

# Interim Condensed Consolidated Financial Statements

---

JUNE 30, 2018

**Interim condensed consolidated statements of financial position**

[unaudited, in thousands of United States dollars]

	<b>June 30, 2018</b>	<b>December 31, 2017</b> Restated [note 2]	<b>January 1, 2017</b> Restated [note 2]
	\$	\$	\$
<b>Assets</b>			
Cash	51,619	17,295	34,147
Restricted funds [note 7]	27,375	59,411	101,937
Finance receivables [note 4]	433,741	389,890	2,523,258
Equipment under operating leases [note 5]	878,387	903,716	1,950,258
Inventories [note 6]	96,591	93,806	104,282
Short-term receivables and other assets	201,178	118,723	28,459
Retained reserve interest	19,837	17,999	—
Notes receivable [note 11]	55,205	46,411	30,288
Derivative financial instruments [note 13]	1,237	2,680	8,479
Leasehold improvements and other equipment	18,197	16,087	2,839
Intangible assets	136,532	135,741	477
Deferred tax assets	20,944	29,836	5,770
Goodwill	529,431	279,602	3,396
<b>Total assets excluding assets held-for-sale</b>	<b>2,470,274</b>	<b>2,111,197</b>	<b>4,793,590</b>
Assets held-for-sale	7,446	681,919	—
<b>Total assets</b>	<b>2,477,720</b>	<b>2,793,116</b>	<b>4,793,590</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	98,185	103,186	62,748
Derivative financial instruments [note 13]	702	1,766	2,219
Secured borrowings [note 7]	913,481	1,142,374	3,354,875
Deferred tax liabilities	21,040	14,811	12,929
Other liabilities [note 14]	100,566	32,587	—
<b>Total liabilities</b>	<b>1,133,974</b>	<b>1,294,724</b>	<b>3,432,771</b>
<b>Shareholders' equity</b>	<b>1,343,746</b>	<b>1,498,392</b>	<b>1,360,819</b>
	<b>2,477,720</b>	<b>2,793,116</b>	<b>4,793,590</b>

See accompanying notes

## Interim condensed consolidated statements of operations

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

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017 Restated [note 2]	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017 Restated [note 2]
	\$	\$	\$	\$
<b>Revenues</b>				
Portfolio origination services	20,969	—	34,401	—
Portfolio management services	12,114	—	20,694	—
Portfolio advisory services	4,389	—	4,389	—
<b>Total portfolio revenue</b>	<b>37,472</b>	<b>—</b>	<b>59,484</b>	<b>—</b>
Rental revenues	16,656	42,397	33,647	85,099
Interest income	5,409	6,276	10,753	13,745
Other revenue [note 10]	2,125	1,478	3,764	5,713
	<b>61,662</b>	<b>50,151</b>	<b>107,648</b>	<b>104,557</b>
<b>Operating and other expenses</b>				
Compensation and benefits	14,077	3,045	25,648	7,168
General and administrative expenses	10,936	5,284	20,632	10,421
Interest expense	10,287	16,683	18,593	35,903
Depreciation and amortization	6,633	13,304	13,865	26,675
Provision for credit losses [note 4]	43	1,331	95	1,419
Share-based compensation [note 9]	2,550	2,300	5,960	3,916
Other expenses [note 10]	16,180	(1,724)	19,584	223
	<b>60,706</b>	<b>40,223</b>	<b>104,377</b>	<b>85,725</b>
Income before income taxes from continuing operations	956	9,928	3,271	18,832
(Recovery of) provision for income taxes	(1,693)	482	(1,532)	1,626
<b>Net income from continuing operations</b>	<b>2,649</b>	<b>9,446</b>	<b>4,803</b>	<b>17,206</b>
Net income from discontinued operations [note 3]	—	2,389	1,137	91,860
<b>Net income for the period</b>	<b>2,649</b>	<b>11,835</b>	<b>5,940</b>	<b>109,066</b>
<b>Earnings per common share - Basic</b>				
Continuing operations [note 12]	\$0.00	\$0.02	\$0.00	\$0.04
Discontinued operations [note 12]	\$0.00	\$0.01	\$0.00	\$0.24
Total basic earnings per share [note 12]	<b>\$0.00</b>	<b>\$0.03</b>	<b>\$0.00</b>	<b>\$0.28</b>
<b>Earnings per common share - Diluted</b>				
Continuing operations [note 12]	\$0.00	\$0.02	\$0.00	\$0.04
Discontinued operations [note 12]	\$0.00	\$0.01	\$0.00	\$0.23
Total diluted earnings per share [note 12]	<b>\$0.00</b>	<b>\$0.03</b>	<b>\$0.00</b>	<b>\$0.27</b>

