ECN CAPITAL

Interim Condensed Consolidated Financial Statements

SEPTEMBER 30, 2019

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	September 30, 2019 $	December 31, 2018 $
Assets		
Cash	**33,490**	51,992
Restricted funds *[note 5]*	**32,203**	18,929
Finance receivables *[note 4]*	**332,328**	402,418
Short-term receivables and other assets	**235,963**	152,366
Retained reserve interest	**24,287**	22,020
Notes receivable *[note 9]*	**29,398**	38,146
Derivative financial instruments *[note 10]*	**1,072**	433
Leasehold improvements and other equipment	**38,374**	15,905
Intangible assets	**260,051**	264,727
Deferred tax assets	**40,606**	35,467
Goodwill	**413,067**	413,067
Total assets excluding assets held-for-sale	**1,440,839**	1,415,470
Assets held-for-sale [*note 3*]	**185,089**	333,963
Total assets	**1,625,928**	1,749,433
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	**213,515**	200,782
Derivative financial instruments *[note 10]*	**3,971**	6,118
Secured borrowings *[note 5]*	**451,326**	335,436
Other liabilities *[note 12]*	**72,600**	100,120
Total liabilities	**741,412**	642,456
Shareholders' equity	**884,516**	1,106,977
	1,625,928	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 September 30, 2019	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	$	$	$	$
Revenues				
Portfolio origination services	**27,652**	22,580	**73,019**	56,981
Portfolio management services	**28,146**	22,170	**71,978**	42,864
Portfolio advisory services	**2,452**	18,130	**20,326**	22,519
Total portfolio revenue	**58,250**	62,880	**165,323**	122,364
Interest income	**5,276**	6,093	**16,436**	10,410
Other revenue *[note 8]*	**(189)**	692	**199**	3,816
	63,337	69,665	**181,958**	136,590
Operating expenses and other				
Compensation and benefits	**17,348**	20,445	**55,494**	45,344
General and administrative expenses	**11,984**	11,181	**31,633**	27,759
Interest expense	**5,857**	9,751	**19,462**	22,504
Depreciation and amortization	**1,416**	740	**4,110**	1,835
Share-based compensation *[note 7]*	**4,555**	4,882	**13,685**	10,750
Other items *[note 8]*	**8,802**	9,690	**61,059**	29,285
	49,962	56,689	**185,443**	137,477
Income (loss) before income taxes from continuing operations	**13,375**	12,976	**(3,485)**	(887)
Provision for (recovery of) income taxes	**5,172**	9,629	**(1,763)**	(659)
Net income (loss) from continuing operations	**8,203**	3,347	**(1,722)**	(228)
Net loss from discontinued operations *[note 3]*	**(3,431)**	(60,830)	**(6,523)**	(51,315)
Net income (loss) for the period	**4,772**	(57,483)	**(8,245)**	(51,543)
Earnings (loss) per common share - Basic				
Continuing operations *[note 11]*	**0.02**	—	**(0.04)**	(0.02)
Discontinued operations *[note 11]*	**(0.01)**	(0.18)	**(0.03)**	(0.16)
Total basic earnings (loss) per share *[note 11]*	**0.01**	(0.18)	**(0.07)**	(0.18)
Earnings (loss) per common share - Diluted				
Continuing operations *[note 11]*	**0.02**	—	**(0.04)**	(0.02)
Discontinued operations *[note 11]*	**(0.01)**	(0.18)	**(0.03)**	(0.16)
Total diluted earnings (loss) per share *[note 11]*	**0.01**	(0.18)	**(0.07)**	(0.18)

See accompanying notes

Interim condensed consolidated statements of comprehensive income (loss)

[unaudited, in thousands of United States dollars]

