



Interim Condensed Consolidated Financial Statements

JUNE 30, 2021

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	June 30, 2021	December 31, 2020
	\$	\$
Assets		
Cash	48,145	37,977
Restricted funds [note 5]	5,351	9,226
Finance receivables [note 4]	457,186	374,025
Accounts receivable	122,727	78,779
Other assets [note 9]	105,207	99,891
Retained reserve interest	30,586	29,390
Continuing involvement asset	178,364	164,188
Notes receivable [note 10]	34,161	35,933
Derivative financial instruments [note 11]	25,449	10,406
Leasehold improvements and other equipment	19,377	18,893
Intangible assets	248,191	257,931
Deferred tax assets	52,165	60,445
Goodwill	422,353	422,353
Total assets excluding assets held-for-sale	1,749,262	1,599,437
Assets held-for-sale [note 3]	100,797	106,768
Total assets	1,850,059	1,706,205
 Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities [note 9]	191,266	151,953
Continuing involvement liability	178,364	164,188
Derivative financial instruments [note 11]	6,380	8,868
Borrowings on term senior credit facility [note 5]	547,757	462,083
Senior unsecured debentures [note 5]	56,960	55,109
Other liabilities [note 13]	45,619	41,443
Total liabilities	1,026,346	883,644
Shareholders' equity	823,713	822,561
	1,850,059	1,706,205

See accompanying notes

On behalf of the Board:

(signed) "William Lovatt"

William Lovatt

Director

(signed) "Steve Hudson"

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 June 30, 2021	Three-month period ended June 30, 2020	Six-month period ended June 30, 2021	Six-month period ended June 30, 2020
	\$	\$	\$	\$
Revenues				
Portfolio origination services	39,163	25,825	66,177	46,018
Portfolio management services	38,944	24,580	69,811	54,055
Portfolio advisory services	—	2,285	2,000	5,460
Marketing services	2,682	1,299	5,586	3,126
Total portfolio revenue	80,789	53,989	143,574	108,659
Interest income	7,744	6,321	15,223	11,859
Other revenue <i>[note 8]</i>	3,609	909	7,362	1,579
	92,142	61,219	166,159	122,097
Operating expenses and other				
Compensation and benefits	25,250	17,980	49,788	36,864
General and administrative expenses	18,655	16,347	32,678	30,632
Interest expense	6,422	5,501	12,513	10,571
Depreciation and amortization	3,322	1,689	6,091	3,310
Share-based compensation <i>[note 7]</i>	5,926	3,922	12,796	7,136
Other expenses <i>[note 8]</i>	9,449	10,355	18,840	17,419
	69,024	55,794	132,706	105,932
Income before income taxes from continuing operations	23,118	5,425	33,453	16,165
Provision for income taxes	5,722	1,530	7,751	4,555
Net income from continuing operations	17,396	3,895	25,702	11,610
Net loss from discontinued operations <i>[note 3]</i>	—	(3,384)	—	(6,076)
Net income for the period	17,396	511	25,702	5,534
Earnings (loss) per common share - Basic				
Continuing operations <i>[note 12]</i>	0.06	0.01	0.09	0.03
Discontinued operations <i>[note 12]</i>	—	(0.01)	—	(0.03)
Total basic earnings per share <i>[note 12]</i>	0.06	—	0.09	—
Earnings (loss) per common share - Diluted				
Continuing operations <i>[note 12]</i>	0.06	0.01	0.08	0.03
Discontinued operations <i>[note 12]</i>	—	(0.01)	—	(0.03)
Total diluted earnings per share <i>[note 12]</i>	0.06	—	0.08	—

See accompanying notes

Interim condensed consolidated statements of comprehensive income (loss)

[unaudited, in thousands of United States dollars]

