

# Interim Condensed Consolidated Financial Statements

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**JUNE 30, 2020**

## Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	<b>June 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
	\$	\$
<b>Assets</b>		
Cash	62,526	51,720
Restricted funds <i>[note 5]</i>	26,570	33,381
Finance receivables <i>[note 4]</i>	512,726	313,227
Accounts receivable	70,634	88,160
Other assets	122,060	124,983
Retained reserve interest	27,486	25,558
Continuing involvement asset	152,105	126,689
Notes receivable <i>[note 9]</i>	30,642	31,966
Derivative financial instruments <i>[note 10]</i>	—	3,626
Leasehold improvements and other equipment	62,091	63,297
Intangible assets	242,848	252,653
Deferred tax assets	40,762	44,461
Goodwill	421,641	421,445
<b>Total assets excluding assets held-for-sale</b>	<b>1,772,091</b>	<b>1,581,166</b>
Assets held-for-sale <i>[note 3]</i>	115,974	142,972
<b>Total assets</b>	<b>1,888,065</b>	<b>1,724,138</b>
 <b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	162,590	234,599
Continuing involvement liability	152,105	126,689
Derivative financial instruments <i>[note 10]</i>	23,535	3,061
Secured borrowings <i>[note 5]</i>	672,876	430,478
Other liabilities <i>[note 12]</i>	35,765	50,285
<b>Total liabilities</b>	<b>1,046,871</b>	<b>845,112</b>
<b>Shareholders' equity</b>	<b>841,194</b>	<b>879,026</b>
	<b>1,888,065</b>	<b>1,724,138</b>

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, 2020	Three-month period ended June 30, 2019	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$	\$	\$
<b>Revenues</b>				
Portfolio origination services	25,825	24,159	46,018	40,723
Portfolio management services	24,580	22,772	54,055	42,615
Portfolio advisory services	2,285	6,475	5,460	17,874
Marketing services	1,299	3,728	3,126	5,861
<b>Total portfolio revenue</b>	<b>53,989</b>	57,134	<b>108,659</b>	107,073
Interest income	6,321	5,062	11,859	11,160
Other revenue <i>[note 8]</i>	909	(193)	1,579	388
	<b>61,219</b>	62,003	<b>122,097</b>	118,621
<b>Operating expenses and other</b>				
Compensation and benefits	17,980	18,847	36,864	38,146
General and administrative expenses	16,347	9,915	30,632	19,649
Interest expense	5,501	7,154	10,571	13,605
Depreciation and amortization	1,689	1,388	3,310	2,694
Share-based compensation <i>[note 7]</i>	3,922	2,970	7,136	9,130
Other expenses <i>[note 8]</i>	10,355	8,002	17,419	52,257
	<b>55,794</b>	48,276	<b>105,932</b>	135,481
Income (loss) before income taxes from continuing operations	5,425	13,727	16,165	(16,860)
Provision for (recovery of) income taxes	1,530	2,871	4,555	(6,935)
<b>Net income (loss) from continuing operations</b>	<b>3,895</b>	10,856	<b>11,610</b>	(9,925)
Net loss from discontinued operations <i>[note 3]</i>	(3,384)	(932)	(6,076)	(3,092)
<b>Net income (loss) for the period</b>	<b>511</b>	9,924	<b>5,534</b>	(13,017)
<b>Earnings (loss) per common share - Basic</b>				
Continuing operations <i>[note 11]</i>	0.01	0.04	0.03	(0.06)
Discontinued operations <i>[note 11]</i>	(0.01)	—	(0.03)	(0.01)
<b>Total basic earnings (loss) per share <i>[note 11]</i></b>	<b>—</b>	0.04	<b>—</b>	(0.07)
<b>Earnings (loss) per common share - Diluted</b>				
Continuing operations <i>[note 11]</i>	0.01	0.03	0.03	(0.06)
Discontinued operations <i>[note 11]</i>	(0.01)	—	(0.03)	(0.01)
<b>Total diluted earnings (loss) per share <i>[note 11]</i></b>	<b>—</b>	0.03	<b>—</b>	(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, 2020	Three-month period ended June 30, 2019	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$	\$	\$
<b>Net income (loss) for the period</b>	<b>511</b>	9,924	<b>5,534</b>	(13,017)
<b>Other comprehensive income (loss)</b>				
Cash flow hedges <i>[note 10]</i>	<b>613</b>	(406)	<b>(19,707)</b>	(2,462)
Net unrealized foreign exchange gain (loss)	<b>3,554</b>	4,484	<b>(5,330)</b>	8,858
<b>Total other comprehensive income (loss)</b>	<b>4,167</b>	4,078	<b>(25,037)</b>	6,396
<b>Comprehensive income (loss) for the period</b>	<b>4,678</b>	14,002	<b>(19,503)</b>	(6,621)