	Three-month period ended September 30, 2019	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	$	$	$	$
Net income (loss) for the period	**4,772**	(57,483)	**(8,245)**	(51,543)
Other comprehensive income (loss)				
Cash flow hedges *[note 10]*	**9**	1,898	**(2,453)**	1,559
Net unrealized foreign exchange (loss) gain	**(1,737)**	2,564	**7,121**	(4,472)
	(1,728)	4,462	**4,668**	(2,913)
Deferred tax expense	**—**	807	**—**	717
Total other comprehensive (loss) income	**(1,728)**	3,655	**4,668**	(3,630)
Comprehensive income (loss) for the period	**3,044**	(53,828)	**(3,577)**	(55,173)

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	289	—	—	—		289
Employee stock option expense	—	—	4,877	—	—	4,877
Common share repurchases	(172,696)	—	—	—	—	(172,696)
Comprehensive loss for the period	—	—	—	(51,543)	(3,630)	(55,173)
Dividends – preferred shares	—	—	—	(7,652)	—	(7,652)
Dividends – common shares	—	—	—	(8,405)	—	(8,405)
Balance, September 30, 2018	851,072	144,918	101,314	174,363	(18,986)	1,252,681
Balance, December 31, 2018	817,919	144,918	99,330	65,075	(20,265)	1,106,977
Adjustment to opening retained earnings - IFRS 16 *[note 2]*	**—**	**—**	**—**	**(521)**	**—**	**(521)**
Employee stock options exercised *[note 6]*	**1,310**	**—**	**—**	**—**	**—**	**1,310**
Employee stock options expense	**—**	**—**	**136**	**—**	**—**	**136**
Common share repurchases *[note 6]*	**(201,549)**	**—**	**—**	**—**	**—**	**(201,549)**
Comprehensive income (loss) for the period	**—**	**—**	**—**	**(8,245)**	**4,668**	**(3,577)**
Dividends – preferred shares *[note 6]*	**—**	**—**	**—**	**(7,409)**	**—**	**(7,409)**
Dividends – common shares *[note 6]*	**—**	**—**	**—**	**(10,851)**	**—**	**(10,851)**
Balance, September 30, 2019	**617,680**	**144,918**	**99,466**	**38,049**	**(15,597)**	**884,516**

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	$	$
Operating activities		
Net loss for the period from continuing operations	**(1,722)**	(228)
Items not affecting cash:		
Depreciation and amortization	**4,110**	1,835
Share-based compensation	**13,685**	10,750
Amortization of intangible assets	**19,358**	10,478
Amortization of deferred financing costs	**3,223**	3,884
Deferred purchase price consideration	**4,616**	—
Non-controlling interest expense	**1,187**	5,349
	44,457	32,068
Changes in operating assets and liabilities:		
Change in finance receivables, net	**76,272**	(288,153)
Other operating assets and liabilities	**(71,010)**	(75,319)
Cash provided by (used in) operating activities - continuing operations	**49,719**	(331,404)
Investing activities		
(Increase) decrease in restricted funds	**(13,274)**	29,816
Acquisition of the Kessler Group and non-controlling interest	**(89,255)**	(221,200)
(Increase) decrease in notes receivable	**(1,379)**	3,149
Purchase of property, equipment and leasehold improvements	**(4,668)**	(5,133)
Cash used in investing activities - continuing operations	**(108,576)**	(193,368)
Financing activities		
Option exercises	**1,310**	289
Common share repurchases	**(201,549)**	(172,696)
Borrowings (repayments), net	**112,667**	(202,205)
Dividends paid	**(14,424)**	(16,057)
Cash used in financing activities - continuing operations	**(101,996)**	(390,669)
Net changes in cash provided by discontinued operations	**142,351**	965,251
Net (decrease) increase in cash during the period	**(18,502)**	49,810
Cash, beginning of period	**51,992**	17,295
Cash, end of period	**33,490**	67,105
Supplemental cash flow information		
Cash taxes paid	**1,961**	28,528
Cash interest paid	**19,805**	37,608

See accompanying notes

Notes to interim condensed consolidated financial statements

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

September 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 570 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 ("IAS") 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 November 7, 2019.

Adoption of International Financial Reporting Standards ("IFRS") 16 - Leases ("IFRS 16")

On January 1, 2019, the Company adopted IFRS 16, which has replaced IAS 17, *Leases*. 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").

