ECN CAPITAL

Consolidated Financial Statements

DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ECN Capital Corp.

Opinion

We have audited the consolidated financial statements of ECN Capital Corp and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Blake Langill.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

February 26, 2020

Consolidated statements of financial position

[in thousands of United States dollars]

	December 31, 2019 $	December 31, 2018 $
Assets		
Cash	**51,720**	51,992
Restricted funds *[note 12]*	**33,381**	18,929
Finance receivables *[note 6]*	**313,227**	402,418
Accounts receivable	**88,160**	69,548
Other assets *[note 7]*	**124,983**	82,818
Retained reserve interest *[note 11]*	**25,558**	22,020
Continuing involvement asset *[note 11]*	**126,689**	71,685
Notes receivable *[note 17]*	**31,966**	38,146
Derivative financial instruments *[note 19]*	**3,626**	433
Leasehold improvements and other equipment *[note 8]*	**63,297**	15,905
Intangible assets *[note 9]*	**252,653**	264,727
Deferred tax assets *[note 16]*	**44,461**	35,467
Goodwill *[note 10]*	**421,445**	413,067
Total assets excluding assets held-for-sale	**1,581,166**	1,487,155
Assets held-for-sale [*note 5*]	**142,972**	333,963
Total assets	**1,724,138**	1,821,118
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities *[note 7]*	**234,599**	200,782
Continuing involvement liability *[note 11]*	**126,689**	71,685
Derivative financial instruments *[note 19]*	**3,061**	6,118
Secured borrowings *[note 12]*	**430,478**	335,436
Other liabilities *[note 20]*	**50,285**	100,120
Total liabilities	**845,112**	714,141
Shareholders' equity	**879,026**	1,106,977
	1,724,138	1,821,118

See accompanying notes

Consolidated statements of operations

[in thousands of United States dollars except for per share amounts]

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Revenues		
Portfolio origination services	**87,227**	74,113
Portfolio management services	**102,612**	68,615
Portfolio advisory services	**21,875**	26,774
Marketing services	**13,336**	6,988
Total portfolio revenue	**225,050**	176,490
Interest income	**21,772**	17,433
Other revenue *[note 15]*	**1,134**	10,042
	247,956	203,965
Operating expenses and other		
Compensation and benefits	**76,778**	65,407
General and administrative expenses	**43,220**	41,010
Interest expense	**24,645**	31,252
Depreciation and amortization	**5,808**	2,563
Share-based compensation *[note 14]*	**17,447**	14,338
Other expenses *[note 15]*	**74,368**	59,609
	242,266	214,179
Income (loss) before income taxes from continuing operations	**5,690**	(10,214)
Recovery of income taxes [note 16]	**(4,692)**	(7,579)
Net income (loss) from continuing operations	**10,382**	(2,635)
Net loss from discontinued operations *[note 5]*	**(25,131)**	(154,042)
Net loss for the year	**(14,749)**	(156,677)
Net income (loss) per common share - basic and diluted		
Continuing operations *[note 18]*	**—**	(0.04)
Discontinued operations *[note 18]*	**(0.10)**	(0.46)
Total basic and diluted loss per share *[note 18]*	**(0.10)**	(0.50)

See accompanying notes

Consolidated statements of comprehensive loss

[in thousands of United States dollars]

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Net loss for the year	**(14,749)**	(156,677)
Other comprehensive income (loss)		
Cash flow hedges *[note 19]*	**(36)**	(1,667)
Net unrealized foreign exchange gain (loss)	**5,383**	(12,368)
Realization of accumulated other comprehensive loss on Canada C&V business	**—**	9,937
	5,347	(4,098)
Deferred tax (recovery) expense *[note 16]*	**(1,485)**	811
Total other comprehensive income (loss)	**6,832**	(4,909)
Comprehensive loss for the period	**(7,917)**	(161,586)

See accompanying notes

Consolidated statements of changes in shareholders' equity

[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	241,963	(15,356)	1,491,441
Employee stock options exercised	299	—	—	—	—	299
Employee stock option expense	—	—	2,893	—	—	2,893
Common share repurchases	(205,859)	—	—	—	—	(205,859)
Comprehensive loss for the year	—	—	—	(156,677)	(4,909)	(161,586)
Dividends – preferred shares	—	—	—	(10,039)	—	(10,039)
Dividends – common shares	—	—	—	(10,172)	—	(10,172)
Balance, December 31, 2018	817,919	144,918	99,330	65,075	(20,265)	1,106,977
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 13]*	**1,310**	**—**	**—**	**—**	**—**	**1,310**
Employee stock options expense	**—**	**—**	**308**	**—**	**—**	**308**
Exchange of share consideration for non-controlling interest	**—**	**—**	**11,060**	**—**	**—**	**11,060**
Exchange of consideration for stock option settlement	**—**	**—**	**(3,562)**	**—**	**—**	**(3,562)**
Common share repurchases *[note 13]*	**(203,699)**	**—**	**—**	**—**	**—**	**(203,699)**
Comprehensive income (loss) for the year	**—**	**—**	**—**	**(14,749)**	**6,832**	**(7,917)**
Dividends – preferred shares *[note 13]*	**—**	**—**	**—**	**(9,618)**	**—**	**(9,618)**
Dividends – common shares *[note 13]*	**—**	**—**	**—**	**(15,312)**	**—**	**(15,312)**
Balance, December 31, 2019	**615,530**	**144,918**	**107,136**	**24,875**	**(13,433)**	**879,026**

See accompanying notes

Consolidated statements of cash flows

[in thousands of United States dollars]

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Operating activities		
Net income (loss) for the year from continuing operations	**10,382**	(2,635)
Items not affecting cash:		
Depreciation and amortization	**5,808**	2,563
Share-based compensation	**17,447**	14,338
Amortization of intangible assets	**25,811**	12,923
Amortization of deferred financing costs	**4,155**	5,314
Deferred purchase price consideration	**5,750**	4,060
Non-controlling interest expense	**1,600**	9,394
	70,953	45,957
Changes in operating assets and liabilities:		
Change in finance receivables, net	**95,373**	(402,418)
Other operating assets and liabilities	**(45,575)**	142,458
Cash provided by (used in) operating activities - continuing operations	**120,751**	(214,003)
Investing activities		
(Increase) decrease in restricted funds	**(14,452)**	40,482
Acquisition of non-controlling interest	**(89,255)**	(221,200)
Acquisition of credit card portfolio platform	**(10,091)**	—
Increase in notes receivable	**(3,947)**	(5,333)
Purchase of property, equipment and leasehold improvements	**(6,214)**	(8,742)
Proceeds from sale of Canadian C&V Finance business	**—**	684,937
Proceeds from sale of rail assets	**—**	280,742
Cash (used in) provided by investing activities - continuing operations	**(123,959)**	770,886
Financing activities		
Option exercises	**1,310**	299
Common share repurchases	**(203,699)**	(205,859)
Payment for stock option settlement	**(3,562)**	—
Payments of lease liabilities	**(2,316)**	—
Payments of deferred financing costs	**(2,703)**	—
Borrowings (repayments), net	**93,590**	(523,005)
Dividends paid	**(20,469)**	(23,248)
Cash used in financing activities - continuing operations	**(137,849)**	(751,813)
Net changes in cash provided by discontinued operations	**140,785**	225,338
Net (decrease) increase in cash during the year	**(272)**	30,408
Cash, beginning of year	**51,992**	17,295
Cash, end of year	**51,720**	47,703
Supplemental cash flow information		
Cash taxes (refunded) paid, net	**(15,697)**	28,528
Cash interest paid	**25,485**	37,648

See accompanying notes

Notes to consolidated financial statements

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

December 31, 2019

1. Corporate Information and Basis of Presentation

ECN Capital Corp. ("ECN Capital" or the "Company") is a leading provider of business services to United States ("U.S.") based banks, credit unions, life insurance companies and investment funds (collectively its "Partners"). ECN Capital originates, manages and advises on credit assets on behalf of its Partners, specifically unsecured consumer loan portfolios, secured loan portfolios and credit card portfolios. Its Partners are seeking high quality assets to match with their deposits or liabilities. Headquartered in South Florida and Toronto, the registered office is located at 200 Bay Street, Suite 1625, Toronto, Ontario, Canada. ECN Capital has approximately 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. Summary of Significant Accounting Policies

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These consolidated financial statements include all the information and disclosures required in annual financial statements.

