



Interim Condensed Consolidated Financial Statements

SEPTEMBER 30, 2020

Interim condensed consolidated statements of financial position

[unaudited, in thousands of United States dollars]

	September 30,	December 31,
	2020	2019
	\$	\$
Assets		
Cash	46,593	51,720
Restricted funds <i>[note 5]</i>	40,030	33,381
Finance receivables <i>[note 4]</i>	422,900	313,227
Accounts receivable	74,814	88,160
Other assets <i>[note 9]</i>	125,399	124,983
Retained reserve interest	28,537	25,558
Continuing involvement asset	161,843	126,689
Notes receivable <i>[note 10]</i>	30,771	31,966
Derivative financial instruments <i>[note 11]</i>	1,947	3,626
Leasehold improvements and other equipment	61,609	63,297
Intangible assets	252,990	252,653
Deferred tax assets	40,700	44,461
Goodwill	422,353	421,445
Total assets excluding assets held-for-sale	1,710,486	1,581,166
Assets held-for-sale <i>[note 3]</i>	113,546	142,972
Total assets	1,824,032	1,724,138
 Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities <i>[note 9]</i>	189,351	234,599
Continuing involvement liability	161,843	126,689
Derivative financial instruments <i>[note 11]</i>	15,967	3,061
Borrowings on term senior credit facility <i>[note 5]</i>	506,480	430,478
Senior unsecured debentures <i>[note 5]</i>	53,264	—
Other liabilities <i>[note 13]</i>	45,374	50,285
Total liabilities	972,279	845,112
Shareholders' equity	851,753	879,026
	1,824,032	1,724,138

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, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$	\$	\$
Revenues				
Portfolio origination services	29,644	24,750	75,662	65,473
Portfolio management services	27,563	27,597	81,618	70,212
Portfolio advisory services	999	2,452	6,459	20,326
Marketing services	2,959	3,451	6,085	9,312
Total portfolio revenue	61,165	58,250	169,824	165,323
Interest income	7,650	5,276	19,509	16,436
Other revenue <i>[note 8]</i>	673	(189)	2,252	199
	69,488	63,337	191,585	181,958
Operating expenses and other				
Compensation and benefits	19,715	17,348	56,579	55,494
General and administrative expenses	12,197	11,984	42,829	31,633
Interest expense	6,143	5,857	16,714	19,462
Depreciation and amortization	1,656	1,416	4,966	4,110
Share-based compensation <i>[note 7]</i>	6,755	4,555	13,891	13,685
Other expenses <i>[note 8]</i>	9,265	8,802	26,684	61,059
	55,731	49,962	161,663	185,443
Income (loss) before income taxes from continuing operations	13,757	13,375	29,922	(3,485)
Provision for (recovery of) income taxes	3,539	5,172	8,094	(1,763)
Net income (loss) from continuing operations	10,218	8,203	21,828	(1,722)
Net loss from discontinued operations <i>[note 3]</i>	(2,179)	(3,431)	(8,255)	(6,523)
Net income (loss) for the period	8,039	4,772	13,573	(8,245)
Earnings (loss) per common share - Basic				
Continuing operations <i>[note 12]</i>	0.03	0.02	0.06	(0.04)
Discontinued operations <i>[note 12]</i>	(0.01)	(0.01)	(0.03)	(0.03)
Total basic earnings (loss) per share <i>[note 12]</i>	0.02	0.01	0.03	(0.07)
Earnings (loss) per common share - Diluted				
Continuing operations <i>[note 12]</i>	0.03	0.02	0.06	(0.04)
Discontinued operations <i>[note 12]</i>	(0.01)	(0.01)	(0.03)	(0.03)
Total diluted earnings (loss) per share <i>[note 12]</i>	0.02	0.01	0.03	(0.07)

See accompanying notes

Interim condensed consolidated statements of comprehensive income (loss)

[unaudited, in thousands of United States dollars]