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. Additionally, the opening balance of retained earnings was reduced by $521.

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. Accordingly, actual results may differ from those recorded amounts. Areas of financial reporting that require management's estimates and judgments are discussed in Note 3 of the 2018 Annual Consolidated Financial Statements.

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. Costs related to such matters were not material to the periods presented.

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 entered into an incentive compensation plan with senior management that is based on the achievement of a prescribed rate of return on average equity over the next five years.

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

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 nine-month periods ended September 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		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Revenues	**967**	11,062	**3,686**	42,721
Operating expenses and other costs				
Compensation and benefits	**1,832**	395	**3,633**	2,074
Other operating expenses	**2,908**	2,676	**7,787**	7,245
Interest expense	**623**	2,869	**623**	9,421
Provision for credit losses	**—**	35	**—**	130
Share-based compensation	**2**	16	**6**	99
Loss on sale of rail assets	**—**	98,856	**—**	98,856
	5,365	104,847	**12,049**	117,825
Loss from discontinued operations before income taxes	**(4,398)**	(93,785)	**(8,363)**	(75,104)
Recovery of income taxes	**(967)**	(32,955)	**(1,840)**	(23,789)
Net loss from discontinued operations	**(3,431)**	(60,830)	**(6,523)**	(51,315)

Assets held for sale

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

	September 30, 2019	**December 31, 2018**
Rail Finance	**36,130**	64,062
Aviation Finance	**137,509**	248,995
C&V Finance	**11,450**	20,906
	185,089	333,963

Notes to interim condensed consolidated financial statements

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

September 30, 2019

4. Finance Receivables

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

	September 30, 2019	December 31, 2018
	$	$
Manufactured housing loans	**99,357**	78,140
Dealer advances	**47,060**	17,946
Credit card portfolio syndicated investments	**94,415**	32,904
Gross finance receivable at amortized cost	**240,832**	128,990
Allowance for credit losses	**(461)**	(644)
Net finance receivables at amortized cost	**240,371**	128,346
Held-for-trading financial assets	**91,957**	274,072
Total finance receivables	**332,328**	402,418

Manufactured housing loans and dealer advances

Manufactured housing loans are comprised of $99.4 million (December 31, 2018 - $77.6 million) in secured floorplan loans issued by Triad Financial Services, Inc. to finance dealer inventory. Dealer advances of $47.1 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 syndicated investments

Credit card portfolio syndicated investments are comprised of $94.4 million (December 31, 2018 - $32.9 million) in 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 September 30, 2019 includes $75.4 million (December 31, 2018 - $274.1 million) in home improvement loans and $16.6 million (December 31, 2018 - nil) 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.

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

	September 30, 2019		December 31, 2018	
	$	%	$	%
31 - 60 days past due	**7**	**—**	369	0.29
61 - 90 days past due	**120**	**0.05**	147	0.11
Greater than 90 days past due	**257**	**0.11**	108	0.08
Total past due	**384**	**0.16**	624	0.48
Current	**240,448**	**99.84**	128,366	99.52
Total net investment	**240,832**	**100.00**	128,990	100.00

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

	September 30, 2019	December 31, 2018
	$	$
Net investment, continuing operations (1)	**$240,832**	$128,990
Weighted average floating interest rate	**7.24%**	5.92%

(1) There were no finance receivables outstanding as at September 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:

	September 30, 2019			
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
	$	$	$	$
Low risk	**135,640**	**—**	**—**	**135,640**
Medium risk	**104,431**	**64**	**16**	**104,511**
High risk	**377**	**—**	**304**	**681**
Gross carrying amount	**240,448**	**64**	**320**	**240,832**