See accompanying notes

## Interim condensed consolidated statements of comprehensive income

[unaudited, in thousands of United States dollars]

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017 <i>Restated [note 2]</i>	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017 <i>Restated [note 2]</i>
	\$	\$	\$	\$
<b>Net income for the period</b>	<b>2,649</b>	11,835	<b>5,940</b>	109,066
<b>Other comprehensive (loss) income</b>				
Cash flow hedges <i>[note 13]</i>	<b>2,144</b>	(1,497)	<b>2,818</b>	2,147
Net unrealized foreign exchange (loss) gain	<b>(4,373)</b>	18,408	<b>(10,193)</b>	17,527
	<b>(2,229)</b>	16,911	<b>(7,375)</b>	19,674
Deferred tax expense (recovery)	<b>176</b>	1,029	<b>(90)</b>	738
<b>Total other comprehensive loss (income)</b>	<b>(2,405)</b>	15,882	<b>(7,285)</b>	18,936
<b>Comprehensive income (loss) for the period</b>	<b>244</b>	27,717	<b>(1,345)</b>	128,002

See accompanying notes

**Interim condensed consolidated statements of changes in shareholders' equity**

[unaudited, in thousands of United States dollars]

	<b>Common share capital</b>	<b>Preferred share capital</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Total shareholders' equity</b>
	Restated [note 2]					
	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2016</b>	1,056,738	72,477	88,858	212,456	(69,710)	1,360,819
Comprehensive income for the period	—	—	—	109,066	18,936	128,002
Employee stock options exercised	742	—	—	—	—	742
Employee stock options expense	—	—	4,755	—	—	4,755
Preferred shares issued	—	72,441	—	—	—	72,441
Dividends - Preferred shares	—	—	—	(3,360)	—	(3,360)
Dividends - Common shares	—	—	—	(5,812)	—	(5,812)
<b>Balance, June 30, 2017</b>	1,057,480	144,918	93,613	312,350	(50,774)	1,557,587
<b>Balance, December 31, 2017 - Restated [note 2]</b>	<b>1,023,479</b>	<b>144,918</b>	<b>96,437</b>	<b>248,914</b>	<b>(15,356)</b>	<b>1,498,392</b>
Adjustment to opening retained earnings - IFRS 9 [note 4]	—	—	—	(6,951)	—	(6,951)
Employee stock options exercised [note 8]	224	—	—	—	—	224
Employee stock options expense	—	—	4,848	—	—	4,848
Common share repurchases [note 8]	(140,392)	—	—	—	—	(140,392)
Comprehensive income (loss) for the period	—	—	—	5,940	(7,285)	(1,345)
Dividends - Preferred shares [note 8]	—	—	—	(5,134)	—	(5,134)
Dividends - Common shares [note 8]	—	—	—	(5,896)	—	(5,896)
<b>Balance, June 30, 2018</b>	<b>883,311</b>	<b>144,918</b>	<b>101,285</b>	<b>236,873</b>	<b>(22,641)</b>	<b>1,343,746</b>

See accompanying notes

## Interim condensed consolidated statements of cash flows

[unaudited, in thousands of United States dollars]