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$	\$	\$
Net income (loss) for the period	8,039	4,772	13,573	(8,245)
Other comprehensive income (loss)				
Cash flow hedges <i>[note 11]</i>	6,285	9	(13,422)	(2,453)
Net unrealized foreign exchange gain (loss)	2,063	(1,737)	(3,267)	7,121
Deferred tax benefit	3,572	—	3,572	—
Total other comprehensive income (loss)	11,920	(1,728)	(13,117)	4,668
Comprehensive income (loss) for the period	19,959	3,044	456	(3,577)

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, 2018	817,919	144,918	99,330	65,075	(20,265)	1,106,977
Adjustment to opening retained earnings	—	—	—	(521)	—	(521)
Employee stock options exercised	1,310	—	—	—	—	1,310
Employee stock option expense	—	—	136	—	—	136
Common share repurchases	(201,549)	—	—	—	—	(201,549)
Comprehensive (loss) income for the period	—	—	—	(8,245)	4,668	(3,577)
Dividends – preferred shares	—	—	—	(7,409)	—	(7,409)
Dividends – common shares	—	—	—	(10,851)	—	(10,851)
Balance, September 30, 2019	617,680	144,918	99,466	38,049	(15,597)	884,516
Balance, December 31, 2019	615,530	144,918	107,136	24,875	(13,433)	879,026
Employee stock options exercised <i>[note 6]</i>	82	—	—	—	—	82
Employee stock options expense	—	—	377	—	—	377
Stock options adjustment	(1,177)	—	—	—	—	(1,177)
Common share repurchases <i>[note 6]</i>	(4,076)	—	—	—	—	(4,076)
Preferred share repurchases <i>[note 6]</i>	—	(2,660)	—	—	—	(2,660)
Comprehensive income (loss) for the period	—	—	—	13,573	(13,117)	456
Dividends – preferred shares <i>[note 6]</i>	—	—	—	(7,052)	—	(7,052)
Dividends – common shares <i>[note 6]</i>	—	—	—	(13,223)	—	(13,223)
Balance, September 30, 2020	610,359	142,258	107,513	18,173	(26,550)	851,753

See accompanying notes

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
	\$	\$
Operating activities		
Net income (loss) for the period from continuing operations	21,828	(1,722)
Items not affecting cash:		
Depreciation and amortization	4,966	4,110
Share-based compensation	13,891	13,685
Amortization of intangible assets	20,964	19,358
Amortization of deferred financing costs	1,924	3,223
Deferred purchase price consideration	4,234	4,616
Non-controlling interest expense	—	1,187
	67,807	44,457
Changes in operating assets and liabilities:		
Change in finance receivables, net	(109,673)	76,272
Other operating assets and liabilities	(66,825)	(67,197)
Cash (used in) provided by operating activities - continuing operations	(108,691)	53,532
Investing activities		
Increase in restricted funds	(6,649)	(13,274)
Acquisition of non-controlling interest	—	(89,255)
Increase in notes receivable	(1,042)	(1,379)
Purchase of property, equipment and leasehold improvements	(3,278)	(4,668)
Cash used in investing activities - continuing operations	(10,969)	(108,576)
Financing activities		
Option exercises	82	1,310
Common share repurchases	(4,076)	(201,549)
Preferred share repurchases	(2,660)	—
Payments of lease liabilities	(2,094)	(2,046)
Payments of deferred financing costs	(3,379)	—
Borrowings on term senior credit facility, net of repayments	74,410	112,667
Issuance of senior unsecured debentures	56,311	—
Dividends paid	(25,232)	(16,191)
Cash provided by (used in) financing activities - continuing operations	93,362	(105,809)
Net changes in cash provided by discontinued operations	21,171	142,351
Net decrease in cash during the period	(5,127)	(18,502)
Cash, beginning of period	51,720	51,992
Cash, end of period	46,593	33,490
Supplemental cash flow information		
Cash taxes paid, net	9,774	1,961
Cash interest paid	15,914	19,805

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]

September 30, 2020

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. 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 November 11, 2020.