	December 31, 2018			
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
	$	$	$	$
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 September 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**
Provision for credit losses	**35**	**—**	**—**	**35**
Stage transfers	**(1,369)**	**(79)**	**1,448**	**—**
Impact of foreign exchange rates	**33**	**—**	**—**	**33**
Balance as at September 30, 2018	**2,521**	**7**	**2,160**	**4,688**
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**
Stage transfers	**9**	**(9)**	**—**	**—**
Balance as at June 30, 2019	**522**	**122**	**189**	**833**
Provision for credit losses	**54**	**—**	**46**	**100**
Charge-offs, net of recoveries	**—**	**—**	**(95)**	**(95)**
Stage transfers	**(21)**	**21**	**—**	**—**
Transfer to held-for-trading financial assets	**(154)**	**(143)**	**(80)**	**(377)**
Balance as at September 30, 2019	**401**	**—**	**60**	**461**

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

5. Secured Borrowings

	September 30, 2019		December 31, 2018	
	Balance outstanding	**Weighted average interest rate (1)**	**Balance outstanding**	**Weighted average interest rate (1)**
	$	%	$	%
Term senior credit facility(2)	462,667	3.74	350,000	4.20
Deferred financing costs	(11,341)		(14,564)	
Total secured borrowings	451,326		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 September 30, 2019.

Term senior credit facility

The Company is party to a $1,000,000 term senior credit facility, previously amended December 31, 2018, that 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 September 30, 2019, the Company had unutilized borrowing capacity of $537,333 (December 31, 2018 - $650,000).

On October 16, 2019, the Company amended the term senior credit facility to extend the maturity date of the agreement to December 31, 2023. This amendment maintains the facility at $1,000,000.

Restricted funds

Restricted cash in collection accounts as at September 30, 2019 was $32,203 (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.

Notes to interim condensed consolidated financial statements

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

September 30, 2019

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	(59,344,621)	(172,696)
Exercise of options	956,153	289
Balance, September 30, 2018	319,240,119	851,072
Balance, December 31, 2018	306,643,351	817,919
SIB repurchases	**(70,666,666)**	**(201,549)**
Exercise of options	**4,426,265**	**1,310**
Balance, September 30, 2019	**240,402,950**	**617,680**

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. The Company did not repurchase any of its common shares under the NCIB during the three-month period ended September 30, 2019.

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, September 30, 2019	**8,000,000**	**144,918**

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

During the three and nine-month periods ended September 30, 2019, the Company paid $1,227 and $3,672, respectively (after tax cost of $1,263 and $3,776) or C$0.40625 and C$1.21875 per Series A share in dividends. During the three and nine-month periods ended September 30, 2018, the Company paid $1,247 and $3,791, respectively (after tax cost of $1,284 and $3,900) or C$0.40625 and $1.21875 per Series A share in preferred share dividends.

During the three and nine-month periods ended September 30, 2019, the Company paid $1,180 and $3,529, respectively (after tax cost of $1,215 and $3,633) or C$0.390625 and C$1.17188 per Series C share in dividends. During the three and nine-month periods ended September 30, 2018, the Company paid $1,200 and $3,645, respectively (after tax cost of $1,234 and $3,752) or C $0.390625 and C$1.17188 per Series C share in preferred share dividends.

Common share dividends

During the three and nine-month periods ended September 30, 2019, the Company declared a $3,628 and $10,851 or C$0.02 and C$0.06 per common share dividend, respectively (September 30, 2018 - $2,509 and $8,405 or C$0.01 and C$0.03 per common share). The dividend related to the three-month period ended September 30, 2019 was paid on October 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		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Stock options	**171**	662	**729**	2,327
Deferred share units ("DSUs")	**616**	534	**2,028**	984
Performance share units and restricted share units ("PSUs" and "RSUs")	**3,768**	3,686	**10,928**	7,439
Share-based compensation - continuing operations	**4,555**	4,882	**13,685**	10,750

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

During the three and nine-month periods ended September 30, 2019, the Company granted 48,689 and 387,332 DSUs to members of the Company's Board of Directors.

During the three and nine-month periods ended September 30, 2019, the Company granted 231,003 and 3,385,406 PSUs and 64,418 and 262,478 RSUs to senior executives and employees of the Company.