	<b>Six-month period ended June 30, 2018</b>	<b>Six-month period ended June 30, 2017</b> <small>Restated [note 2]</small>
	<u>\$</u>	<u>\$</u>
<b>Operating activities</b>		
Net income for the period from continuing operations	4,803	17,206
Items not affecting cash:		
Share-based compensation	5,960	3,916
Amortization of intangible assets	6,191	—
Depreciation and amortization	13,865	26,675
Amortization of deferred lease and financing costs	4,095	8,473
Provision for credit losses	95	1,419
	<u>35,009</u>	<u>57,689</u>
Changes in non-cash operating assets and liabilities:		
Change in finance receivables, net	(43,851)	6,463
Investment in/disposal of equipment under operating leases	25,329	(62,806)
Other non-cash operating assets and liabilities	(101,249)	(6,155)
	<u>(84,762)</u>	<u>(4,809)</u>
<b>Cash used in operating activities – continuing operations</b>	<b>(84,762)</b>	<b>(4,809)</b>
<b>Investing activities</b>		
Decrease in restricted funds	32,036	2,879
Acquisition of The Kessler Group	(221,200)	—
Proceeds on disposal of U.S. C&V Finance business	—	1,505,687
Purchase of property, equipment and leasehold improvements	—	(2,914)
Proceeds on disposal of equipment under operating leases	—	351
Decrease in notes receivable	2,266	(3,655)
Cash proceeds from sale of Canadian C&V Finance	684,937	—
	<u>498,039</u>	<u>1,502,348</u>
<b>Cash provided by investing activities – continuing operations</b>	<b>498,039</b>	<b>1,502,348</b>
<b>Financing activities</b>		
Option exercises	224	—
Issuance of preferred shares	—	72,441
Common share repurchases	(140,392)	—
Repayment of secured borrowings, net of deferred financing costs	(228,892)	(1,586,204)
Dividends paid or accrued	(11,030)	(9,172)
	<u>(380,090)</u>	<u>(1,522,935)</u>
<b>Cash used in financing activities – continuing operations</b>	<b>(380,090)</b>	<b>(1,522,935)</b>
Net changes in cash provided (utilized) by discontinued operations	1,137	(1,777)
Net increase (decrease) in cash during the period	34,324	(27,173)
Cash, beginning of period	17,295	34,147
<b>Cash, end of period from continuing operations</b>	<b><u>51,619</u></b>	<b><u>6,974</u></b>
<b>Supplemental cash flow information</b>		
Cash taxes paid	28,528	18,569
Cash interest paid	23,887	62,759

See accompanying notes

## ECN Capital Corp.

### Notes to interim condensed consolidated financial statements

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

#### 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 and credit unions [our "Partners"]. The Company originates, manages and advises on prime consumer credit portfolios on behalf of its Partners, specifically unsecured consumer loan portfolios, secured loan portfolios and consumer credit card portfolios. Our customers are banks and credit unions seeking high quality assets to match with their deposits. Headquartered in Toronto and West Palm Beach, the registered office is located at 181 Bay Street, Suite 2830, Toronto, Ontario, Canada. ECN Capital has approximately 540 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol "ECN".

As a result of the completion of the sale of the Company's Canada Commercial and Vendor ["C&V"] Finance business in the first quarter of 2018 and the business acquisitions completed in 2017, the Company's business operations will be conducted primarily in U.S. dollars. Consequently, effective January 1, 2018, the Company changed its functional and presentation currency to U.S. dollars. See note 2 for further details.

#### Statement of compliance

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements. They should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2017, which include information necessary or useful to understanding the Company's business and financial statement presentation.

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

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 9, 2018.

#### 2. Summary of Significant Accounting Policies

##### a) Change in functional and presentation currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company reconsiders the functional currency of its entities if there is a change in events and conditions that determines the primary economic environment. Prior to January 1, 2018, the Company's consolidated financial statements were presented in Canadian dollars, which was also the Company's functional currency. The functional currency of the Company's material subsidiaries were either Canadian or U.S. dollars, depending upon the primary economic environment in which each subsidiary operated.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

Effective January 1, 2018, the Company changed its presentation and functional currency to U.S. dollars from Canadian dollars. The functional currencies of the Company's material subsidiaries continue to be either Canadian or U.S. dollars. These currency changes relate principally to the business acquisitions and disposals discussed in note 3, including the sale of the Company's Canadian C&V Finance business in January 2018 and the acquisition of two U.S. based businesses in the latter portion of 2017.

The interim condensed consolidated financial statements for all years presented have been translated into U.S. dollars in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates* which requires prospective treatment of functional currency changes and retrospective application of changes in presentation currency. The interim condensed consolidated statements of operations and comprehensive income have been translated into the presentation currency using the average exchange rates prevailing during each quarterly reporting period. All assets and liabilities have been translated using the period end closing exchange rates. All resulting exchange differences have been recognized in accumulated other comprehensive income. The statement of financial position amounts previously reported in Canadian dollars have been translated into US dollars as at January 1, 2017 and December 31, 2017 using the period-end closing rates of 1.3427 CAD/USD and 1.2571 CAD/USD, respectively. In addition, shareholders' equity balances have been translated using historical rates based on rates in effect on the date of material transactions.