Critical accounting estimates and use of judgments

The preparation of financial statements in accordance with International Financial Reporting Standards ("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 September 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

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

September 30, 2020

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.

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:

	\$
Consideration paid:	
Cash	10,287
Fair value of identifiable assets and liabilities:	
Goodwill	9,287
Intangible assets	1,000
Net assets acquired	10,287

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]

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Discontinued operations

Discontinued operations for the three and nine-month periods ended September 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		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenues	453	967	960	3,686
Operating expenses and other costs				
Compensation and benefits	772	1,832	2,835	3,633
Other operating expenses	2,340	2,908	7,933	7,787
Interest expense	302	623	991	623
Share-based compensation	—	2	1	6
	3,414	5,365	11,760	12,049
Loss from discontinued operations before income taxes	(2,961)	(4,398)	(10,800)	(8,363)
Recovery of income taxes	(782)	(967)	(2,545)	(1,840)
Net loss from discontinued operations	(2,179)	(3,431)	(8,255)	(6,523)

Assets held-for-sale

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

	September 30, 2020	December 31, 2019
Rail Finance	32,262	35,581
Aviation Finance	72,401	97,480
C&V Finance	8,883	9,911
	113,546	142,972

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4. Finance Receivables

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

	September 30, 2020	December 31, 2019
	\$	\$
Manufactured housing loans	116,297	101,548
Dealer advances	67,786	52,436
Credit card portfolio structured loans	59,538	74,330
Gross finance receivable at amortized cost	243,621	228,314
Allowance for credit losses	(6,864)	(508)
Net finance receivables at amortized cost	236,757	227,806
Held-for-trading financial assets	186,143	85,421
Total finance receivables	422,900	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 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, 2020 includes \$128.4 million (December 31, 2019 - \$61.5 million) in home improvement loans and \$57.7 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.

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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, 2020		December 31, 2019	
	\$	%	\$	%
31 - 60 days past due	6	—	—	—
61 - 90 days past due	331	0.14	—	—
Greater than 90 days past due	8,239	3.38	115	0.05
Total past due	8,576	3.52	115	0.05
Current	235,045	96.48	228,199	99.95
Total net investment	243,621	100.00	228,314	100.00

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

	September 30, 2020	December 31, 2019
	\$	\$
Net investment, continuing operations	\$243,621	\$228,314
Weighted average floating interest rate	6.41 %	7.40 %

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

	September 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
Low risk	122,596	—	—	122,596
Medium risk	112,100	382	—	112,482
High risk	—	—	434	434
Default	—	—	8,109	8,109
Gross carrying amount	234,696	382	8,543	243,621

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	December 31, 2019			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
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

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.

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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, 2020 and 2019:

	Stage 1 (Performing)	Stage 2 (Under- performing)	Stage 3 (Non- performing)	Total
	\$	\$	\$	\$
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
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
Provision for credit losses	109	5	1,420	1,534
Charge-offs, net of recoveries	—	—	(1)	(1)
Stage transfers	—	(25)	25	—
Balance as at September 30, 2020	630	—	6,234	6,864

Notes to interim condensed consolidated financial statements

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5. Borrowings

Term senior credit facility

The Company is party to a \$1,000,000 term senior credit facility, amended October 16, 2019, which is syndicated to a group of eight Canadian, U.S. and international banks with a maturity date of December 31, 2023. The facility bears interest at the prime rate plus 0.70% or one-month bankers' acceptance rate plus 1.70% per annum on outstanding Canadian denominated balances and US base rate plus 0.70% per annum or one-month LIBOR rate plus 1.70% per annum on outstanding US denominated balances. The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property. The following table summarizes the Company's outstanding balance on its term senior credit facility:

	September 30, 2020		December 31, 2019	
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Balance outstanding	Weighted average interest rate ⁽¹⁾
	\$	%	\$	%
Term senior credit facility	518,000	3.39	443,590	3.41
Deferred financing costs	(11,520)		(13,112)	
Total secured borrowings	506,480		430,478	

(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 September 30, 2020, the unutilized balance of the facility was \$482,000 (December 31, 2019 - \$556,410).