These consolidated financial statements are presented in thousands of U.S. dollars, except where otherwise noted.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2020.

Basis of consolidation

Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from the dates of their acquisition. Transactions and balances amongst these entities have been eliminated upon consolidation.

Subsidiaries are entities over which the Company has control. The Company controls an entity when (1) it has the power over the entity; (2) it has exposure, or rights, to variable returns from its involvement with the entity; and (3) it has the ability to use its power over the entity to affect the amount of its returns.

The Company's principal operating subsidiaries are Service Finance LLC ("Service Finance"), Kessler Financial Services LLC ("KG") and Triad Financial Services, Inc. ("Triad Financial Services").

Associates

Associates are entities for which the Company has significant influence, but not control, over the operating and financial management policy decisions of the entity. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Investments in associates are accounted for using the equity method and initially recorded at cost. Subsequently, the investment in an associate is adjusted for changes in the Company's share of net assets of the associate, and such changes are reflected in the consolidated statements of operations.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation, including an immaterial adjustment on the consolidated statement of financial position related to the balance sheet presentation of the continuing involvement asset and liability.

Significant Accounting Policies

Finance receivables

The Company provides financing to customers through loans which are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan.

Initial direct costs that relate to the origination of the finance receivables are deferred and recognized as yield adjustments using the effective interest rate method over the term of the related financial asset. These costs are incremental to individual loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

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 financial statements at fair value through profit and loss.

Allowance for Credit Losses

Expected Credit Loss ("ECL") allowances are measured at either: i) 12-month ECL when a loan is performing (Stage 1); or ii) lifetime ECL, when finance receivables have experienced a significant increase in credit risk since inception (Stage 2) or when the asset is not performing (Stage 3). The Company utilizes internal risk rating changes, delinquency and other identifiable risk factors to determine when there has been a significant increase in the credit risk of a finance receivable. The key inputs in the Company's measurement of ECL allowances are: i) probability of default, which estimates the likelihood of default over a given time horizon; ii) loss given default, which estimates the loss arising where a default occurs at a given time; and iii) exposure at default, which estimates the exposure at a future default date. Forward-looking information is considered when measuring expected credit losses including macroeconomic factors such as gross domestic product.

Upon origination of finance receivables, the Company recognizes a 12-month ECL allowance, which represents the portion of lifetime ECL from default events that are considered possible within the next 12 months (Stage 1). If there has been a significant increase in credit risk, the Company recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the finance receivable (Stage 2). A significant increase in credit risk is determined through changes in the lifetime probability of default since the initial origination of the finance receivable, using a combination of borrower-specific and account-specific attributes, and relevant and supportable forward-looking information. The Company uses the rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. Criteria for assessing significant changes in credit risk are defined at the individual finance receivable (i.e., contract) level.

Finance receivables with objective evidence of impairment are considered to be impaired requiring the recognition of lifetime ECL allowances, with interest revenue recognized based on the carrying amount of the asset, net of the allowances, rather than its gross carrying amount (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment, and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. All finance receivables are considered impaired when they are contractually overdue 120 days or immediately if the account is the subject of a bankruptcy, insolvency, re-organization or repossession (voluntary or involuntary). In order to be classified as a satisfactory account after being delinquent, an account must remain current for a period of 90 days.

Finance receivables are charged off (i.e., written off), either partially or in full, against the related allowance for credit losses when the Company believes there are no reasonable or expected recoveries.

Revenue recognition

Portfolio origination services revenue represents the gain on sale recognized on the disposition of consumer loans originated by the Company's Service Finance and Triad Financial Services subsidiaries. See policy on derecognition of financial assets for further information.

Portfolio management services revenue represents the fees earned by Service Finance and Triad Financial Services from providing loan servicing activities to Partners and partnership services revenue earned by KG, which is comprised of annuity and retainer fees earned through its long-term advisory contracts, and management fees and investment income earned through its card investment management platform.

Portfolio advisory services revenue represents the fees earned by Service Finance and Triad Financial Services from transactional services provided to Partners.

Marketing services revenue represents the net fees earned by KG by providing both fee-based and funded marketing programs to its Partners.

For each of our revenue streams outlined above, revenue is recognized as the related performance obligations are satisfied and services have been transferred to the customer. Under KG's funded marketing programs, KG provides capital to fund marketing initiatives on behalf of its Partners. The fees earned by KG from these campaigns are variable, tied to the success of the programs and are typically earned over a short duration (contract terms are generally three to six months per campaign). The Company has determined that the sole performance obligation related to these contracts occurs upon the delivery of the marketing campaign to the Partner. At that time the Company recognizes the estimated amount of revenues it expects to realize from the campaign, subject to the constraint that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company accounts for the funding it provides to its Partners as a reduction of revenue, and therefore the amount of revenue recognized from these funded marketing campaigns is a net amount.

Interest income relating to finance receivables is recognized on an accrual basis using the effective interest rate method for loans that are not considered impaired.

Restricted funds

Restricted funds represent cash reserve accounts that are held in trust as security for secured borrowings and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts. Restricted funds also include amounts posted as collateral for derivative contracts.

Derivative financial instruments and hedge accounting

The Company utilizes derivatives to manage interest rate risk and foreign currency exposure, as well as equity price risk exposure related to stock compensation plans that are accounted for as liabilities. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

The Company applies hedge accounting to derivatives that meet the criteria for hedge accounting in IFRS 9, *Financial Instruments* ("IFRS 9").

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IFRS 9. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

The effective portion of the change in fair value of the derivative instrument is recognized in other comprehensive income (loss) until the forecasted cash flows being hedged are recognized in income in future accounting periods. When forecasted cash flows are recognized in income, an appropriate amount of fair value changes of the derivative instrument in accumulated other comprehensive income ("AOCI") is reclassified to net income. Any hedge ineffectiveness is immediately recognized in income. If a forecast issuance of fixed rate debt or a forecast acquisition of fixed rate assets is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in income.

The Company uses interest rate swaps and foreign exchange forward agreements to hedge its exposure to changes in future cash flows due to interest rate risk and foreign currency risk in forecasted highly probable transactions.

Fair value hedges

The effective portion of the change in fair value of derivative instruments is recognized in net income and is offset against any gains or losses on changes in fair value of the hedged item. The ineffective portion of the change in fair value is recorded in other income.

Hedges of a net investment

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on a hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of operations. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to the consolidated statements of operations.

The Company may use foreign currency forward agreements or foreign currency denominated debt as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to that asset have expired. If substantially all of the risks and rewards of ownership have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights or obligations created or retained in the transfer. If the Company has neither transferred or retained substantially all of the risks and rewards of ownership, then the Company recognizes an asset to the extent of its continuing involvement.

Secured borrowings

The Company periodically transfers pools of finance receivables to third parties, including structured entities. Transfers of pools of finance receivables under certain agreements, including transfers where a security interest or legal ownership is transferred, do not result in derecognition of the finance receivables from the Company's consolidated statements of financial position, and they continue to be recognized on the Company's consolidated statements of financial position and accounted for as finance receivables, as described above. As such, these transactions result in the recognition of secured borrowings when cash is received for the third party or structured entity.

The secured borrowings are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs are applied to the carrying amount of the liability.

Deferred financing costs are presented as a reduction of secured borrowings and relate to costs incurred to obtain funding agreements that result in these arrangements. These amounts are accreted to income over a period matching the repayment terms of the secured borrowing obtained during the initial commitment period.