**Consolidated statements of financial position**

	As at December 31, 2017		As at January 1, 2017	
	As reported	As translated	As reported	As translated
	C\$	US\$	C\$	US\$
<b>Assets</b>				
Cash and restricted funds	96,427	76,706	182,720	136,084
Other current assets	2,557,561	2,034,491	6,253,634	4,657,506
Assets-held-for-sale	857,240	681,919	—	—
<b>Total assets</b>	<b>3,511,228</b>	<b>2,793,116</b>	<b>6,436,354</b>	<b>4,793,590</b>
<b>Liabilities and shareholders' equity</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities and other liabilities	170,680	135,773	84,252	62,748
Derivative financial instruments	2,222	1,766	2,980	2,219
Secured borrowings	1,436,078	1,142,374	4,504,591	3,354,875
Deferred tax liabilities	18,619	14,811	17,360	12,929
<b>Total liabilities</b>	<b>1,627,599</b>	<b>1,294,724</b>	<b>4,609,183</b>	<b>3,432,771</b>
<b>Shareholders' equity</b>	<b>1,883,629</b>	<b>1,498,392</b>	<b>1,827,171</b>	<b>1,360,819</b>
	<b>3,511,228</b>	<b>2,793,116</b>	<b>6,436,354</b>	<b>4,793,590</b>



**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**Interim condensed consolidated statements of operations**

	<b>Three month ended June 30, 2017</b>		<b>Six Months Ended June 30, 2017</b>	
	As translated		As translated	
	C\$	\$	C\$	\$
Revenues	67,433	50,151	139,408	104,557
Operating expenses and other costs	54,083	40,223	114,279	85,725
<b>Income from continuing operations before income taxes</b>	13,350	9,928	25,129	18,832
Provision for income taxes	648	482	2,162	1,626
<b>Net income from continuing operations</b>	12,702	9,446	22,967	17,206
<b>Net income from discontinued operations</b>	3,212	2,389	121,576	91,860
<b>Net income for the period</b>	15,914	11,835	144,543	109,066

**b) Presentation of interim condensed consolidated statement of operations**

Consistent with the Company's transition from a direct lender to a leading business services provider to Partners, the Company has reorganized the presentation of its interim condensed consolidated statement of operations ["Statement of Operations"]. Previously, the Company's Statement of Operations reflected its net interest margin ["NIM"] operating model. Beginning in the second quarter of 2018, the Statement of Operations was changed to reflect its current operating model and, as a result, the Company has added three new revenue line items: (1) Portfolio Origination Services; (2) Portfolio Management Services; and (3) Portfolio Advisory Services.

Portfolio origination services represents the gain on sale recognized on the disposition of consumer loans originated by the Company's Service Finance Company, LLC ("Service Finance") and Triad Financial Services, Inc. ["Triad"] subsidiaries to a network of Partners and the net revenue earned from risk based marketing programs originated by Kessler Financial Services LLC ["Kessler"].

Portfolio management services represents the fees earned by Service Finance and Triad from providing loan servicing activities to Partners and annuity and retainer fees earned by Kessler through its long-term advisory contracts with its strategic partners.

Portfolio advisory services represents the fees earned by Kessler from its transactional advisory and debt advisory services provided to its strategic partners.

All prior period comparative amounts have been restated to conform to the current presentation.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**c) Adoption of IFRS 9, *Financial Instruments* ["IFRS 9"]**

The Company adopted IFRS 9 effective January 1, 2018 in place of IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"], as required by the International Accounting Standards Board. As permitted under IFRS 9, the Company did not restate its prior period comparative consolidated financial statements. Any changes to carrying amounts as a result of adopting IFRS 9 have been recognized in the Company's opening January 1, 2018 retained earnings.

Allowance for credit losses

The new standard replaces the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. 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). This differs from an incurred loss model where lifetime credit losses were only recognized when there was objective evidence of impairment. Under IFRS 9, lifetime credit losses are generally recognized earlier. Significant judgments are made in order to incorporate forward-looking information into the estimation of ECL allowances which were not required under the previous standard.

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

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

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.

The Company has recorded a \$6,951 million increase to its allowance for credit losses with the offset charged to opening retained earnings. See note 4 for further details.