Notes to interim condensed consolidated financial statements

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

September 30, 2019

8. Other Revenue and Other Expenses

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Gain (loss) on corporate investments	**389**	71	**1,299**	(376)
Other fees	**156**	543	**457**	2,824
Other interest income	**—**	—	**—**	922
Foreign exchange and other	**(734)**	78	**(1,557)**	446
Total other revenue - continuing operations	**(189)**	692	**199**	3,816

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Amortization of intangibles	**6,452**	4,287	**19,358**	10,478
Accretion of deferred purchase consideration	**2,035**	—	**4,616**	—
Non-controlling interest	**315**	5,349	**1,187**	5,349
Purchase price premium on non-controlling interest *(note 3)*	**—**	—	**28,138**	—
Restructuring costs	**—**	54	**12,549**	54
Gain on SIB FX forward	**—**	—	**(4,789)**	—
Business acquisition costs	**—**	—	**—**	13,404
Total other expenses - continuing operations	**8,802**	9,690	**61,059**	29,285

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 $29,398 as at September 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. Interest is accrued on the loans based on U.S. prime 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.

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

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

	September 30, 2019	December 31, 2018
	$	$
Notes receivable, beginning of period	**51,744**	46,411
Additions[1]	**2,685**	11,583
Interest income	**1,030**	1,670
Repayments (interest and principal)	**(7,516)**	(4,608)
Reclassifications to short-term receivables and other assets (non-related party)[2]	**(10,127)**	—
Foreign exchange	**1,329**	(3,312)
	39,145	51,744
Set-off amounts	**(9,747)**	(13,598)
Notes receivable, end of period	**29,398**	38,146

(1) Additions of $2.7 million for the nine-month period ended September 30, 2019 include $1.2 million of other unsecured employee loans that were granted as relocation assistance to employees.

(2) 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 nine-month period ended September 30, 2019, $5.4 million of these loans were repaid.

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. During the three-month period ended September 30, 2019, the Company entered into two additional interest rate derivatives, effectively increasing its position to the amount of its current outstanding borrowings under the term senior credit facility.

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.

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

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Foreign exchange agreements recorded in other revenue	**(734)**	78	**(1,557)**	446
Fair value (losses) gains recorded in other comprehensive income	**9**	1,898	**(2,453)**	1,559

Notional amounts and fair values of derivative instruments

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

	September 30, 2019		December 31, 2018	
	Notional principal	**Fair value**	**Notional principal**	**Fair value**
	$	$	$	$
Derivative assets				
Interest rate contracts	**422,358**	**409**	41,690	433
Foreign exchange agreements	**2,970**	**199**	—	—
Total return swaps	**13,898**	**464**	—	—
	439,226	**1,072**	41,690	433
Derivative liabilities				
Interest rate contracts	**109,023**	**3,693**	95,331	1,253
Foreign exchange agreements	**33,738**	**6**	231,441	4,865
Total return swaps	**11,217**	**272**	—	—
	153,978	**3,971**	326,772	6,118

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

11. Earnings Per Share

	Three-month period ended		Nine-month period ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	$	$
Net income (loss) from continuing operations attributable to shareholders	**8,203**	3,347	**(1,722)**	(228)
Cumulative dividends on preferred shares	**2,407**	2,447	**7,201**	7,436
Net income (loss) from continuing operations attributable to common shareholders	**5,796**	900	**(8,923)**	(7,664)
Net loss from discontinued operations attributable to common shareholders	**(3,431)**	(60,830)	**(6,523)**	(51,315)
Total net income (loss) attributable to common shareholders	**2,365**	(59,930)	**(15,446)**	(58,979)
Weighted average number of common shares outstanding - basic	**240,170,805**	326,887,815	**243,330,599**	342,879,906
Basic income (loss) per share from continuing operations	**$ 0.02**	$ —	**$ (0.04)**	$ (0.02)
Basic loss per share from discontinued operations	**$ (0.01)**	$ (0.18)	**$ (0.03)**	$ (0.16)
Total income (loss) per share	**$ 0.01**	$ (0.18)	**$ (0.07)**	$ (0.18)
Weighted average number of common shares outstanding - diluted	**246,573,021**	333,637,553	**243,330,599**	342,879,906
Diluted earnings (loss) per share from continuing operations	**$ 0.02**	$ —	**$ (0.04)**	$ (0.02)
Diluted loss per share from discontinued operations	**$ (0.01)**	$ (0.18)	**$ (0.03)**	$ (0.16)
Total diluted earnings (loss) per share	**$ 0.01**	$ (0.18)	**$ (0.07)**	$ (0.18)