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
	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2018</b>	817,919	144,918	99,330	65,075	(20,265)	1,106,977
Employee stock options exercised	1,310	—	—	—	—	1,310
Employee stock option expense	—	—	25	—	—	25
Common share repurchases	(201,549)	—	—	—	—	(201,549)
Comprehensive (loss) income for the period	—	—	—	(13,017)	6,396	(6,621)
Dividends – preferred shares	—	—	—	(4,931)	—	(4,931)
Dividends – common shares	—	—	—	(7,222)	—	(7,222)
<b>Balance, June 30, 2019</b>	617,680	144,918	99,355	39,905	(13,869)	887,989
<b>Balance, December 31, 2019</b>	615,530	144,918	107,136	24,875	(13,433)	879,026
Employee stock options exercised <i>[note 6]</i>	<b>82</b>	—	—	—	—	<b>82</b>
Employee stock options expense	—	—	<b>191</b>	—	—	<b>191</b>
Stock options adjustment	<b>(1,177)</b>	—	—	—	—	<b>(1,177)</b>
Common share repurchases <i>[note 6]</i>	<b>(4,076)</b>	—	—	—	—	<b>(4,076)</b>
Comprehensive income (loss) for the period	—	—	—	<b>5,534</b>	<b>(25,037)</b>	<b>(19,503)</b>
Dividends – preferred shares <i>[note 6]</i>	—	—	—	<b>(4,659)</b>	—	<b>(4,659)</b>
Dividends – common shares <i>[note 6]</i>	—	—	—	<b>(8,690)</b>	—	<b>(8,690)</b>
<b>Balance, June 30, 2020</b>	<b>610,359</b>	<b>144,918</b>	<b>107,327</b>	<b>17,060</b>	<b>(38,470)</b>	<b>841,194</b>

See accompanying notes

## Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Six-month period ended June 30, 2020 \$	Six-month period ended June 30, 2019 \$
<b>Operating activities</b>		
Net income (loss) for the period from continuing operations	11,610	(9,925)
Items not affecting cash:		
Depreciation and amortization	3,310	2,694
Share-based compensation	7,136	9,130
Amortization of intangible assets	12,906	12,906
Amortization of deferred financing costs	1,271	2,072
Deferred purchase price consideration	3,027	2,581
Non-controlling interest expense	—	872
	<b>39,260</b>	<b>20,330</b>
Changes in operating assets and liabilities:		
Change in finance receivables, net	(199,499)	90,963
Other operating assets and liabilities	(71,057)	(2,663)
<b>Cash (used in) provided by operating activities - continuing operations</b>	<b>(231,296)</b>	<b>108,630</b>
<b>Investing activities</b>		
Decrease (increase) in restricted funds	6,811	(13,356)
Acquisition of non-controlling interest	—	(89,255)
(Increase) decrease in notes receivable	(913)	5,696
Purchase of property, equipment and leasehold improvements	(2,104)	(1,505)
<b>Cash provided by (used in) investing activities - continuing operations</b>	<b>3,794</b>	<b>(98,420)</b>
<b>Financing activities</b>		
Option exercises	82	1,310
Common share repurchases	(4,076)	(201,549)
Payments of lease liabilities	(1,441)	(1,372)
Payments of deferred financing costs	(283)	—
Borrowings, net	241,410	100,500
Dividends paid	(18,306)	(10,126)
<b>Cash provided by (used in) financing activities - continuing operations</b>	<b>217,386</b>	<b>(111,237)</b>
<b>Net changes in cash provided by discontinued operations</b>	<b>20,922</b>	<b>78,553</b>
Net increase (decrease) in cash during the period	10,806	(22,474)
Cash, beginning of period	51,720	51,992
<b>Cash, end of period</b>	<b>62,526</b>	<b>29,518</b>
<b>Supplemental cash flow information</b>		
Cash taxes paid, net	5,342	1,428
Cash interest paid	9,916	13,024