Classification and measurement

Under IFRS 9, all financial assets must be classified at initial recognition at either: i) fair value through profit or loss ("FVTPL"), ii) amortized cost, iii) in the case of debt financial instruments, measured at fair value through other comprehensive income ("FVOCI"), iv) in the case of equity financial instruments, designated at FVOCI, or v) in the case of financial instruments designated at FVTPL, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed. All financial assets and derivatives are required to be measured at fair value with the exception of financial assets measured at amortized cost. Financial assets are required to be reclassified when and only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" ("SPPI") test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis are classified as FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis are classified as FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis are classified as amortized cost.

Consistent with IAS 39, all financial assets held by the Company under IFRS 9 are initially measured at amortized cost and subsequently measured at amortized cost with the exception of derivative financial instruments. Derivatives continue to be measured at FVTPL under IFRS 9, except to the extent that they are designated in a hedging relationship, in which case the IAS 39 hedge accounting requirements continue to apply.

There were no material changes to the carrying values of financial instruments as a result of the transition to the classification and measurement requirements of IFRS 9. The classification and measurement provisions of IFRS did not have a material impact on the Company's consolidated financial statements.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**d) Adoption of IFRS 15, Revenue from Contracts with Customers ["IFRS 15"]**

On January 1, 2018, the Company adopted IFRS 15, which clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers, and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts, and consequently there was no impact on the Company's legacy direct lending businesses. There was also no impact on the asset origination services and asset management services revenues earned by the Company's Service Finance and Triad subsidiaries.

IFRS 15 did have an impact on the revenue recognition policy for the net revenues earned from the risk-based marketing programs originated by Kessler. Under the risk-based marketing programs, Kessler provides capital to fund marketing initiatives on behalf of its clients. The fees earned by Kessler 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). Under IFRS 15, the Company has determined that the sole performance obligation related to these contracts occurs upon the delivery of the marketing campaign to the client. 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 clients as a reduction of revenue, and therefore the amount of revenue recognized from these risk-based marketing campaigns is a net amount.

**e) Segment reporting**

Effective January 1, 2018, the Company introduced a Corporate segment to reflect the operating results for the corporate office. The corporate office, which was previously integrated into the legacy businesses, is transitioning to a lean organizational structure with a focus to: (i) drive additional growth of new loans by leveraging our commercial finance heritage; (ii) source new bank and institutional partners with a successful ECN relationship; (iii) cross sell portfolio solutions to existing Partners; and (iv) ensure appropriate controls, risk management, expense management and capital structures for of all our businesses. This structure reflects the transition of the Company away from its legacy on balance sheet lending businesses to providing business services to its Partners. Consequently, corporate office costs are not allocated to any of the business segments. In addition, only interest expense on debt used directly in the business is reflected in the business segment results. Interest expense attributable to outstanding balances on the senior credit facility that has been used to fund acquisitions and other corporate development activity, as well as all standby charges on the facility, are reflected in the Corporate segment.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**3. Business Acquisitions and Disposals**

**Investment in Kessler**

On May 31, 2018, the Company completed its investment in Kessler. Under the terms of the agreement, the Company paid cash consideration of \$221.2 million for an 80% equity interest in Kessler. Subsequent to the acquisition, the Company sold a 4% interest in Kessler to a member of senior management at the same valuation. In addition, the Company has entered into an incentive compensation plan with senior management that will be based on the achievement of a prescribed rate of return on average equity over the next five years.

The table below presents the preliminary allocation of fair values to the net assets acquired as at May 31, 2018. The Company will finalize the purchase price allocation, including finalizing the allocation to the identifiable intangible assets and goodwill, the impact on deferred taxes and the impact of final purchase price adjustments, later in 2018.

	\$
<b>Consideration paid:</b>	
Cash	<b>221,200</b>
<b>Fair value of identifiable assets and liabilities:</b>	
Cash and cash equivalents	<b>30,190</b>
Accounts receivable and other	<b>33,485</b>
Fixed assets	<b>2,626</b>
Goodwill	<b>241,833</b>
Accounts payable and other liabilities	<b>(31,634)</b>
Redemption liability related to non-controlling interest	<b>(55,300)</b>
<b>Net assets acquired</b>	<b>221,200</b>

Costs related to this transaction were \$13.1 million, including banking, legal, accounting, due diligence and other transaction-related expenses.