Leasehold improvements and other equipment

Property, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation using the declining balance method for equipment at annual rates designed to depreciate the cost of the equipment over their estimated useful lives. Leasehold improvements are depreciated on a straight-line basis over the underlying lease terms. Buildings, vehicles, office equipment, computer equipment and computer servers are depreciated using the straight-line method over their estimated useful lives. Land is not depreciated. The rates of depreciation are as follows:

Leasehold improvements	Lease term
Office equipment	5 years
Computer equipment	5 years
Computer software	3 - 5 years
Other	4 - 20 years

Inventories include assets purchased or recovered by the Company that are intended to be sold and are measured at the lower of cost and net realizable value.

Right-of-use assets are recorded 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”). The related lease liabilities are measured at the discounted present value of lease payments over the term of the lease and are recorded in other liabilities on the consolidated statements of financial position. 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.

Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Intangible assets

The Company's intangible assets include assets acquired as a result of business combinations which are initially measured at fair value on the date of the business combination, namely: customer relationships, including the value of dealer and bank funding relationships; trade name; information technology; and retained servicing rights with respect to loans sold by our Service Finance segment. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for indicators of impairment at each reporting period. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. Impairment and amortization of intangible assets from acquisitions expense is recognized in the consolidated statements of operations.

Share-based payments

Stock options

The Company has established a share option plan for employees and directors whereby the Company's Board of Directors (the "Board") may award options to certain employees and directors. The share option plan is intended to promote an alignment of long-term interests between employees, directors and the shareholders of the Company. The Board determines the amount, timing and vesting conditions associated with each award of share options. Each share option has a value that depends on the fair market value of one common share of the Company at the time of the grant determined using the Black-Scholes option valuation model. The cost of these share options grants is recognized on a proportional basis consistent with the vesting of the underlying share options.

Deferred share unit plan

The Company has established a Deferred Share Unit ("DSU") plan for executives and directors whereby the Company's Board of Directors may award DSUs as compensation for services rendered. The DSU plan is intended to promote an alignment of long-term interests between executives and directors and the shareholders of the Company. The Board determines the amount, timing and vesting conditions associated with each award of DSUs. Additionally, directors may elect to receive up to 100% of the annual renumeration in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant.

Each DSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrued dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a common share. DSUs mature upon termination of employment or directorship, whereupon the holder is entitled to receive a cash payment which reflects the fair market value of the equivalent number of common shares of the Company.

DSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of DSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed.

Performance and restricted share unit plans

The Company has established Performance Share Unit ("PSU") and Restricted Share Unit ("RSU") plans for employees and directors of the Company and its subsidiaries, whereby the Board may award PSUs and RSUs as compensation for services rendered. The PSU and RSU plans are intended to promote an alignment of long-term interests between employees and directors and the shareholders of the Company. The Board determines the amount, timing and vesting conditions associated with each award of PSUs and RSUs.

Each PSU and RSU has a value that depends on the fair market value of one common share of the Company, and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional PSUs and RSUs based on the amount of the dividend paid on a common share. PSUs and RSUs vest no later than three years from the grant date and PSUs are subject to performance conditions. On the vesting date, the Board has the discretion to settle PSUs or RSUs either through cash payment, issuance of Company common shares or some combination of cash and common shares.

PSUs and RSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of PSUs and RSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed as well as expectations with respect to performance criteria. Until the PSUs and RSUs are settled, the liability is remeasured with a change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the year attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when option and warrants are exercised will be used to purchase common shares at the average market price during the reported period.

Other financial instruments

Other financial instruments held or issued by the Company include cash, restricted funds, finance receivables, accounts receivable, notes receivable, accounts payable and accrued liabilities and secured borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Discontinued operations and assets held-for-sale

The Company accounts for its discontinued operations in accordance with IFRS 5, *Non-current Assets Held-for-Sale and Discontinued Operations* ("IFRS 5").

The Company classifies assets and disposal groups as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. For assets and disposal groups to be classified as held-for-sale, their sale must be highly probable to occur within one year, they must be available for immediate sale in their present condition and management must be committed to a sales plan to actively market the sale of the assets or disposal group. Assets and disposal groups classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell, and are presented separately from other assets on the consolidated statements of financial position.

The Company determines whether a disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of or is classified as held-for-sale and:

- Represents a separate major line of business or geographical area of operations; or
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations for each period and are presented as a single amount as profit or loss after income taxes from discontinued operations in the consolidated statements of operations. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

Business combinations

The Company uses the acquisition method of accounting for business combinations, which requires the allocation of the purchase consideration to identifiable assets and liabilities acquired on a fair value basis at the date of acquisition. Any contingent consideration is also measured at fair value at the date of acquisition. Provisional fair values are finalized as the relevant information becomes available, for a period of up to twelve months from the acquisition date. Incremental costs related to acquisitions are expensed as incurred. When the cost of the acquisition exceeds the fair values of the identifiable net assets acquired, the difference is recorded as goodwill.

Accounting policy and presentation changes

Adoption of IFRS 16, Leases ("IFRS 16")

On January 1, 2019, the Company adopted IFRS 16, which replaced IAS 17, *Leases,* using the modified retrospective approach. As a result of the adoption, the Company recorded a right-of-use asset of $18,416 and a corresponding lease liability of $18,937. Additionally, the opening balance of retained earnings was reduced by $521. See note 8 for further information on the Company's right-of-use assets and related lease liabilities as at December 31, 2019.

3. 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 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 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 below.

Allowance for credit losses

Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of the underlying leased assets and past experience.

Accounting for income taxes

The Company is subject to income tax laws in the various jurisdictions that it operates in, and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes. A deferred tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect in the period that the asset is realized or the liability is settled.

Intangible assets valuation - customer relationships

The Company's customer relationship valuation requires management to use judgment in estimating the fair value of these intangible assets acquired in business combinations and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates, estimated replacement cost and discount rates. Management also uses judgment in estimating customer attrition rates to determine the appropriate amortization period for the customer relationship intangible assets.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable amounts of the Company's CGUs and uses internally developed models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Derecognition of financial assets

Management has exercised judgment in the application of its accounting policy with respect to the derecognition of loans and retail installment contracts, primarily the retail installment contracts that are originated and sold by its Service Finance segment and loans to purchase manufactured homes that are originated and sold by its Triad Financial Services segment.

The Company's Service Finance segment originates retail installment contracts ("finance assets") and subsequently pools and syndicates those financial assets to a network of third-party financial institutions without recourse. The Company retains the exclusive right to service these financial assets. Consequently, the Company has transferred substantially all the risk and rewards, and the Company derecognizes the related financial asset upon completion of the sale to the third party financial institution and separately recognizes a servicing rights asset. In calculating the gain on sale on these transactions, the carrying amount of the financial asset is allocated between the part that is sold and servicing asset retained based on their relative fair values. Judgment is applied in determining these fair values.

The Company's Triad Financial Services segment originates consumer loans for the purchase of manufactured homes throughout the U.S. and subsequently syndicates and sells these loans to a network of third-party financial institutions. The Company recognizes an asset and a corresponding liability with respect to its continuing involvement, as management has determined that it has not transferred nor retained substantially all of the risks and rewards of ownership and has retained control. The fair value of the retained reserve interest is estimated using a discounted cash flow methodology and is based on the Company's expectations with respect to potential loan loss and prepayment rates. Judgment is applied in determining the estimated fair value of the retained reserve interest. See note 11 for further details on these transactions.

Accounting for litigation

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.

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

4. Business Acquisitions and Disposals

Acquisition of Credit Card Team

In the fourth quarter of 2019, the Company, through KG, acquired 100% of the equity interests of a credit card platform, including an established team of credit card executives, for cash consideration of $10.1 million. Based on the Company's preliminary evaluation, the combined purchase price of these acquisitions was allocated as follows:

	$
Consideration paid:	
Cash	**10,091**
Fair value of identifiable assets and liabilities:	
Goodwill	**8,378**
Intangible assets	**1,000**
Short-term receivables and other assets	**713**
Net assets acquired	**10,091**

Costs related to these transactions were $0.9 million, including banking, legal, accounting, due diligence and other transaction-related expenses.