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]

June 30, 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 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, 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 August 12, 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 June 30, 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 values of our

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

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.

**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. The combined purchase price of these acquisitions is allocated as follows:

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

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]

June 30, 2020

**Discontinued operations**

Discontinued operations for the three and six-month periods ended June 30, 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		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
<b>Revenues</b>	<b>30</b>	2,286	<b>507</b>	2,719
<b>Operating expenses and other costs</b>				
Compensation and benefits	<b>920</b>	1,249	<b>2,063</b>	1,801
Other operating expenses	<b>3,151</b>	2,231	<b>5,593</b>	4,879
Interest expense	<b>300</b>	—	<b>689</b>	—
Share-based compensation	<b>—</b>	2	<b>1</b>	4
	<b>4,371</b>	3,482	<b>8,346</b>	6,684
Loss from discontinued operations before income taxes	<b>(4,341)</b>	(1,196)	<b>(7,839)</b>	(3,965)
Recovery of income taxes	<b>(957)</b>	(264)	<b>(1,763)</b>	(873)
<b>Net loss from discontinued operations</b>	<b>(3,384)</b>	(932)	<b>(6,076)</b>	(3,092)

**Assets held-for-sale**

The following table presents the Company's assets held-for-sale as at June 30:

	June 30, 2020	December 31, 2019
Rail Finance	<b>32,475</b>	35,581
Aviation Finance	<b>74,003</b>	97,480
C&V Finance	<b>9,496</b>	9,911
	<b>115,974</b>	142,972

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

**4. Finance Receivables**

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

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Manufactured housing loans	<b>121,470</b>	101,548
Dealer advances	<b>66,850</b>	52,436
Credit card portfolio structured loans	<b>67,048</b>	74,330
Gross finance receivable at amortized cost	<b>255,368</b>	228,314
Allowance for credit losses	<b>(5,331)</b>	(508)
Net finance receivables at amortized cost	<b>250,037</b>	227,806
Held-for-trading financial assets	<b>262,689</b>	85,421
<b>Total finance receivables</b>	<b>512,726</b>	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 June 30, 2020 includes \$231.5 million (December 31, 2019 - \$61.5 million) in home improvement loans and \$31.2 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]

June 30, 2020

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

	June 30, 2020		December 31, 2019	
	\$	%	\$	%
31 - 60 days past due	7,616	2.98	—	—
61 - 90 days past due	—	—	—	—
Greater than 90 days past due	60	0.02	115	0.05
Total past due	7,676	3.00	115	0.05
Current	247,692	97.00	228,199	99.95
<b>Total net investment</b>	<b>255,368</b>	<b>100.00</b>	<b>228,314</b>	<b>100.00</b>

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

	June 30, 2020	December 31, 2019
	\$	\$
Net investment, continuing operations	\$255,368	\$228,314
Weighted average floating interest rate	6.61 %	7.40 %

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

	June 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
Low risk	128,647	—	—	128,647
Medium risk	118,127	—	—	118,127
High risk	—	449	—	449
Default	—	—	8,145	8,145
Gross carrying amount	246,774	449	8,145	255,368

	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
Default	—	—	—	—
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]

June 30, 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 June 30, 2020 and 2019:

	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
<b>Balance as at December 31, 2018</b>	475	89	80	644
Provision for credit losses	22	20	83	125
Stage transfers	(4)	3	—	(1)
<b>Balance as at March 31, 2019</b>	493	112	163	768
Provision for credit losses	20	19	26	65
Stage transfers	9	(9)	—	—
<b>Balance as at June 30, 2019</b>	522	122	189	833
<b>Balance as at December 31, 2019</b>	433	—	75	508
Provision for credit losses	119	—	—	119
Stage transfers	10	—	(10)	—
<b>Balance as at March 31, 2020</b>	562	—	65	627
Provision for credit losses	309	20	4,370	4,699
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	(350)	—	350	—
<b>Balance as at June 30, 2020</b>	521	20	4,790	5,331

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

**5. Secured Borrowings**

	June 30, 2020		December 31, 2019	
	Balance outstanding	Weighted average interest rate <sup>(1)</sup>	Balance outstanding	Weighted average interest rate <sup>(1)</sup>
	\$	%	\$	%
Term senior credit facility	685,000	1.86	443,590	3.47
Deferred financing costs	(12,124)		(13,112)	
<b>Total secured borrowings</b>	<b>672,876</b>		<b>430,478</b>	

(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.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 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 June 30, 2020, the unutilized balance of the facility was \$315,000 (December 31, 2019 - \$556,410).

**Restricted funds**

Restricted cash in collection accounts as at June 30, 2020 was \$26,570 (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]

June 30, 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 \$
<b>Balance, December 31, 2018</b>	306,643,351	817,919
Common share repurchases	(70,666,666)	(201,549)
Exercise of options	3,831,399	1,310
<b>Balance, June 30, 2019</b>	<b>239,808,084</b>	<b>617,680</b>
<b>Balance, December 31, 2019</b>	240,127,585	615,530
Normal Course Issuer Bid repurchases	<b>(1,273,624)</b>	<b>(4,076)</b>
Exercise of options	<b>286,550</b>	<b>82</b>
Share issuance for purchase of non-controlling interest in KG <sup>(1)</sup>	<b>2,990,737</b>	—
Stock options adjustment	—	<b>(1,177)</b>
<b>Balance, June 30, 2020</b>	<b>242,131,248</b>	<b>610,359</b>

(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 six-month period ended June 30, 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
<b>Balance, June 30, 2020</b>	<b>8,000,000</b>	<b>144,918</b>

**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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During the three and six-month periods ended June 30, 2020, the Company paid \$1,178 and \$2,376, respectively, or C\$0.40625 and C\$0.81250 per Series A share in dividends. During the three and six-month periods ended June 30, 2019, the Company paid \$1,218 and \$2,445 or C\$0.40625 and C\$0.8125 per Series A share in preferred share dividends.

During the three and six-month periods ended June 30, 2020, the Company paid \$1,131 and \$2,283, respectively, or C\$0.390625 and C\$0.781250 per Series C share in dividends. During the three and six-month periods ended June 30, 2019, the Company paid \$1,171 and \$2,349 or C\$0.390625 and C\$0.781250 per Series C share in preferred share dividends.

**Common share dividends**

During the three and six-month periods ended June 30, 2020, the Company declared \$4,420 and \$8,690 or C\$0.025 and C\$0.050 per common share in dividends, respectively (June 30, 2019 - \$3,657 and \$7,222 or C\$0.02 and C\$0.04 per common share).

**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, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Stock options	97	223	190	558
Deferred share units	557	249	775	1,412
Performance share units and restricted share units	3,268	2,498	6,171	7,160
<b>Share-based compensation - continuing operations</b>	<b>3,922</b>	<b>2,970</b>	<b>7,136</b>	<b>9,130</b>

During the six-month period ended June 30, 2020, the Company granted 572,691 stock options to employees with a weighted average exercise price of C\$3.46 per share. The stock options have a fair value of \$316 calculated using the Black-Scholes method of valuation, assuming a risk-free rate of 0.52%, volatility of 35% and a dividend yield of 2.70% annually.

During the three and six-month period ended June 30, 2020, the Company granted 114,825 and 356,687 DSUs to members of the Company's Board of Directors.

During the three and six-month period ended June 30, 2020, the Company granted 1,388,477 and 3,467,810 PSUs and nil and 536,495 RSUs to senior executives and employees of the Company.