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2020	Six-month period ended June 30, 2021	Six-month period ended June 30, 2020
	\$	\$	\$	\$
Net income for the period	17,396	511	25,702	5,534
Other comprehensive income (loss)				
Cash flow hedges <i>[note 11]</i>	3,298	613	5,138	(19,707)
Net unrealized foreign exchange gain (loss)	369	3,554	1,506	(5,330)
Deferred tax benefit	(936)	—	(1,767)	—
Total other comprehensive income (loss)	2,731	4,167	4,877	(25,037)
Comprehensive income (loss) for the period	20,127	4,678	30,579	(19,503)

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	—	—	191	—	—	191
Stock options adjustment	(1,177)	—	—	—	—	(1,177)
Common share repurchases	(4,076)	—	—	—	—	(4,076)
Comprehensive income (loss) for the period	—	—	—	5,534	(25,037)	(19,503)
Dividends – preferred shares	—	—	—	(4,659)	—	(4,659)
Dividends – common shares	—	—	—	(8,690)	—	(8,690)
Balance, June 30, 2020	610,359	144,918	107,327	17,060	(38,470)	841,194
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	—	—	2,205	—	—	2,205
Exchange of consideration for stock option settlement	—	—	(4,103)	—	—	(4,103)
Common share repurchases <i>[note 6]</i>	(9,262)	—	—	—	—	(9,262)
Preferred share repurchases <i>[note 6]</i>	—	(1,883)	—	—	—	(1,883)
Comprehensive income for the period	—	—	—	25,702	4,877	30,579
Dividends – preferred shares <i>[note 6]</i>	—	—	—	(4,854)	—	(4,854)
Dividends – common shares <i>[note 6]</i>	—	—	—	(11,755)	—	(11,755)
Balance, June 30, 2021	599,670	137,260	106,063	(6,963)	(12,317)	823,713

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Six-month period ended June 30, 2021	Six-month period ended June 30, 2020
	\$	\$
Operating activities		
Net income for the period from continuing operations	25,702	11,610
Items not affecting cash:		
Depreciation and amortization	6,091	3,310
Share-based compensation	12,796	7,136
Amortization of intangible assets	16,858	12,906
Amortization of deferred financing costs	2,208	1,271
Deferred purchase price consideration	1,982	3,027
	65,637	39,260
Changes in operating assets and liabilities:		
Change in finance receivables, net	(83,161)	(199,499)
Other operating assets and liabilities	(36,367)	(71,057)
Cash used in operating activities - continuing operations	(53,891)	(231,296)
Investing activities		
Decrease in restricted funds	3,875	6,811
Decrease (increase) in notes receivable	1,772	(913)
Purchase of property, equipment and leasehold improvements	(3,154)	(2,104)
Proceeds from equipment financing	10,954	—
Cash provided by investing activities - continuing operations	13,447	3,794
Financing activities		
Option exercises	225	82
Common share repurchases	(9,262)	(4,076)
Preferred share repurchases	(1,883)	—
Payment for stock option settlement	(4,103)	—
Payments of lease liabilities	(1,518)	(1,441)
Payments of deferred financing costs	(1,862)	(283)
Borrowings on term senior credit facility, net of repayments	85,624	241,410
Dividends paid	(16,609)	(18,306)
Cash provided by financing activities - continuing operations	50,612	217,386
Net changes in cash provided by discontinued operations	—	20,922
Net increase in cash during the period	10,168	10,806
Cash, beginning of period	37,977	51,720
Cash, end of period	48,145	62,526
Supplemental cash flow information		
Cash taxes paid, net	3,197	5,342
Cash interest paid	9,730	9,916

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, 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 161 Bay Street, Suite 2800, Toronto, Ontario, Canada. ECN Capital has approximately 610 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange ("TSX") under the symbol "ECN".

2. Basis of Presentation and Summary of Significant Accounting Policies

Statement of compliance

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements. They should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 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 August 10, 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]

June 30, 2021

As at June 30, 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 and six-month periods ended June 30, 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 and six-month periods ended June 30, 2021, the results of operations of the Legacy Businesses were not material to the Company's consolidated results of operations.