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.

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

The following table summarizes the Company's outstanding Debentures:

	September 30, 2020
	Balance outstanding
	\$
Senior unsecured debentures	56,311
Deferred financing costs	(3,047)
Total unsecured debentures	53,264

The Company was in compliance with all financial and reporting covenants with all of its lenders as at September 30, 2020.

Restricted funds

Restricted cash in collection accounts as at September 30, 2020 was \$40,030 (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]

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6. Share Capital

The Company is currently authorized to issue (i) an unlimited number of common shares without nominal or par value and (ii) an unlimited number of preferred shares, issuable in series.

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2018	306,643,351	817,919
Common share repurchases	(70,666,666)	(201,549)
Exercise of options	4,426,265	1,310
Balance, September 30, 2019	240,402,950	617,680
Balance, December 31, 2019	240,127,585	615,530
Common share repurchases	(1,273,624)	(4,076)
Exercise of options	848,656	82
Share issuance for purchase of non-controlling interest in KG ⁽¹⁾	2,990,737	—
Stock options adjustment	—	(1,177)
Balance, September 30, 2020	242,693,354	610,359

(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, 2019	4,000,000	72,477
Preferred share repurchases	(8,500)	(141)
Balance, September 30, 2020	3,991,500	72,336

	Preferred shares - Series C	
	Shares	Amount
	#	\$
Balance, December 31, 2019	4,000,000	72,441
Preferred share repurchases	(157,200)	(2,519)
Balance, September 30, 2020	3,842,800	69,922

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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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 and the completion of purchases under the applicable NCIB.

During the three and nine-month periods ended September 30, 2020, the Company purchased nil and 1,273,624 common shares, respectively, for a total of nil and \$4.1 million (C\$5.7 million) or C\$4.50 per common share, respectively, pursuant to the Common Share Bid. During the three-month period ended September 30, 2020, the Company purchased 8,500 Series A Preferred Shares for a total of \$0.14 million (C\$0.19 million) or C\$22.19 per share and 157,200 Series C Preferred Shares for a total of \$2.5 million (C\$3.4 million) or C\$21.49 per share pursuant to the Preferred Share Bid.

Preferred share dividends

During the three and nine-month periods ended September 30, 2020, the Company paid \$1,220 and \$3,596, respectively, or C\$0.40625 and C\$1.21875 per Series A share in dividends. During the three and nine-month periods ended September 30, 2019, the Company paid \$1,227 and \$3,672 or C\$0.40625 and C\$1.21875 per Series A share in preferred share dividends.

During the three and nine-month periods ended September 30, 2020, the Company paid \$1,173 and \$3,456, respectively, or C\$0.390625 and C\$1.171875 per Series C share in dividends. During the three and nine-month periods ended September 30, 2019, the Company paid \$1,180 and \$3,529 or C\$0.390625 and C\$1.171880 per Series C share in preferred share dividends.

Common share dividends

During the three and nine-month periods ended September 30, 2020, the Company declared \$4,533 and \$13,223 or C\$0.025 and C\$0.075 per common share in dividends, respectively (September 30, 2019 - \$3,628 and \$10,851 or C\$0.02 and C\$0.06 per common share).

Notes to interim condensed consolidated financial statements

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

September 30, 2020

7. Share-Based Compensation**Share-based compensation expense**

Share-based compensation expense consists of the following for the periods ended September 30:

	Three-month period ended		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Stock options	186	171	376	729
Deferred share units	633	616	1,408	2,028
Performance share units and restricted share units	5,936	3,768	12,107	10,928
Share-based compensation - continuing operations	6,755	4,555	13,891	13,685

During the three and nine-month periods ended September 30, 2020, the Company granted 3,781,263 and 4,353,954 stock options, respectively, to employees with a weighted average exercise price of C\$5.15 and C\$4.93 per share, respectively.