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

**8. Other Revenue and Other Expenses**

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Gain on corporate investments	764	534	420	910
Other fees	390	204	613	301
Income from sale of equipment	1	—	1	—
Foreign exchange and other	(246)	(931)	545	(823)
<b>Total other revenue - continuing operations</b>	<b>909</b>	<b>(193)</b>	<b>1,579</b>	<b>388</b>

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Amortization of intangible assets	6,453	6,453	12,906	12,906
Accretion of deferred purchase consideration	2,416	1,223	3,027	2,581
Non-controlling interest	—	326	—	872
Restructuring costs	1,486	—	1,486	40,687
Gain on economic currency hedge	—	—	—	(4,789)
<b>Total other expenses - continuing operations</b>	<b>10,355</b>	<b>8,002</b>	<b>17,419</b>	<b>52,257</b>

Restructuring costs primarily reflect severance costs related to corporate staff reductions, expenses related to reductions in occupancy and other corporate expenses.



**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

**9. Related Party Transactions**

**Notes receivable**

Notes receivable of \$30,642 as at June 30, 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:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
<b>Notes receivable, beginning of period</b>	<b>42,067</b>	51,744
Additions	<b>2,815</b>	5,180
Interest income	<b>246</b>	1,066
Repayments (interest and principal)	<b>(644)</b>	(7,628)
Reclassifications to short-term receivables and other assets (non-related party) <sup>(1)</sup>	<b>(2,237)</b>	(10,127)
Foreign exchange	<b>(1,261)</b>	1,832
	<b>40,986</b>	42,067
Set-off amounts	<b>(10,344)</b>	(10,101)
<b>Notes receivable, end of period</b>	<b>30,642</b>	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 at June 30, 2020, \$6.1 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.

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

June 30, 2020

**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 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 and six-month periods ended June 30:

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	(246)	(810)	545	(823)
Fair value losses recorded in other comprehensive income	613	(406)	(19,707)	(2,462)

**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, 2020		December 31, 2019	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
<b>Derivative assets</b>				
Interest rate contracts	—	—	419,527	1,777
Foreign exchange agreements	—	—	37,351	410
Total return swaps	—	—	29,303	1,439
	—	—	486,181	3,626
<b>Derivative liabilities</b>				
Interest rate contracts	535,915	16,221	125,963	3,061
Foreign exchange agreements	38,055	50	—	—
Total return swaps	32,094	7,264	—	—
	606,064	23,535	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]

June 30, 2020

**11. Earnings Per Share**

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Net income (loss) from continuing operations attributable to shareholders	<b>3,895</b>	10,856	<b>11,610</b>	(9,925)
Cumulative dividends on preferred shares	<b>2,309</b>	2,389	<b>4,659</b>	4,794
Net income (loss) from continuing operations attributable to common shareholders	<b>1,586</b>	8,467	<b>6,951</b>	(14,719)
Net loss from discontinued operations attributable to common shareholders	<b>(3,384)</b>	(932)	<b>(6,076)</b>	(3,092)
<b>Total net (loss) income attributable to common shareholders</b>	<b>(1,798)</b>	7,535	<b>875</b>	(17,811)
Weighted average number of common shares outstanding - basic	<b>242,045,087</b>	239,646,778	<b>241,336,305</b>	244,936,683
Basic income (loss) per share from continuing operations	<b>\$ 0.01</b>	\$ 0.04	<b>\$ 0.03</b>	\$ (0.06)
Basic loss per share from discontinued operations	<b>\$ (0.01)</b>	\$ —	<b>\$ (0.03)</b>	\$ (0.01)
<b>Total income (loss) per share</b>	<b>\$ —</b>	\$ 0.04	<b>\$ —</b>	\$ (0.07)
Weighted average number of common shares outstanding - diluted	<b>245,719,731</b>	245,286,880	<b>245,808,096</b>	244,936,683
Diluted earnings (loss) per share from continuing operations	<b>\$ 0.01</b>	\$ 0.03	<b>\$ 0.03</b>	\$ (0.06)
Diluted loss per share from discontinued operations	<b>\$ (0.01)</b>	\$ —	<b>\$ (0.03)</b>	\$ (0.01)
<b>Total diluted earnings (loss) per share</b>	<b>\$ —</b>	\$ 0.03	<b>\$ —</b>	\$ (0.07)