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:

	September 30, 2019	December 31, 2018
	$	$
Secured borrowings	**451,326**	335,436
Accounts payable and accrued liabilities	**213,515**	200,782
Other liabilities[1]	**72,600**	100,120
	737,441	636,338
Shareholders' equity	**884,516**	1,106,977
	1,621,957	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 $32.9 million (December 31, 2018 - $33.1 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a $17.8 million lease liability recognized in connection with the adoption of IFRS 16.

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 September 30 are shown in the following tables:

Notes to interim condensed consolidated financial statements

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

September 30, 2019

	For the three-month period ended September 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	28,427	17,965	16,725	220	63,337
Operating and other expenses					
Compensation and benefits	4,883	6,070	5,050	1,345	17,348
General and administrative expenses	3,148	1,596	2,773	4,467	11,984
Interest expense	852	272	886	3,847	5,857
Depreciation and amortization	188	437	270	521	1,416
Share-based compensation	511	1,494	145	2,405	4,555
Other expenses	1,908	4,958	310	1,626	8,802
	11,490	14,827	9,434	14,211	49,962
Income (loss) before income taxes from continuing operations	16,937	3,138	7,291	(13,991)	13,375

Notes to interim condensed consolidated financial statements
[unaudited, in thousands of U.S. dollars, except where otherwise noted and per share amounts]

September 30, 2019

	For the nine-month period ended September 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	73,389	62,484	44,667	1,418	181,958
Operating expenses					
Compensation and benefits	13,706	21,152	14,553	6,083	55,494
General and administrative expenses	9,541	4,736	7,467	9,889	31,633
Interest expense	3,868	1,169	2,482	11,943	19,462
Depreciation and amortization	540	1,345	850	1,375	4,110
Share-based compensation	1,975	2,538	275	8,897	13,685
Other expenses	5,725	47,329	1,930	6,075	61,059
	35,355	78,269	27,557	44,262	185,443
Income (loss) before income taxes from continuing operations	38,034	(15,785)	17,110	(42,844)	(3,485)

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

	For the three-month period ended September 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	20,992	33,447	14,012	1,214	69,665
Operating and other expenses					
Compensation and benefits	3,291	9,978	4,400	2,776	20,445
General and administrative expenses	2,325	2,052	2,881	3,923	11,181
Interest expense	1,404	464	619	7,264	9,751
Depreciation and amortization	77	210	117	336	740
Share-based compensation	—	—	—	4,882	4,882
Other expenses	—	—	—	9,690	9,690
	7,097	12,704	8,017	28,871	56,689
Income (loss) before income taxes from continuing operations	13,895	20,743	5,995	(27,657)	12,976

Notes to interim condensed consolidated financial statements

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

September 30, 2019

	For the nine-month period ended September 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	56,310	39,113	36,162	5,005	136,590
Operating and other expenses					
Compensation and benefits	11,112	12,358	12,768	9,106	45,344
General and administrative expenses	6,992	2,745	7,411	10,611	27,759
Interest expense	2,554	464	948	18,538	22,504
Depreciation and amortization	201	283	351	1,000	1,835
Share-based compensation	—	—	—	10,750	10,750
Other expenses	—	—	—	29,285	29,285
	20,859	15,850	21,478	79,290	137,477
Income (loss) before income taxes from continuing operations	35,451	23,263	14,684	(74,285)	(887)