During the three and nine-month periods ended September 30, 2020, the Company granted 46,251 and 402,938 DSUs, respectively, to members of the Company's Board of Directors.

During the three and nine-month periods ended September 30, 2020, the Company granted 2,522,859 and 5,990,669 PSUs, respectively, and nil and 536,495 RSUs, respectively, to senior executives and employees of the Company.

8. Other Revenue and Other Expenses

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

	Three-month period ended		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
(Loss) gain on corporate investments	(936)	389	(516)	1,299
Other fees	438	156	1,051	457
Foreign exchange and other	1,171	(734)	1,717	(1,557)
Total other revenue - continuing operations	673	(189)	2,252	199

Notes to interim condensed consolidated financial statements

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

September 30, 2020

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

	Three-month period ended		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Amortization of intangible assets	8,058	6,452	20,964	19,358
Accretion of deferred purchase consideration	1,207	2,035	4,234	4,616
Non-controlling interest	—	315	—	1,187
Purchase price premium on non-controlling interest	—	—	—	28,138
Restructuring costs	—	—	1,486	12,549
Gain on economic currency hedge	—	—	—	(4,789)
Total other expenses - continuing operations	9,265	8,802	26,684	61,059

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

9. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	September 30, 2020	December 31, 2019
	\$	\$
Corporate investments	63,442	71,031
Taxes receivable	17,419	10,342
Prepaid expenses and other assets	44,538	43,610
Total	125,399	124,983

In the third quarter of 2020, as part of a restructuring plan on one of the Company's corporate investments, Stellwagen Holding, LLC, the Company exchanged its 9.6% equity interest, valued at \$13.6 million, along with an existing bridge loan receivable of approximately \$17.0 million for a 35.6% equity investment in a new company, the Seraph Aviation Group, LLC. The Company will account for this investment under the equity method of accounting going forward.

Notes to interim condensed consolidated financial statements

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

September 30, 2020

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

	September 30, 2020	December 31, 2019
	\$	\$
Accounts payable and accrued liabilities	61,062	86,622
Accrued bonus and payroll liabilities	42,309	45,056
Dealer liability - restricted cash	36,753	35,307
Unearned revenue ⁽¹⁾	49,227	67,614
Total	189,351	234,599

(1) Represents an upfront payment received from a Partner of the Company for future management and advisory services.

10. Related Party Transactions

Notes receivable

Notes receivable of \$30,771 as at September 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:

	September 30, 2020	December 31, 2019
	\$	\$
Notes receivable, beginning of period	42,067	51,744
Additions	2,835	5,180
Interest income	451	1,066
Repayments (interest and principal)	(681)	(7,628)
Reclassifications to short-term receivables and other assets (non-related party) ⁽¹⁾	(2,237)	(10,127)
Foreign exchange	(813)	1,832
	41,622	42,067
Defeased amounts	(10,851)	(10,101)
Notes receivable, end of period	30,771	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 September 30, 2020, \$6.0 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]

September 30, 2020

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 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 nine-month periods ended September 30:

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	1,171	(734)	1,717	(1,557)
Fair value gains (losses) recorded in other comprehensive income	6,285	9	(13,422)	(2,453)

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

September 30, 2020

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, 2020		December 31, 2019	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Interest rate contracts	—	—	419,527	1,777
Foreign exchange agreements	63,864	32	37,351	410
Total return swaps	19,799	1,915	29,303	1,439
	83,663	1,947	486,181	3,626
Derivative liabilities				
Interest rate contracts	516,064	14,158	125,963	3,061
Foreign exchange agreements	42,908	358	—	—
Total return swaps	12,914	1,451	—	—
	571,886	15,967	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]