	Three-month period ended	Six-month period ended
	June 30, 2020	June 30, 2020
	\$	\$
Revenues	30	507
Operating expenses and other costs		
Compensation and benefits	920	2,063
Other operating expenses	3,151	5,593
Interest expense	300	689
Share-based compensation	—	1
	<u>4,371</u>	<u>8,346</u>
Loss from discontinued operations before income taxes	(4,341)	(7,839)
Recovery of income taxes	(957)	(1,763)
Net loss from discontinued operations	<u>(3,384)</u>	<u>(6,076)</u>

Notes to interim condensed consolidated financial statements

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

June 30, 2021

Assets held-for-sale

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

	June 30, 2021	December 31, 2020
	\$	\$
Rail Finance	35,567	32,837
Aviation Finance	58,461	64,844
C&V Finance	6,769	9,087
	100,797	106,768

4. Finance Receivables

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

	June 30, 2021	December 31, 2020
	\$	\$
Manufactured housing loans	149,902	113,817
Dealer advances	67,712	54,584
Credit card portfolio structured loans	46,679	56,242
Gross finance receivable at amortized cost	264,293	224,643
Allowance for credit losses	(1,032)	(868)
Net finance receivables at amortized cost	263,261	223,775
Held-for-trading financial assets	193,925	150,250
Total finance receivables	457,186	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]

June 30, 2021

Held-for-trading financial assets

The loans balance as at June 30, 2021 includes \$156.0 million (December 31, 2020 - \$93.2 million) in home improvement loans and \$38.0 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:

	June 30, 2021		December 31, 2020	
	\$	%	\$	%
31 - 60 days past due	—	—	3	—
61 - 90 days past due	—	—	—	—
Greater than 90 days past due	153	0.06	—	—
Total past due	153	0.06	3	—
Current	264,140	99.94	224,640	100.00
Total net investment	264,293	100.00	224,643	100.00

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

	June 30, 2021	December 31, 2020
	\$	\$
Net investment, continuing operations	\$264,293	\$224,643
Weighted average interest rate	6.32 %	6.70 %

Notes to interim condensed consolidated financial statements

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

June 30, 2021

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

	June 30, 2021			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	110,186	—	—	110,186
Medium risk	153,511	—	—	153,511
High risk	442	106	48	596
Default	—	—	—	—
Gross carrying amount	264,139	106	48	264,293

	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]

June 30, 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
Stage transfers	10	—	(10)	—
Balance as at March 31, 2020	562	—	65	627
Provision for credit losses	309	20	4,370	4,699
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	(350)	—	350	—
Balance as at June 30, 2020	521	20	4,790	5,331
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
Provision for credit losses	167	13	33	213
Charge-offs, net of recoveries	—	—	(75)	(75)
Balance as at June 30, 2021	946	38	48	1,032

Notes to interim condensed consolidated financial statements

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

June 30, 2021

5. Borrowings

Term senior credit facility

The Company is party to a \$1,100,000 term senior credit facility, amended June 30, 2021, which is syndicated to a group of eight Canadian, U.S. and international banks with a maturity date of June 30, 2025. 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:

	June 30, 2021		December 31, 2020	
	Balance outstanding	Weighted average interest rate ^[1]	Balance outstanding	Weighted average interest rate ^[1]
	\$	%	\$	%
Term senior credit facility	558,624	2.82	473,000	2.91
Deferred financing costs	(10,867)		(10,917)	
Total secured borrowings	547,757		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 June 30, 2021, the unutilized balance of the facility was \$541,376 (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.

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.

Notes to interim condensed consolidated financial statements

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

June 30, 2021

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

	June 30, 2021	December 31, 2020
	\$	\$
Senior unsecured debentures	60,494	58,939
Deferred financing costs	(3,534)	(3,830)
Total unsecured debentures	56,960	55,109

The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 2021.