Investment in KG

On May 31, 2018, the Company completed its investment in KG. Under the terms of the agreement, the Company paid cash consideration of $221.2 million for an 80% equity interest in KG. Subsequent to the acquisition, the Company sold a 4% interest in KG 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.

[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	**129,126**
Intangible assets	**128,000**
Accounts payable and other liabilities	**(35,867)**
Redemption liability related to non-controlling interest	**(66,360)**
Net assets acquired	**221,200**

On March 21, 2019, the Company acquired 20% of its interest in KG from a non-controlling shareholder for $89.3 million. On the initial acquisition of the 80% interest in KG, 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 15).

On December 31, 2019, the Company acquired the remaining 4% non-controlling interest of KG for share consideration of approximately $11.1 million, representing the fair value of the non-controlling interest liability previously recorded in conjunction with the initial investment in KG. Upon the acquisition of this non-controlling interest, KG is 100% owned by the Company.

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

5. Discontinued Operations and Assets Held-for-Sale

Discontinued operations

In 2017, the Company announced its strategic plan to redeploy capital from sales of the Company's Canada and U.S. C&V Finance, Rail Finance and Aviation Finance business segments (the "Legacy Businesses") into higher yield businesses. The Company has largely executed this strategic plan. Furthermore, in 2018, the Company's Board of Directors approved management's formal proposal to accelerate the wind-down and sale of the remaining Aviation and Rail finance businesses.

The Company has classified its Legacy Businesses as discontinued operations for the years ended December 31, 2019 and December 31, 2018. All remaining assets relating to the Company's Legacy Businesses that are highly probable to be sold within one year have been classified as assets held-for-sale in the Company's statements of financial position. Any remaining assets that are not highly probable to be sold within one year are classified as inventories in leasehold improvements and other equipment in the Company's statements of financial position.

The results of operations for the Company's Legacy Businesses are presented as discontinued operations for the years ended December 31, 2019 and December 31, 2018 as shown below:

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Revenues	**4,145**	47,149
Operating expenses and other costs		
Compensation and benefits	**5,000**	2,428
Other operating expenses	**11,369**	9,449
Interest expense	**1,119**	9,807
Provision for credit losses	**—**	164
Share-based compensation	**7**	268
Loss on sale of rail assets	**—**	98,845
Impairment of Aviation assets	**19,500**	80,000
Loss on C&V assets	**—**	14,085
Realization of foreign currency loss on wind-down	**—**	9,937
	36,995	224,983
Loss from discontinued operations before income taxes	**(32,850)**	(177,834)
Recovery of income taxes [1]	**(7,719)**	(23,792)
Net loss from discontinued operations	**(25,131)**	(154,042)

(1) A valuation reserve of $14.4 million was recorded against the Company's existing deferred tax assets in 2018 following the decision to accelerate the sale of its Legacy Businesses.

Notes to consolidated financial statements

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

December 31, 2019

Assets held-for-sale

The following table presents the Company's assets held-for-sale as at December 31:

	December 31, 2019	December 31, 2018
Rail Finance	**35,581**	64,062
Aviation Finance	**97,480**	248,995
C&V Finance	**9,911**	20,906
	142,972	333,963

Aviation Finance

Aviation assets held-for-sale consist of secured financing and leasing arrangements for fixed-wing and various types of rotary aircraft in addition to certain off-lease aircraft. These assets have been classified as held-for-sale following the Board of Directors' approval of management's plan to accelerate the sale of assets in the business in 2018. During 2019 and 2018, the Company recognized provisions of $19.5 million and $80 million, respectively.

The table below presents the components of aviation assets held-for-sale as at December 31, 2019 and December 31, 2018:

	As at December 31, 2019		
	Carrying Value	Valuation Reserve	Fair Value
Finance receivable	**6,052**	**(285)**	**5,767**
Equipment under operating lease	**109,077**	**(30,043)**	**79,034**
Inventories	**47,727**	**(35,048)**	**12,679**
	162,856	**(65,376)**	**97,480**

	As at December 31, 2018		
	Carrying Value	Valuation Reserve	Fair Value
Finance receivable	107,408	(34,460)	72,948
Equipment under operating lease	175,057	(34,833)	140,224
Inventories	44,137	(8,314)	35,823
	326,602	(77,607)	248,995

All assets held-for-sale in the Company's Aviation portfolio have been assessed individually to determine their fair value less costs to sell under current market conditions. Fair value less costs to sell is measured using various valuation techniques including third-party appraisals, comparable market transactions, and future cash flow analysis based on the related loan or lease contract. Key inputs used in the Company's fair value models include assumptions regarding fair market values, lease rates, transaction costs, frictional costs, and market discount rates. The Company believes that the valuation assumptions reflect a reasonable estimate of the fair value of each account or asset.

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

All of the key inputs used in the Company's fair value estimates of assets held-for-sale were from Level 3 of the fair value hierarchy discussed in note 22 as there is currently no observable current market data for these aircraft.

6. Finance Receivables

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

	December 31, 2019	December 31, 2018
	$	$
Manufactured housing loans	**101,548**	78,140
Dealer advances	**52,436**	17,946
Credit card portfolio syndicated investments	**74,330**	32,904
Gross finance receivable at amortized cost	**228,314**	128,990
Allowance for credit losses	**(508)**	(644)
Net finance receivables at amortized cost	**227,806**	128,346
Held-for-trading financial assets	**85,421**	274,072
Total finance receivables	**313,227**	402,418

Manufactured housing loans and dealer advances

Manufactured housing loans are comprised of $101.5 million (December 31, 2018 - $78.1 million) in secured floorplan loans issued by Triad Financial Services, Inc. to finance dealer inventory. Dealer advances of $52.4 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 $74.3 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.

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

Held-for-trading financial assets

The loans balance as at December 31, 2019 includes $61.5 million (December 31, 2018 - $274.1 million) in home improvement loans and $23.9 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.

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

	December 31, 2019		December 31, 2018	
	$	%	$	%
31 - 60 days past due	—	—	369	0.29
61 - 90 days past due	—	—	147	0.11
Greater than 90 days past due	**115**	**0.05**	108	0.08
Total past due	**115**	**0.05**	624	0.48
Current	**228,199**	**99.95**	128,366	99.52
Total net investment	**228,314**	**100.00**	128,990	100.00

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

	December 31, 2019	December 31, 2018
	$	$
Net investment, continuing operations (1)	**$228,314**	$128,990
Weighted average floating interest rate	**7.40 %**	5.92 %

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

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

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

	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**
Gross carrying amount	**228,190**	**—**	**124**	**228,314**

	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

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 consolidated financial statements

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

December 31, 2019

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 December 31, 2019 and December 31, 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	675	89	80	844
Charge-offs, net of recoveries	(1,457)	(3,093)	—	(4,550)
Stage transfers	(1,320)	(790)	2,110	—
Impact of foreign exchange rates	(108)	—	—	(108)
Transfer to available for sale	(2,535)	(8)	(2,110)	(4,653)
Balance as at December 31, 2018	475	89	80	644
Balance as at December 31, 2018	**475**	**89**	**80**	**644**
Provision for credit losses	**128**	**39**	**170**	**337**
Charge-offs, net of recoveries	**—**	**—**	**(95)**	**(95)**
Stage transfers	**(16)**	**16**	**—**	**—**
Transfer to held-for-trading financial assets	**(154)**	**(144)**	**(80)**	**(378)**
Balance as at December 31, 2019	**433**	**—**	**75**	**508**

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

7. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	December 31, 2019	December 31, 2018
	$	$
Equity investments	**71,031**	46,085
Taxes recoverable	**10,342**	27,406
Prepaid expenses and other assets	**43,610**	9,327
Total	**124,983**	82,818

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

	December 31, 2019	December 31, 2018
	$	$
Dealer liability	**35,307**	27,435
Accrued bonus and payroll liabilities	**45,056**	26,772
Accounts payable and accrued liabilities	**86,622**	55,623
Income tax payable	**—**	8,252
Unearned revenue (1)	**67,614**	82,700
Total	**234,599**	200,782