September 30, 2020

12. Earnings Per Share

	Three-month period ended		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Net income (loss) from continuing operations attributable to shareholders	10,218	8,203	21,828	(1,722)
Cumulative dividends on preferred shares	2,393	2,407	7,052	7,201
Net income (loss) from continuing operations attributable to common shareholders	7,825	5,796	14,776	(8,923)
Net loss from discontinued operations attributable to common shareholders	(2,179)	(3,431)	(8,255)	(6,523)
Total net income (loss) attributable to common shareholders	5,646	2,365	6,521	(15,446)
Weighted average number of common shares outstanding - basic	242,466,770	240,170,805	241,336,305	243,330,599
Basic income (loss) per share from continuing operations	\$ 0.03	\$ 0.02	\$ 0.06	\$ (0.04)
Basic loss per share from discontinued operations	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Total income (loss) per share	\$ 0.02	\$ 0.01	\$ 0.03	\$ (0.07)
Weighted average number of common shares outstanding - diluted	247,530,554	246,573,021	246,005,427	243,330,599
Diluted earnings (loss) per share from continuing operations	\$ 0.03	\$ 0.02	\$ 0.06	\$ (0.04)
Diluted loss per share from discontinued operations	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Total diluted earnings (loss) per share	\$ 0.02	\$ 0.01	\$ 0.03	\$ (0.07)

Notes to interim condensed consolidated financial statements

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

September 30, 2020

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:

	September 30, 2020	December 31, 2019
	\$	\$
Borrowings on term senior credit facility	506,480	430,478
Senior unsecured debentures	53,264	—
Accounts payable and accrued liabilities	189,351	234,599
Other liabilities ^[1]	45,374	50,285
	794,469	715,362
Shareholders' equity	851,753	879,026
	1,646,222	1,594,388

[1] Other liabilities primarily include a \$22.1 million (2019 - \$26.2 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a \$14.8 million (2019 - \$17.1 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) 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 nine-month periods ended September 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]

September 30, 2020

	For the three-month period ended September 30, 2020				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	30,740	19,297	18,548	903	69,488
Operating and other expenses					
Compensation and benefits	5,628	5,598	5,647	2,842	19,715
General and administrative expenses	5,967	1,333	2,865	2,032	12,197
Interest expense	1,568	351	804	3,420	6,143
Depreciation and amortization	311	443	296	606	1,656
Share-based compensation	799	1,909	675	3,372	6,755
Other expenses	3,594	4,610	310	751	9,265
	17,867	14,244	10,597	13,023	55,731
Income (loss) before income taxes from continuing operations	12,873	5,053	7,951	(12,120)	13,757

Notes to interim condensed consolidated financial statements

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

September 30, 2020

	For the nine-month period ended September 30, 2020				
	Service Finance - Home Improvement Loans	KG- Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	\$	\$	\$	\$	\$
Revenues	83,696	54,545	50,251	3,093	191,585
Operating expenses					
Compensation and benefits	16,319	16,024	16,264	7,972	56,579
General and administrative expenses	20,841	4,410	8,778	8,800	42,829
Interest expense	3,199	1,410	2,617	9,488	16,714
Depreciation and amortization	850	1,329	894	1,893	4,966
Share-based compensation	1,440	4,207	2,084	6,160	13,891
Other expenses	7,411	13,829	930	4,514	26,684
	50,060	41,209	31,567	38,827	161,663
Income (loss) before income taxes from continuing operations	33,636	13,336	18,684	(35,734)	29,922

Notes to interim condensed consolidated financial statements

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

September 30, 2020

	For the three-month period ended September 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
	\$	\$	\$	\$	\$
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

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

September 30, 2020

	For the nine-month period ended September 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
	\$	\$	\$	\$	\$
Revenues	73,389	62,484	44,667	1,418	181,958
Operating and other 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)