Restricted funds

Restricted cash in collection accounts as at June 30, 2021 was \$5,351 (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]

June 30, 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	286,550	82
Share issuance for purchase of non-controlling interest in KG ^[1]	2,990,737	—
Stock options adjustment	—	(1,177)
Balance, June 30, 2020	242,131,248	610,359
Balance, December 31, 2020	244,540,489	608,707
Common share repurchases	(1,468,438)	(9,262)
Exercise of options	666,894	225
Balance, June 30, 2021	243,738,945	599,670

[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	(49,100)	(955)
Balance, June 30, 2021	3,843,100	69,659

	Preferred shares - Series C	
	Shares	Amount
	#	\$
Balance, December 31, 2020	3,760,800	68,529
Preferred share repurchases	(48,400)	(928)
Balance, June 30, 2021	3,712,400	67,601

Notes to interim condensed consolidated financial statements

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

June 30, 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 and six-month periods ended June 30, 2021, the Company purchased 348,400 and 1,468,438 common shares, respectively, for a total of \$2.2 million (C\$2.8 million) and \$9.3 million (C\$11.6 million), respectively, or C\$8.01 and C\$7.91 per common share, respectively, pursuant to the Common Share Bid.

During the three and six-month periods ended June 30, 2021, the Company purchased 11,700 and 49,100 Series A Preferred Shares, respectively, for a total of \$0.2 million (C\$0.3 million) and \$1.0 million (C\$1.2 million), respectively, or C\$24.99 and C\$24.56 per share, respectively. During the three and six-month periods ended June 30, 2021, the Company purchased 12,400 and 48,400 Series C Preferred Shares, respectively, for a total of \$0.2 million (C\$0.3 million) and \$0.9 million (C\$1.2 million), respectively, or C\$24.74 and C\$24.21 per share, respectively, pursuant to the Preferred Share Bid.

Common share dividends

During the three and six-month periods ended June 30, 2021, the Company declared \$5,925 and \$11,755 or C\$0.030 and C\$0.060 per common share in dividends, respectively (June 30, 2020 - \$4,420 and \$8,690 or C\$0.025 and C\$0.050 per common share).

Preferred share dividends

During the three and six-month periods ended June 30, 2021, the Company paid \$1,275 and \$2,517 or C\$0.40625 and C\$0.81250 per Series A share in dividends. During the three and six-month periods ended June 30, 2020, the Company paid \$1,178 and \$2,376 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, 2021, the Company paid \$1,184 and \$2,337 or C\$0.390625 and C\$0.781250 per Series C share in dividends. During the three and six-month periods ended June 30, 2020, the Company paid \$1,131 and \$2,283 or C\$0.390625 and C\$0.78125 per Series C share in preferred share dividends.

Notes to interim condensed consolidated financial statements

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

June 30, 2021

7. Share-Based Compensation

Share-based compensation expense

Share-based compensation expense consists of the following for the three and six-month periods ended June 30, 2021 and June 30, 2020:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Performance share units and restricted share units	4,274	3,268	9,383	6,171
Stock options	1,188	97	2,205	190
Deferred share units	464	557	1,208	775
Share-based compensation - continuing operations	5,926	3,922	12,796	7,136

During the three and six-month periods ended June 30, 2021, the Company granted 101,652 and 783,478 PSUs to senior executives and employees of the Company.

During the three and six-month periods ended June 30, 2021, the Company granted 131,013 and 3,938,525 stock options to employees with a weighted average exercise price of C\$7.99 and C\$7.26 per share, respectively.

During the three and six-month periods ended June 30, 2021, the Company granted 32,423 and 211,536 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 June 30, 2021 and June 30, 2020:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Legacy Businesses revenue	1,798	—	3,476	—
Other fees	609	390	1,468	613
Foreign exchange and other	1,652	(246)	2,459	545
Gain (loss) on corporate investments	(399)	764	10	420
(Loss) income from sale of equipment	(51)	1	(51)	1
Total other revenue - continuing operations	3,609	909	7,362	1,579

Notes to interim condensed consolidated financial statements

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

June 30, 2021

Other expenses consist of the following for the periods ended June 30, 2021 and June 30, 2020:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Amortization of intangible assets	8,429	6,453	16,858	12,906
Accretion of deferred purchase consideration	1,020	2,416	1,982	3,027
Restructuring costs	—	1,486	—	1,486
Total other expenses - continuing operations	9,449	10,355	18,840	17,419

9. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	June 30, 2021	December 31, 2020
	\$	\$
Corporate investments	46,381	46,812
Prepaid expenses and other assets	36,412	29,100
Taxes receivable	22,414	23,979
Total	105,207	99,891

Equity accounted investments are included in corporate investments and are equity accounted private company investments with a carrying value of approximately \$28.0 million.