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

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

8. Leasehold Improvements and Other Equipment

The following table presents the Company's owned assets, inventories and right-of-use assets included in leasehold improvements and other equipment:

	December 31, 2019	December 31, 2018
	$	$
Owned assets	**22,390**	15,905
Inventories	**25,075**	—
Right-of-use assets	**15,832**	—
	63,297	15,905

Owned assets

The changes in leasehold improvements and other owned equipment were as follows:

	2019		
	Leasehold improvements	Equipment and other	Total
	$	$	$
Cost			
At December 31, 2018	**3,854**	**21,348**	**25,202**
Additions	**3,070**	**7,482**	**10,552**
Write-offs	**(160)**	**(3,495)**	**(3,655)**
Foreign exchange rate adjustments	**2**	**2**	**4**
At December 31, 2019	**6,766**	**25,337**	**32,103**
Accumulated depreciation			
At December 31, 2018	**1,895**	**7,402**	**9,297**
Depreciation charge for the year	**501**	**1,523**	**2,024**
Write-offs	**(30)**	**(1,584)**	**(1,614)**
Foreign exchange rate adjustments	**—**	**6**	**6**
At December 31, 2019	**2,366**	**7,347**	**9,713**
Net carrying amount	**4,400**	**17,990**	**22,390**

Notes to consolidated financial statements

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

December 31, 2019

	2018		
	Leasehold improvements	Equipment and other	Total
	$	$	$
Cost			
At December 31, 2017	2,348	16,495	18,843
Additions	3,814	4,928	8,742
Write-offs	(2,265)	(24)	(2,289)
Foreign exchange rate adjustments	(43)	(51)	(94)
At December 31, 2018	3,854	21,348	25,202
Accumulated depreciation			
At December 31, 2017	333	2,423	2,756
Additions	2,465	5,036	7,501
Write-offs	(865)	(14)	(879)
Foreign exchange rate adjustments	(38)	(43)	(81)
At December 31, 2018	1,895	7,402	9,297
Net carrying value	1,959	13,946	15,905

Inventories

Inventories of $25,075 as at December 31, 2019 consist of assets that were previously classified as held-for-sale related to the Company's legacy Aviation Finance business for which recoverability through a sale transaction within one year is no longer highly probable. Consequently, these assets are included in inventories in leasehold improvements and other equipment from assets held-for-sale in the Company's statements of financial position and are measured at the lower of cost and expected net realizable value.

The Company currently has one H225 helicopter and four AS332 L2 helicopters in inventory. Judgement is required in determining whether it is necessary to recognize losses on assets held within inventory. In assessing net realizable value, the Company will consider cash flow models reflecting management’s best estimates of possible leasing opportunities, comparable market transactions, industry data and current and expected market conditions. Such an assessment is subject to measurement uncertainty and changes to key assumptions and judgements could result in a change in the carrying amount of the assets. The Company also continues to pursue litigation claims against the manufacturer of these helicopters, the outcome of which is not currently determinable.

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

Right-of-use assets

Right-of-use assets consist primarily of real estate leases related to the Company's office spaces and generally have terms ranging from 3 to 5 years. See note 2 for information on the Company's adoption of IFRS 16.

Changes in right-of-use assets were as follows:

	2019
	$
Balance, January 1, 2019	**18,416**
Depreciation charge for the year	**(2,584)**
Balance, December 31, 2019	**15,832**

Lease liabilities

Maturities of the related lease liabilities included in other liabilities as at December 31, 2019 were as follows:

	December 31, 2019
	$
Less than one year	**3,357**
One to five years	**12,283**
More than five years	**3,656**
Undiscounted future lease payments	**19,296**
Discount	**(2,150)**
Right-of-use liabilities as at December 31, 2019	**17,146**

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

9. Intangible Assets

The changes in intangible assets were as follows:

	Information technology	Customer relationships and other	Retained servicing rights	Total
	$	$	$	$
Gross carrying value				
Balance, December 31, 2017	3,770	122,600	20,572	146,942
Additions	2,634	128,000	14,982	145,616
Balance, December 31, 2018	**6,404**	**250,600**	**35,554**	**292,558**
Additions	**2,609**	**1,000**	**24,175**	**27,784**
Disposals	**(88)**	**—**	**—**	**(88)**
Balance, December 31, 2019	**8,925**	**251,600**	**59,729**	**320,254**
Accumulated amortization				
Balance, December 31, 2017	(60)	(1,792)	(9,349)	(11,201)
Amortization	(1,079)	(12,047)	(3,502)	(16,628)
FX and other adjustments	(2)	—	—	(2)
Balance, December 31, 2018	**(1,141)**	**(13,839)**	**(12,851)**	**(27,831)**
Amortization	**(1,812)**	**(27,555)**	**(10,566)**	**(39,933)**
Disposals and other adjustments	**46**	**117**	**—**	**163**
Balance, December 31, 2019	**(2,907)**	**(41,277)**	**(23,417)**	**(67,601)**
Net carrying value				
December 31, 2018	5,263	236,761	22,703	264,727
December 31, 2019	**6,018**	**210,323**	**36,312**	**252,653**

During the year ended December 31, 2019, the Company acquired intangible assets as part of its acquisition of the Credit Card Team. During the year ended December 31, 2018, the Company acquired intangible assets as part of its acquisition of KG. See note 4 for further discussion.

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

10. Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of the acquired net identifiable assets and liabilities. The Company recognized goodwill on each of the business acquisitions completed during the years ended December 31, 2019 and December 31, 2018. See note 4 for further details.

	2019	2018
	$	$
Balance, beginning of year	**413,067**	279,602
Additions from new acquisitions	**8,378**	133,465
Balance, end of year	**421,445**	413,067

Goodwill outstanding as at December 31 has been allocated to the CGUs below as follows:

	2019	2018
	$	$
Service Finance	**235,466**	235,466
Triad Financial Services	**48,475**	48,475
KG	**137,504**	129,126
	421,445	413,067

The Company conducted its annual goodwill impairment analysis as at October 31, 2019. The impairment analysis involved comparing the carrying amount of each CGU's assets and liabilities to their respective recoverable amounts. The recoverable amount was determined using the value in use approach measured by discounting the future expected cash flows of the CGUs. The discounted future cash flow models were based on historical operating results and were consistent with the forecasts presented to, and approved by, the Company's Board of Directors. The pre-tax discount rates used in the future cash flow models were specific to each CGU and approximated 15%.

Based on the analysis performed, no goodwill impairment charge was required in any of the Company's CGUs.

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

11. Continuing Involvement Asset and Liability

The Company's Triad Financial Services segment originates secured loans in the manufactured housing industry and sells these loans to third-party purchasers. At the time of the sale, the purchaser pays Triad the face value of the loan plus a spread; a specified proportion of the spread is held in a trust account under the purchaser's control (the "reserve account"). When prepayments or defaults occur on the underlying loans, the purchaser receives make-whole payments from the reserve account. To the extent that such payments are ultimately not required, the excess will revert to the Company. The balance of the reserve account is the Company's maximum exposure to the sold loans and has been recorded as a continuing involvement liability. This liability is offset by a continuing involvement asset which is comprised of the balance of the reserve account. Under IFRS the continuing involvement asset and liability cannot be netted on the consolidated statement of financial position, despite otherwise meeting the netting criteria, except for the continuing involvement asset and liability of $80,198 as at December 31 2019 (2018 - $110,418) related to pre-acquisition loan sales that are netted consistent with the Company's purchase accounting. The Company has recorded a retained reserve interest asset measured as the estimated fair value of the amount that the Company ultimately expects to recover from the reserve account.

12. Secured Borrowings

	December 31, 2019		December 31, 2018	
	Balance outstanding	Weighted average interest rate (1)	Balance outstanding	Weighted average interest rate (1)
	$	%	$	%
Term senior credit facility	**443,590**	**3.47**	350,000	4.20
Deferred financing costs	**(13,112)**		(14,564)	
Total secured borrowings	**430,478**		335,436	

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

The Company was in compliance with all financial and reporting covenants with all of its lenders as at December 31, 2019.