## Notes to interim condensed consolidated financial statements

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

June 30, 2020

### 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:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Secured borrowings	<b>672,876</b>	430,478
Accounts payable and accrued liabilities	<b>162,590</b>	234,599
Other liabilities <sup>[1]</sup>	<b>35,765</b>	50,285
	<b>871,231</b>	715,362
Shareholders' equity	<b>841,194</b>	879,026
	<b>1,712,425</b>	1,594,388

[1] Other liabilities primarily include a \$22.5 million (2019 - \$26.2 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a \$15.8 million (2019 - \$17.1 million) lease liability.

### 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 and six-month periods ended June 30 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]

June 30, 2020

	For the three-month period ended June 30, 2020				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
<b>Revenues</b>	<b>26,844</b>	<b>16,488</b>	<b>16,566</b>	<b>1,321</b>	<b>61,219</b>
<b>Operating and other expenses</b>					
Compensation and benefits	5,714	4,867	5,508	1,891	17,980
General and administrative expenses	9,651	1,396	2,747	2,553	16,347
Interest expense	1,021	400	800	3,280	5,501
Depreciation and amortization	283	448	317	641	1,689
Share-based compensation	301	1,800	718	1,103	3,922
Other expenses	1,909	4,609	310	3,527	10,355
	<b>18,879</b>	<b>13,520</b>	<b>10,400</b>	<b>12,995</b>	<b>55,794</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>7,965</b>	<b>2,968</b>	<b>6,166</b>	<b>(11,674)</b>	<b>5,425</b>

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

	For the six-month period ended June 30, 2020				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
<b>Revenues</b>	<b>52,956</b>	<b>35,248</b>	<b>31,703</b>	<b>2,190</b>	<b>122,097</b>
<b>Operating expenses</b>					
Compensation and benefits	10,691	10,426	10,617	5,130	36,864
General and administrative expenses	14,874	3,077	5,913	6,768	30,632
Interest expense	1,631	1,059	1,813	6,068	10,571
Depreciation and amortization	539	886	598	1,287	3,310
Share-based compensation	641	2,298	1,409	2,788	7,136
Other expenses	3,817	9,219	620	3,763	17,419
	<b>32,193</b>	<b>26,965</b>	<b>20,970</b>	<b>25,804</b>	<b>105,932</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>20,763</b>	<b>8,283</b>	<b>10,733</b>	<b>(23,614)</b>	<b>16,165</b>

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

	For the three-month period ended June 30, 2019				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	\$	\$	\$	\$	\$
<b>Revenues</b>	25,204	19,957	16,308	534	62,003
<b>Operating and other expenses</b>					
Compensation and benefits	4,565	7,375	4,995	1,912	18,847
General and administrative expenses	3,287	1,044	2,711	2,873	9,915
Interest expense	1,306	543	853	4,452	7,154
Depreciation and amortization	177	441	267	503	1,388
Share-based compensation	191	343	34	2,402	2,970
Other expenses	1,909	4,561	309	1,223	8,002
	11,435	14,307	9,169	13,365	48,276
<b>Income (loss) before income taxes from continuing operations</b>	13,769	5,650	7,139	(12,831)	13,727

**Notes to interim condensed consolidated financial statements**

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

June 30, 2020

	For the six-month period ended June 30, 2019				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	\$	\$	\$	\$	\$
<b>Revenues</b>	44,962	44,519	27,942	1,198	118,621
<b>Operating and other expenses</b>					
Compensation and benefits	8,823	15,082	9,503	4,738	38,146
General and administrative expenses	6,393	3,140	4,694	5,422	19,649
Interest expense	3,016	897	1,595	8,097	13,605
Depreciation and amortization	352	908	581	853	2,694
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
<b>Income (loss) before income taxes from continuing operations</b>	21,097	(18,923)	9,819	(28,853)	(16,860)