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

	June 30, 2021	December 31, 2020
	\$	\$
Accounts payable and accrued liabilities	73,745	52,096
Accrued payroll and share-based compensation liabilities	66,653	50,376
Unearned revenue ^[1]	40,183	44,699
Dealer liability - restricted cash	10,685	4,782
Total	191,266	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]

June 30, 2021

10. Related Party Transactions

Notes receivable

Notes receivable of \$34,161 as at June 30, 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 six-month periods ended June 30, 2021 and June 30, 2020 were as follows:

	June 30, 2021	June 30, 2020
	\$	\$
Notes receivable, beginning of period	47,553	42,067
Additions	20	2,815
Interest income	477	246
Repayments (interest and principal)	(1,863)	(644)
Reclassifications to short-term receivables and other assets (non-related party) ^[1]	—	(2,237)
Foreign exchange	716	(1,261)
	46,903	40,986
Defeased amounts	(12,742)	(10,344)
Notes receivable, end of period	34,161	30,642

[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, 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]

June 30, 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 and six-month periods ended June 30, 2021 and June 30, 2020:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	2,381	(246)	3,188	545
Fair value gains (losses) recorded in other comprehensive income	3,298	613	5,138	(19,707)

Notes to interim condensed consolidated financial statements

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

June 30, 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:

	June 30, 2021		December 31, 2020	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Foreign exchange agreements	—	—	38,000	201
Total return swaps	46,433	25,449	34,705	10,205
	46,433	25,449	72,705	10,406
Derivative liabilities				
Interest rate contracts	400,000	6,081	400,000	8,463
Foreign exchange agreements	185,187	299	79,782	405
	585,187	6,380	479,782	8,868

Notes to interim condensed consolidated financial statements

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

June 30, 2021

12. Earnings Per Share

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Net income from continuing operations	17,396	3,895	25,702	11,610
Cumulative dividends on preferred shares	2,459	2,309	4,854	4,659
Net income from continuing operations attributable to common shareholders	14,937	1,586	20,848	6,951
Net income (loss) from discontinued operations attributable to common shareholders	—	(3,384)	—	(6,076)
Total net income attributable to common shareholders	14,937	(1,798)	20,848	875
Weighted average number of common shares outstanding - basic	243,478,063	242,045,087	243,987,369	241,336,305
Basic earnings per share from continuing operations	\$ 0.06	\$ 0.01	\$ 0.09	\$ 0.03
Basic earnings (loss) per share from discontinued operations	\$ —	\$ (0.01)	\$ —	\$ (0.03)
Total basic earnings per share	\$ 0.06	\$ —	\$ 0.09	\$ —
Weighted average number of common shares outstanding - diluted	251,075,843	245,719,731	251,193,695	245,808,096
Diluted earnings per share from continuing operations	\$ 0.06	\$ 0.01	\$ 0.08	\$ 0.03
Diluted earnings (loss) per share from discontinued operations	\$ —	\$ (0.01)	\$ —	\$ (0.03)
Total diluted earnings per share	\$ 0.06	\$ —	\$ 0.08	\$ —

Notes to interim condensed consolidated financial statements

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

June 30, 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:

	June 30, 2021	December 31, 2020
	\$	\$
Borrowings on term senior credit facility	547,757	462,083
Senior unsecured debentures	56,960	55,109
Accounts payable and accrued liabilities	191,266	151,953
Other liabilities ^[1]	45,619	41,443
	841,602	710,588
Shareholders' equity	823,713	822,561
	1,665,315	1,533,149