Term senior credit facility

The Company is party to a $1,000,000 term senior credit facility, amended October 16, 2019, that is syndicated to a group of seven 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.

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

At December 31, 2019, the Company had unutilized borrowing capacity of $556,410 (2018 - $650,000).

Restricted funds

Restricted cash in collection accounts as at December 31, 2019 was $33,381 (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.

13. 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	(71,970,832)	(205,859)
Exercise of options	985,596	299
Balance, December 31, 2018	306,643,351	817,919
Balance, December 31, 2018	306,643,351	817,919
SIB repurchases	**(70,666,666)**	**(201,538)**
NCIB repurchases	**(646,762)**	**(2,161)**
Exercise of options	**4,797,662**	**1,310**
Balance, December 31, 2019	**240,127,585**	**615,530**

Normal Course Issuer Bid

On August 16, 2019, the TSX approved the renewal of the Company's Normal Course Issuer Bid ("NCIB") for commencement on August 20, 2019. Pursuant to the renewal, the Company may repurchase up to an additional 22,228,161 common shares, representing approximately 10% of the public float. The NCIB will end on the earlier of August 19, 2020 and the completion of purchases under the NCIB.

During the year ended December 31, 2019, the Company purchased 646,762 common shares for a total of $2.2 million (C$2.9 million) or C$4.41 per common share pursuant to the NCIB.

In aggregate since 2017, under the current and previous NCIB, the Company purchased 51,824,253 common shares for a total of $150.5 million (C$192.2 million) or C$3.71 per common share.

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

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) excluding 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, December 31, 2019	**8,000,000**	**144,918**

During the year ended December 31, 2019, the Company paid $4,904 (after-tax cost of $5,008) or C$1.62500 per Series A share in dividends. During the year ended December 31, 2018, the Company paid $5,008 (after-tax cost of $5,118) or $1.625 per Series A share in preferred share dividends.

During the year ended December 31, 2019, the Company paid $4,714 (after-tax cost of $4,818) or C$1.56250 per Series C share in dividends. During the year ended December 31, 2018, the Company paid $4,815 (after-tax cost of $4,921) or C$1.5625 per Series C share in preferred share dividends.

Common share dividends

During the year ended December 31, 2019, the Company declared $15,312 or C$0.085 per common share in dividends (2018 - $10,172 or C$0.04 per common share).

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

14. Share-based Compensation

Share-based compensation expense

Share-based compensation expense consists of the following:

	Year ended	
	December 31, 2019	December 31, 2018
	$	$
Stock options	**854**	2,959
Deferred share units	**2,507**	1,041
Performance share units and restricted share units	**14,086**	10,338
Share-based compensation - continuing operations	**17,447**	14,338

(a) Stock options

The Company has a stock option plan to allow participants to purchase Company shares at a specified exercise price within a specified period of no later than eight years. The exercise price will be established by the Company's Board of Directors at the time of the grant but shall be no less than the closing price of the Company's common shares on the last trading day before the grant date. The maximum number of Company options granted will not exceed 10% of the issued and outstanding Company common shares.

During the year ended December 31, 2019, the Company did not grant any stock options.

During the year ended December 31, 2018, the Company granted 2,700,000 stock options to employees with a weighted average exercise price of C$3.53 per share. The stock options have a fair value of $3.1 million calculated using the Black-Scholes method of valuation, assuming a risk-free rate of 2.17%, volatility of 22% and a dividend yield of 1.14% annually.

The changes in the number of stock options as at December 31 were as follows:

	Number of options	Weighted average exercise price	Weighted average exercise price
	#	$	C$
Outstanding, December 31, 2017	31,610,115	2.18	2.83
Granted	2,700,000	2.72	3.53
Forfeited	(671,366)	2.04	2.64
Exercised	(1,940,374)	1.61	2.94
Outstanding, December 31, 2018	31,698,375	2.83	2.94
Forfeited	**(732,105)**	**1.75**	**2.32**
Settled	**(2,124,614)**	**2.02**	**2.69**
Exercised	**(13,044,491)**	**2.05**	**2.72**
Outstanding, December 31, 2019	**15,797,165**	**2.39**	**3.17**

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

The cost of the options granted for the year ended December 31, 2018 was determined using the Black-Scholes option valuation model with inputs to the model as follows:

	Unit	2018
Weighted average share price	C$	3.53
Weighted average term to exercise	Years	4.00
Weighted average share price volatility	%	22.00
Weighted average expected annual dividend	C$	0.04
Risk-free interest rate	%	2.17
Forfeiture rate	%	1.02

As at December 31, 2019, the following employee and director stock options to purchase common shares were outstanding:

Range of exercise prices	Weighted average remaining life	Vested	Options outstanding unvested	Total
	(in years)	#	#	#
C$1.01 to C$2.00	**1.23**	**601,896**	**—**	**601,896**
C$2.01 to C$3.00	**2.95**	**4,932,479**	**—**	**4,932,479**
C$3.01 and over	**3.87**	**8,528,792**	**1,733,998**	**10,262,790**
	3.48	**14,063,167**	**1,733,998**	**15,797,165**

(b) Deferred share units, Performance share units and Restricted share units

The Company adopted a DSU plan that will allow the Board of Directors to grant Company DSUs to designated officers, employees or non-employees. The Board of Directors will determine whether the DSU award will be settled in cash, Company common shares or a combination of both. Under the terms of the DSU plan, the number of DSUs received will be calculated by dividing the portion of the eligible compensation by the volume weighted average price of the Company's common shares on the TSX for the 10 preceding days on which they were traded before the grant date. If and when the Company pays cash dividends to common shareholders, participants will be granted additional DSUs equivalent to the dividends that would have been paid had the DSUs been common shares.

The Company also has a Share Unit Plan that will allow the Board of Directors to grant both Company PSUs and RSUs. The Company's PSUs and RSUs will vest no later than three years from the grant date, and PSUs will be subject to performance conditions. The PSU performance multiplier may range from 0% to 200% depending on actual performance. On the vesting date, the Board of Directors has the discretion to settle PSUs and RSUs either through cash payment, issuance of Company common shares or some combination of cash and common shares. If and when the Company pays cash dividends to common shareholders, participants will be granted additional PSUs and RSUs equivalent to the dividends that would have been paid had the share units been common shares.

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

As at December 31, 2019, the following DSUs, PSUs and RSUs were outstanding:

	Deferred share units	Performance share units	Restricted share units	Total
	#	#	#	#
Outstanding, December 31, 2017	772,980	813,611	—	1,586,591
Granted	470,969	4,533,137	1,819,234	6,823,340
Redeemed	(49,691)	(1,384,918)	(652,499)	(2,087,108)
Outstanding, December 31, 2018	1,194,258	3,961,830	1,166,735	6,322,823
Granted	**501,408**	**3,911,566**	**279,816**	**4,692,790**
Redeemed	**(163,168)**	**(2,754,124)**	**(460,426)**	**(3,377,718)**
Outstanding, December 31, 2019	**1,532,498**	**5,119,272**	**986,125**	**7,637,895**

During the year ended December 31, 2019, the Company granted 501,408 DSUs to members of the Company's Board of Directors. As at December 31, 2019, the fair value of DSUs recorded as accounts payable and accrued liabilities was $5,797 (2018 - $3,205).

During the year ended December 31, 2019, the Company granted 3,911,566 PSUs and 279,816 RSUs to senior executives and employees of the Company. The fair value of PSUs and RSUs recorded as accounts payable and accrued liabilities was $16,682 (2018 - $7,765).

