$549,500 (December 31, 2018 - \$650,000).

Restricted funds

Restricted cash in collection accounts as at June 30, 2019 was \$32,285 (December 31, 2018 - \$18,929) and represents cash we have collected on behalf of certain counterparties where we have recorded an offsetting liability in accounts payable and accrued liabilities.

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Notes to interim condensed consolidated financial statements

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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, 2017	377,628,587	1,023,479
Common share repurchases	(48,254,566)	(140,392)
Exercise of options	663,298	224
Balance, June 30, 2018	330,037,319	883,311
Balance, December 31, 2018	306,643,351	817,919
SIB repurchases	(70,666,666)	(201,549)
Exercise of options	3,831,399	1,310
Balance, June 30, 2019	239,808,084	617,680

Substantial issuer bid

On January 15, 2019, the Company completed a modified "Dutch auction" substantial issuer bid ("SIB") to purchase for cancellation up to C\$265 million of its outstanding common shares from shareholders for cash. The Company purchased 70,666,666 shares at a purchase price of C\$3.75 per share for an aggregate purchase price of approximately \$201.5 million (C\$265 million) including fees and expenses.

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, June 30, 2019	8,000,000	144,918

During the three and six-month periods ended June 30, 2019, the Company paid \$1,218 and \$2,445, respectively [after tax cost of \$1,252 and \$2,513] or C\$0.40625 and C\$0.8125 per Series A share in dividends. During the three and six-month periods ended June 30, 2018, the Company paid \$1,259 and \$2,543 [after tax cost of \$1,295 and \$2,616] or C\$0.40625 and \$0.8125 per Series A share in preferred share dividends.

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During the three and six-month periods ended June 30, 2019, the Company paid \$1,171 and \$2,349, respectively [after tax cost of \$1,204 and \$2,418] or C\$0.39063 and C\$0.78125 per Series C share in dividends. During the three and six-month periods ended June 30, 2018, the Company paid \$1,211 and \$2,447 [after tax cost of \$1,246 and \$2,518] or C\$0.390625 and C\$0.78125 per Series C share in preferred share dividends.

Common share dividends

During the three and six-month periods ended June 30, 2019, the Company declared a \$3,657 and \$7,222 or C\$0.02 and C\$0.04 per common share dividend, respectively [June 30, 2018 - \$2,874 and \$5,896 or C\$0.01 and C\$0.02 per common share]. The dividend related to the three-month period ended June 30, 2019 was paid on July 15, 2019.

7. Share-Based Compensation

Share-based compensation expense

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

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Stock options	223	480	558	1,667
Deferred share units ("DSUs")	249	445	1,412	450
Performance share units and restricted share units ("PSUs" and "RSUs")	2,498	1,609	7,160	3,751
Share-based compensation - continuing operations	2,970	2,534	9,130	5,868

During the six-month period ended June 30, 2019, the Company did not grant any stock options.

During the three and six-month periods ended June 30, 2019, the Company granted 53,426 and 338,643 DSUs to members of the Company's Board of Directors.

During the three and six-month periods ended June 30, 2019, the Company granted 311,837 and 3,154,403 PSUs and nil and 198,060 RSUs to senior executives and employees of the Company.

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8. Other Revenue and Other Expenses

Other revenue consists of the following for the periods ended June 30, 2019:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Gain (loss) on corporate investments	534	(463)	910	(447)
Other fees	613	1,576	1,114	2,281
Other interest income	—	—	—	922
Foreign exchange and other	(931)	112	(823)	368
Total other revenue - continuing operations	216	1,225	1,201	3,124

Other expenses consist of the following for the periods ended June 30, 2019:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Amortization of intangibles	6,453	3,037	12,906	6,191
Accretion of deferred purchase consideration	1,223	—	2,581	—
Non-controlling interest	326	—	872	—
Purchase price premium on non-controlling interest [note 3]	—	—	28,138	—
Restructuring costs	—	—	12,549	—
Gain on SIB FX forward	—	—	(4,789)	—
Business acquisition costs	—	13,143	—	13,404
Total other expenses - continuing operations	8,002	16,180	52,257	19,595

Restructuring costs reflect corporate executive severance costs as well as severance costs related to staff reductions at our Kessler Group and Triad Financial Services business segments.

9. Related Party Transactions

Notes receivable

Notes receivable of \$24,989 as at June 30, 2019 [December 31, 2018 - \$38,146] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of the Company's shares. The loans bear interest at a rate of prime less 50 basis points 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.

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June 30, 2019

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

	June 30, 2019	December 31, 2018
	\$	\$
Notes receivable, beginning of period	51,744	46,411
Additions	435	11,583
Interest income	885	1,670
Repayments (interest and principal)	(7,454)	(4,608)
Reclassifications to short-term receivables and other assets (non-related party) ^[1]	(11,726)	—
Foreign exchange	1,278	(3,312)
	35,162	51,744
Set-off amounts	(10,173)	(13,598)
Notes receivable, end of period	24,989	38,146

[1] These are loans to ex-employees that are being repaid pursuant to a fixed repayment schedule and remain secured by ECN Capital shares. During the three-month period ended June 30, 2019, \$5.1 million of these loans were repaid.

10. Derivative Financial Instruments

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

During the three-month period ended June 30, 2019, the Company entered 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.

Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the periods ended June 30, 2019:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	(810)	112	(823)	356
Fair value (losses) gains recorded in other comprehensive income	(406)	2,144	(2,462)	2,818

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June 30, 2019

Notional amounts and fair values of derivative instruments

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

	June 30, 2019		December 31, 2018	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Interest rate contracts	14,453	126	41,690	433
Foreign exchange agreements	39,146	568	—	—
Total return swaps	6,726	—	—	—
	60,325	694	41,690	433
Derivative liabilities				
Interest rate contracts	114,367	3,483	95,331	1,253
Foreign exchange agreements	8,000	5	231,441	4,865
	122,367	3,488	326,772	6,118

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June 30, 2019

11. Earnings Per Share

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Net income (loss) from continuing operations attributable to shareholders	10,856	(1,992)	(9,925)	(3,575)
Cumulative dividends on preferred shares	2,389	2,469	4,794	4,989
Net income (loss) from continuing operations attributable to common shareholders	8,467	(4,461)	(14,719)	(8,564)
Net (loss) income from discontinued operations attributable to common shareholders	(932)	4,641	(3,092)	9,515
Total net income (loss) attributable to common shareholders	7,535	180	(17,811)	951
Weighted average number of common shares outstanding - basic	239,646,778	336,166,139	244,936,683	351,008,482
Basic income (loss) per share from continuing operations	\$ 0.04	\$ (0.01)	\$ (0.06)	\$ (0.02)
Basic earnings (loss) per share from discontinued operations	\$ —	\$ 0.01	\$ (0.01)	\$ 0.02
Total income (loss) per share	\$ 0.04	\$ —	\$ (0.07)	\$ —
Weighted average number of common shares outstanding - diluted	245,286,880	342,161,892	244,936,683	357,322,496
Diluted earnings (loss) per share from continuing operations	\$ 0.03	\$ (0.01)	\$ (0.06)	\$ (0.02)
Diluted earnings (loss) per share from discontinued operations	\$ —	\$ 0.01	\$ (0.01)	\$ 0.02
Total diluted earnings (loss) per share	\$ 0.03	\$ —	\$ (0.07)	\$ —

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:

	June 30, 2019	December 31, 2018
	\$	\$
Secured borrowings	437,726	335,436
Accounts payable and accrued liabilities	208,675	200,782
Other liabilities ^[1]	69,049	100,120
	715,450	636,338
Shareholders' equity	887,989	1,106,977
	1,603,439	1,743,315

[1] Includes a \$11.1 million [December 31, 2018 - \$66.4 million] redemption liability to the non-controlling interest of the Kessler Group, a \$32.8 million [December 31, 2018 - \$33.1 million] deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and an \$18.4 million lease liability recognized in connection with the adoption of IFRS 16.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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June 30, 2019

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] the Kessler Group - 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 periods ended June 30 are shown in the tables below:

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Notes to interim condensed consolidated financial statements

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

June 30, 2019

	For the three-month period ended June 30, 2019				
	Service Finance - Home Improvement Loans	The Kessler Group - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	25,204	19,957	16,308	534	62,003
Operating and other expenses					
Compensation and benefits	4,565	7,375	4,995	1,912	18,847
General and administrative expenses	3,397	1,359	2,969	3,015	10,740
Interest expense	1,287	504	803	4,411	7,005
Depreciation and amortization	86	165	59	402	712
Share-based compensation	191	343	34	2,402	2,970
Other expenses	1,909	4,561	310	1,222	8,002
	11,435	14,307	9,170	13,364	48,276
Income (loss) before income taxes from continuing operations	13,769	5,650	7,138	(12,830)	13,727

Notes to interim condensed consolidated financial statements

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

June 30, 2019

	For the six-month period ended June 30, 2019				
	Service Finance - Home Improvement Loans	The Kessler Group - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	44,962	44,519	27,942	1,198	118,621
Operating expenses					
Compensation and benefits	8,823	15,082	9,503	4,738	38,146
General and administrative expenses	6,616	3,780	5,216	5,711	21,323
Interest expense	2,978	817	1,494	8,014	13,303
Depreciation and amortization	167	348	160	647	1,322
Share-based compensation	1,464	1,044	130	6,492	9,130
Other expenses	3,817	42,371	1,620	4,449	52,257
	23,865	63,442	18,123	30,051	135,481
Income (loss) before income taxes from continuing operations	21,097	(18,923)	9,819	(28,853)	(16,860)

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2019

	For the three-month period ended June 30, 2018				
	Service Finance - Home Improvement Loans	The Kessler Group - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	\$	\$	\$	\$	\$
Revenues	20,559	5,666	13,695	1,614	41,534
Operating and other expenses					
Compensation and benefits	4,036	2,380	4,382	2,921	13,719
General and administrative expenses	2,500	693	2,575	3,093	8,861
Interest expense	764	—	301	6,311	7,376
Depreciation and amortization	67	73	120	329	589
Share-based compensation	—	—	—	2,534	2,534
Other expenses	—	—	—	16,180	16,180
	7,367	3,146	7,378	31,368	49,259
Income (loss) before income taxes from continuing operations	13,192	2,520	6,317	(29,754)	(7,725)

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Notes to interim condensed consolidated financial statements

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

June 30, 2019

For the six-month period ended June 30, 2018

	Service Finance - Home Improvement Loans	The Kessler Group - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	\$	\$	\$	\$	\$
Revenues	35,318	5,666	22,150	3,791	66,925
Operating and other expenses					
Compensation and benefits	7,821	2,380	8,368	6,331	24,900
General and administrative expenses	4,667	693	4,530	6,687	16,577
Interest expense	1,151	—	329	11,275	12,755
Depreciation and amortization	—	73	234	786	1,093
Share-based compensation	—	—	—	5,868	5,868
Other expenses	—	—	—	19,595	19,595
	13,639	3,146	13,461	50,542	80,788
Income (loss) before income taxes from continuing operations	21,679	2,520	8,689	(46,751)	(13,863)