[1] Other liabilities primarily include a \$17.3 million (2020 - \$18.8 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a \$15.6 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 and six-month periods ended June 30, 2021 and June 30, 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]

June 30, 2021

	For the three-month period ended June 30, 2021				
	Service Finance - Home Improvement Loans	Triad Financial Services - Manufactured Home Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	38,360	28,585	21,548	3,649	92,142
Operating and other expenses					
Compensation and benefits	7,363	7,829	5,755	4,303	25,250
General and administrative expenses	6,159	6,330	1,790	4,376	18,655
Interest expense	1,484	997	315	3,626	6,422
Depreciation and amortization	1,251	316	326	1,429	3,322
Share-based compensation	1,243	527	1,163	2,993	5,926
Other expenses	3,835	310	4,784	520	9,449
	21,335	16,309	14,133	17,247	69,024
Income (loss) before income taxes from continuing operations	17,025	12,276	7,415	(13,598)	23,118

Notes to interim condensed consolidated financial statements

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

June 30, 2021

	For the six-month period ended June 30, 2021				
	Service Finance - Home Improvement Loans	Triad Financial Services - Manufactured Home Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Corporate & Other	Total
	\$	\$	\$	\$	\$
Revenues	69,829	47,486	41,289	7,555	166,159
Operating expenses					
Compensation and benefits	14,279	14,643	12,225	8,641	49,788
General and administrative expenses	11,216	10,158	3,140	8,164	32,678
Interest expense	2,008	1,828	654	8,023	12,513
Depreciation and amortization	2,227	633	641	2,590	6,091
Share-based compensation	2,908	624	2,926	6,338	12,796
Other expenses	7,669	620	9,569	982	18,840
	40,307	28,506	29,155	34,738	132,706
Income (loss) before income taxes from continuing operations	29,522	18,980	12,134	(27,183)	33,453

Notes to interim condensed consolidated financial statements

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

June 30, 2021

	For the three-month period ended June 30, 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	26,844	16,566	16,488	1,321	61,219
Operating and other expenses					
Compensation and benefits	5,714	5,508	4,867	1,891	17,980
General and administrative expenses	9,651	2,747	1,396	2,553	16,347
Interest expense	1,021	800	400	3,280	5,501
Depreciation and amortization	283	317	448	641	1,689
Share-based compensation	301	718	1,800	1,103	3,922
Other expenses	1,909	310	4,609	3,527	10,355
	18,879	10,400	13,520	12,995	55,794
Income (loss) before income taxes from continuing operations	7,965	6,166	2,968	(11,674)	5,425

Notes to interim condensed consolidated financial statements

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

June 30, 2021

	For the six-month period ended June 30, 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	52,956	31,703	35,248	2,190	122,097
Operating and other expenses					
Compensation and benefits	10,691	10,617	10,426	5,130	36,864
General and administrative expenses	14,874	5,913	3,077	6,768	30,632
Interest expense	1,631	1,813	1,059	6,068	10,571
Depreciation and amortization	539	598	886	1,287	3,310
Share-based compensation	641	1,409	2,298	2,788	7,136
Other expenses	3,817	620	9,219	3,763	17,419
	32,193	20,970	26,965	25,804	105,932
Income (loss) before income taxes from continuing operations	20,763	10,733	8,283	(23,614)	16,165

Notes to interim condensed consolidated financial statements

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

June 30, 2021

15. Subsequent Event

On August 10, 2021, the Company announced that it has entered into a definitive agreement (the "Transaction Agreement") with Truist Bank, the wholly owned bank subsidiary of Truist Financial Corporation, to sell all of the issued and outstanding equity interests in each of Service Finance Company, LLC and Service Finance Holdings, LLC (together "SFC"), each a wholly-owned indirect subsidiary of the Company, for cash proceeds of approximately US\$2 billion, subject to adjustment as set forth in the Transaction Agreement (the "Transaction"). The Transaction is subject to receipt of required regulatory approvals, the expiry of applicable regulatory waiting periods and satisfaction of other customary closing conditions and is expected to close late in the fourth quarter of 2021.