15. Other Revenue and Other Expenses

Other revenue consists of the following for the years ended December 31:

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Gain on corporate investments	**422**	7,119
Other fees	**1,480**	2,581
Other interest income	**—**	922
Foreign exchange and other	**(768)**	(580)
Total other revenue - continuing operations	**1,134**	10,042

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

Other expenses consist of the following for the years ended December 31, 2019:

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Amortization of intangibles	**25,811**	12,923
Accretion of deferred purchase consideration	**5,750**	4,060
Non-controlling interest	**1,600**	9,394
Purchase price premium on non-controlling interest *(note 3)*	**28,138**	—
Restructuring costs	**15,690**	15,539
(Gain) loss on SIB FX forward	**(4,789)**	4,289
Business acquisition costs	**2,168**	13,404
Total other expenses - continuing operations	**74,368**	59,609

Restructuring costs reflect corporate executive severance and transition costs related to the move to South Florida as well as severance costs related to staff reductions at our KG and Triad Financial Services business segments.

During the year ended December 31, 2018, the Company entered into a foreign currency forward contract to economically hedge the outstanding SIB, resulting in an unrealized loss of $4.3 million. The foreign currency forward contract was settled on January 15, 2019, resulting in a realized gain of $2.0 million.

16. Income Taxes

(a) The major components of income tax expense (recovery) for the years ended December 31, 2019 and December 31, 2018 are as follows:

	2019	**2018**
	$	$
Consolidated statements of operations		
Current income tax expense	**1,747**	112
Deferred income tax benefit	**(6,439)**	—
Origination and reversal of temporary differences	**—**	(7,691)
Income tax reported in the consolidated statements of operations	**(4,692)**	(7,579)
Income tax expense (recovery) reported in the consolidated statements of changes in shareholders' equity	**(1,485)**	811

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

(b) Reconciliation of effective tax rate for the years ended December 31:

	2019 $	2018 $
Income (loss) before income taxes	**5,690**	(10,214)
Combined statutory Canadian federal and provincial tax rate	**26.61 %**	26.61 %
Income tax based on statutory rate	**1,514**	(2,718)
Income tax adjusted for the effect of:		
Non-deductible and non-taxable items	**(5,924)**	(5,158)
Impact of foreign rate differential and changes to legislation	**(282)**	297
Total income tax	**(4,692)**	(7,579)

Deferred taxes

(i) Deferred taxes as at December 31 relate to the following:

	2019 $	2018 $
Deferred tax assets		
Tax loss carry forwards	**39,384**	64,942
Finance receivables	**(62,579)**	(81,010)
Unrealized foreign exchange gains and losses	**(1,109)**	(232)
Shares issuance cost	**3,522**	711
Capital assets, intangible assets and other	**64,116**	50,929
Equipment under operating lease	**(1,841)**	(125)
Deferred financing charges	**2,633**	252
Unrealized losses (gains) on derivatives	**335**	—
	44,461	35,467
Deferred tax liabilities	**—**	—
Net deferred tax asset	**44,461**	35,467

(ii) Reconciliation of net deferred tax asset (liability) for the years ended December 31 is as follows:

	2019 $	2018 $
Balance, beginning of year	**35,467**	15,025
Tax benefit recognized in profit or loss	**7,509**	21,253
Tax benefit (expense) recognized in other comprehensive income	**1,485**	(811)
Balance, end of year	**44,461**	35,467

(iii) There are $77,694 in unused tax losses or temporary differences that have not been recognized as at December 31, 2019 related to our Canadian Legacy Businesses (2018 - $91,075).

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

17. Related Party Transactions

Notes receivable

Notes receivable of $31,966 as at December 31, 2019 (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 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 years were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Notes receivable, beginning of year	**51,744**	46,411
Additions(1)	**5,180**	11,583
Interest income	**1,066**	1,670
Repayments (interest and principal)	**(7,628)**	(4,608)
Reclassifications to short-term receivables and other assets (non-related party)(2)	**(10,127)**	—
Foreign exchange	**1,832**	(3,312)
	42,067	51,744
Set-off amounts	**(10,101)**	(13,598)
Notes receivable, end of year	**31,966**	38,146

(1) Additions of $5.2 million for the year ended December 31, 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 year ended December 31, 2019, $5.6 million of these loans were repaid.

Effective December 31, 2018, the Company entered into an irrevocable agreement set off the full amount of any retirement, consulting and non-competition obligations owing to key executives against their outstanding notes receivable balances. IAS 32, *Financial Instruments: Presentation,* allows for the offsetting of financial assets and financial liabilities when an entity has a legally enforceable right to set off the amounts and it intends to settle on a net basis. As at December 31, 2019, the amounts of liabilities set off against notes receivable were $10.1 million.

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

Compensation of directors and key management

The renumeration of directors and key management personnel of the Company was as follows for the years ended December 31:

	2019	2018
	$	$
Salaries, bonuses and benefits	**24,658**	8,590
Share-based compensation	**8,031**	8,929
	32,689	17,519

18. Earnings Per Share

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Net income (loss) from continuing operations attributable to shareholders	**10,382**	(2,635)
Cumulative dividends on preferred shares	**9,618**	9,823
Net loss from continuing operations attributable to common shareholders	**764**	(12,458)
Net loss from discontinued operations attributable to common shareholders	**(25,131)**	(154,042)
Total net loss attributable to common shareholders	**(24,367)**	(166,500)
Weighted average number of common shares outstanding - basic and diluted	**242,567,185**	334,837,525
Basic and diluted loss per share from continuing operations	**$ —**	$ (0.04)
Basic and diluted loss per share from discontinued operations	**$ (0.10)**	$ (0.46)
Total loss per share - basic and diluted	**$ (0.10)**	$ (0.50)

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

19. 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 year ended December 31, 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 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.

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the years ended December 31:

	Year ended	
	December 31, 2019	**December 31, 2018**
	$	$
Foreign exchange agreements recorded in other revenue	**(768)**	(580)
Fair value (losses) gains recorded in other comprehensive income	**(36)**	(1,667)

Notional amounts and fair values of derivative instruments

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

	December 31, 2019		**December 31, 2018**	
	Notional principal	**Fair value**	**Notional principal**	**Fair value**
	$	$	$	$
Derivative assets				
Interest rate contracts	**419,527**	**1,777**	41,690	433
Foreign exchange agreements	**37,351**	**410**	—	—
Total return swaps	**29,303**	**1,439**	—	—
	486,181	**3,626**	41,690	433
Derivative liabilities				
Interest rate contracts	**125,963**	**3,061**	95,331	1,253
Foreign exchange agreements	**—**	**—**	231,441	4,865
	125,963	**3,061**	326,772	6,118

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

Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated statements of financial position; the net amounts presented in the consolidated statements of financial position; the amounts subject to an enforceable master netting agreement or similar agreement that were not included in the offset amount above; and the amount of cash collateral received or pledged.

	December 31, 2019	December 31, 2018
	$	$
Derivative assets		
Gross amounts of financial instruments recognized on the consolidated statements of financial position	**3,626**	433
Amounts subject to an enforceable master netting agreement	**1,849**	(118)
	1,777	551
Derivative liabilities		
Gross amount of financial instruments recognized on the consolidated statements of financial position	**3,061**	6,118
Amounts subject to an enforceable master netting agreement	**410**	(118)
	2,651	6,236

Rate and price

The following table provides the average rate of the hedging derivatives:

		December 31, 2019				December 31, 2018		
		Average exchange rate (1)		Average fixed interest rate (1)		Average exchange rate (1)		Average fixed interest rate (1)
Cash flow hedges								
Foreign exchange risk								
Foreign exchange forwards	CAD-USD	**1.31**		**n/a**	CAD-USD	1.33		n/a
Foreign exchange flat	CAD-EUR	**0**		**n/a**	CAD-EUR	1.58		n/a
Interest rate risk								
Interest rate swaps		**n/a**	**CAD**	**1.50%**		n/a	CAD	1.44%
		n/a	**USD**	**2.84%**		n/a	USD	2.84%

(1) Includes average foreign exchange rates and fixed interest rates relating to significant hedging relationships.

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

20. 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:

	December 31, 2019	December 31, 2018
	$	$
Secured borrowings	**430,478**	335,436
Accounts payable and accrued liabilities	**234,599**	200,782
Other liabilities[1]	**50,285**	100,120
	715,362	636,338
Shareholders' equity	**879,026**	1,106,977
	1,594,388	1,743,315

[1] Includes a nil (2018 - $66.4 million) redemption liability to the non-controlling interest of KG, a $26.2 million (2018 - $33.1 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017, and a $17.1 million (2018 - nil) lease liability recognized in connection with the adoption of IFRS 16.

21. Financial Instruments

(a) Financial instruments risk

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on loans and financial derivatives. Counterparty limits are established by the use of both external and internal credit risk classification systems, which assign each counterparty a risk rating.

The Company manages its counterparty credit risk in respect to cash and cash equivalents by financing its operations through a syndicate of Canadian and U.S. banks.

The Company limits its exposure to counterparty credit risk in respect to the use of financial derivatives by transacting only with highly rated financial institutions. The Company's financial derivatives portfolio is spread across financial institutions that are at least dual-rated and have a credit rating in the "A" category or better.

The Company's maximum exposure to credit risk with respect to its consolidated statements of financial position as at December 31, 2019 and 2018 is the carrying amounts as disclosed on the consolidated statements of financial position.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company manages its liquidity risk by monitoring its operating and growth requirements. The Company prepares forecasts to ensure it has sufficient liquidity to fulfill its obligations and operating plans and actively pursues new funding sources to meet future liquidity requirements.

The most significant exposure to liquidity risk relates to the funding of loan originations at Service Finance and Triad Financial Services by our Partners. The Company mitigates this risk by maintaining a diversified group of Partners, including banks, credit unions, insurance companies and investment funds, as well as maintaining excess funding capacity for the following twelve months. The Company also maintains access to liquidity through its term senior credit facility. The Company ensures it has excess borrowing capacity under the facility by closely monitoring its covenants and managing the cash flows generated by its operating subsidiaries.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company enters into interest rate swaps to fix a portion of its floating rate debt.

The Company does experience short-term interest rate risk on these finance receivables during the period between fixing the contractual rate under the finance contracts with its customers and the locking of the interest rate under its funding facilities.

After considering the interest rate swaps, the Company's interest rate risk is limited to cash and restricted cash, the unhedged portion of debt under the senior credit facility and floating rates on finance receivables and assets held for sale.

Foreign currency risk

Foreign currency risk is the risk of exposure to foreign currency movements of the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk that the exchange rates will be materially different when a loan or finance receivable is re-measured for accounting purposes, matures or when a foreign subsidiary is divested. The Company typically mitigates and manages this risk by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. As at December 31, 2019, the Company did not have a significant unhedged exposure to this type of foreign currency risk that would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average U.S. and foreign currency exchange rate used to translate the Company's foreign currency denominated net income into U.S. dollar equivalent during each period. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts or other hedging instruments to reduce or hedge this exposure to foreign currency risk.

(b) Valuation of financial instruments

Finance receivables and secured borrowings on finance receivables

The carrying value of finance receivables and secured borrowings approximate fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables and secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-score based on an internal model, which is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collaterlized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations and other factors.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rates on these assets are commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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

22. Fair Value Measurements

IFRS 13, *Fair Value Measurement*, requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs used in the valuation of an asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are not based on observable market data.

(a) Assets and liabilities measured at fair value on a recurring basis

The following tables present the level within the fair value hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis:

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Cash	**51,720**	**—**	**—**	**51,720**
Restricted cash	**33,381**	**—**	**—**	**33,381**
Assets held-for-trading	**—**	**—**	**85,421**	**85,421**
Retained reserve interest	**—**	**—**	**25,558**	**25,558**
Derivative financial instruments	**—**	**3,626**	**—**	**3,626**
Total	**85,101**	**3,626**	**110,979**	**199,706**

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Cash	51,992	—	—	51,992
Restricted cash	18,929	—	—	18,929
Assets held-for-trading	—	—	274,072	274,072
Retained reserve interest	—	—	22,020	22,020
Derivative financial instruments, net	—	(5,685)	—	(5,685)
Redemption liability	—	—	(66,360)	(66,360)
Total	70,921	(5,685)	229,732	294,968

Retained reserve interest

The fair value of the retained reserve interest asset represents the present value of the amount the Company expects to recover from the amounts placed on deposit in a reserve account with respect to loans sold by its Manufactured Housing Finance segment. We estimate the present values using a discounted cash flow approach using assumptions for loan loss and prepayment rates and discount rates which are all Level 3 inputs.

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

Finance receivables

The fair value of other loan receivables is estimated to approximate carrying value. These finance receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

These loan receivables include finance receivables held at amortized costs and loans secured by underlying assets. The carrying value of these balances approximates fair value. The assertion that the carrying value of the finance receivables and secured borrowings approximates fair value requires the use of estimates and significant judgment. These borrowings are classified as Level 3 financial instruments. The underlying assets securing the borrowings, such as finance receivables, equipment under operating lease, or the general assets of the Company, are credit-scored and/or value based on internal models that are not necessarily used in market transactions. The fair value of any of these balances would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations and other factors.

The fair value of finance receivables classified as assets held-for-trading is determined based on bids received on these loans in a private market.

(b) Assets measured at fair value on a non-recurring basis

The following tables present the level within the fair value hierarchy of the Company's assets and liabilities measured at fair value on a non-recurring basis. Assets held-for-sale represent finance receivables, operating leases and inventory within our Legacy Businesses that are held-for-sale as discussed in note 5.

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets held-for sale	**—**	**—**	**142,972**	**142,972**
Total	**—**	**—**	**142,972**	**142,972**

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets held-for sale	—	—	333,963	333,963
Total	—	—	333,963	333,963

23. Subsidiaries

List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly owned:

	Principal place of business
Service Finance Company, LLC	US
Triad Financial Services, Inc.	US
Kessler Financial Services, LLC	US
ECN (US) Holdings Corp.	US
ECN Platinum LLC	US
ECN Aviation Inc.	Canada

Subsidiaries with restrictions

The Company has no significant restrictions on its ability to access or use its assets and settle its liabilities within the subsidiaries.

24. 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 consolidated statements of operations by segment for the years ended December 31 are shown in the following tables:

Notes to consolidated financial statements

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

December 31, 2019

	For the year ended December 31, 2019				
	Service Finance - Home Improvement Loans	KG - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total
	$	$	$	$	$
Revenues	101,095	84,522	59,521	2,818	247,956
Operating expenses					
Compensation and benefits	18,815	29,908	19,811	8,244	76,778
General and administrative expenses	14,043	6,169	9,354	13,654	43,220
Interest expense	4,470	1,814	3,379	14,982	24,645
Depreciation and amortization	763	1,881	1,118	2,046	5,808
Share-based compensation	2,164	3,188	325	11,770	17,447
Other expenses	7,633	53,068	2,240	11,427	74,368
	47,888	96,028	36,227	62,123	242,266
Income (loss) before income taxes from continuing operations	53,207	(11,506)	23,294	(59,305)	5,690

Notes to consolidated financial statements

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

December 31, 2019

	For the year ended December 31, 2018				
	Service Finance - Home Improvement Loans	KG - Consumer Credit Card Portfolios & Related Financial Products	Triad Financial Services - Manufactured Home Loans	Corporate	Total continuing operations
	$	$	$	$	$
Revenues	81,564	62,179	49,564	10,658	203,965
Operating and other expenses					
Compensation and benefits	15,381	20,466	17,354	12,206	65,407
General and administrative expenses	10,111	6,033	10,309	14,557	41,010
Interest expense	4,458	847	1,611	24,336	31,252
Depreciation and amortization	280	491	434	1,358	2,563
Share-based compensation	—	—	—	14,338	14,338
Other expenses	—	—	—	59,609	59,609
	30,230	27,837	29,708	126,404	214,179
Income (loss) before income taxes from continuing operations	51,334	34,342	19,856	(115,746)	(10,214)

ecncapitalcorp.com