As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of Kessler. As a result, the non-controlling interest in Kessler does not qualify for equity treatment under IAS 32, *Financial Instruments Presentation*. Consequently, we have classified the non-controlling interest as a liability on the statements of financial position. No profit or loss with respect to Kessler operations is allocated to the non-controlling interest. Any dividend distributions made to the non-controlling shareholders will be recognized as an expense in the reporting period in which the dividends are declared.

**Assets held-for-sale - Canada C&V Finance business**

On October 30, 2017, the Company announced that it had entered into a definitive agreement with CWB Financial Group ["CWB"] to sell the Company's Canada C&V Finance assets, with the closing being subject to customary regulatory approvals. Accordingly, as at December 31, 2017, C\$857.2 million of finance receivables were classified as assets held-for-sale and the Company recorded a pre-tax loss of C\$14.6 million primarily due to the write-off of associated goodwill, break fees on financing arrangements and employee severance costs. The transaction closed on

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

January 31, 2018 and the Company received cash proceeds of C\$843.5 million resulting in no further impact to net income during the six-month period ended June 30, 2018.

**Discontinued operations**

Discontinued operations for the six-month period ended June 30, 2018 include the results of the Company's Canada C&V Finance business unit for results of operations prior to its January 31, 2018 sale. For the period ended March 31, 2017, discontinued operations included the results of operations of the Company's Canada and U.S. C&V business units. The results of discontinued operations for the periods ended June 30 are as follows:

	Three-month period-ended June 30, 2017 \$	Six-month period-ended June 30, 2018 \$	Six-month period-ended June 30, 2017 \$
<b>Revenues</b>	11,549	<b>3,707</b>	45,823
Interest expense	3,626	<b>713</b>	15,954
Provision for credit losses	401	<b>—</b>	4,898
<b>Net financial income</b>	7,522	<b>2,994</b>	24,971
<b>Operating expenses and other costs</b>			
Compensation and benefits	1,865	<b>930</b>	8,811
General and administrative expenses	1,213	<b>515</b>	4,437
Share-based compensation	720	<b>2</b>	1,983
Separation and reorganization costs	—	<b>—</b>	1,585
Gain on business disposals	—	<b>—</b>	(141,059)
	3,798	<b>1,447</b>	(124,243)
Income from discontinued operations before income taxes	3,724	<b>1,547</b>	149,214
Provision for income taxes	1,335	<b>410</b>	57,354
<b>Net income from discontinued operations</b>	2,389	<b>1,137</b>	91,860

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**4. Finance Receivables**

The following tables present the finance receivables based on the type of contract:

	<b>June 30, 2018</b>		
	<b>Leases</b>	<b>Loans <sup>(1)</sup></b>	<b>Total</b>
	\$	\$	\$
Minimum payments	83,160	345,030	428,190
Non-guaranteed residual values	41,977	—	41,977
Gross investment	125,137	345,030	470,167
Unearned income	(31,000)	(9,527)	(40,527)
<b>Net investment</b>	<b>94,137</b>	<b>335,503</b>	<b>429,640</b>
Net realizable value of accounts in default	—	3,504	3,504
Unamortized deferred costs and subsidies	1,809	34	1,843
Security deposits	(2,144)	(654)	(2,798)
Other receivables	4,240	1,932	6,172
Allowance for credit losses	(1,501)	(3,119)	(4,620)
<b>Total finance receivables</b>	<b>96,541</b>	<b>337,200</b>	<b>433,741</b>

The loans balance as at June 30, 2018 includes \$128.6 million in home improvement loans originated by Service Finance which will be sold through to the Company's Partners before the end of the year, \$64.6 million in secured floorplan loans issued by Triad to finance dealer inventory, and a \$47.5 million short-term senior loan to facilitate a Partner's purchase of a prime credit card portfolio through an asset-backed financing vehicle. The nature of the remaining loan balances is consistent with the portfolio held as at December 31, 2017.

	<b>December 31, 2017</b>		
	<b>Leases</b>	<b>Loans</b>	<b>Total</b>
	\$	\$	\$
Minimum lease payments	98,841	317,563	416,404
Non-guaranteed residual values	42,194	—	42,194
Gross investment	141,035	317,563	458,598
Unearned income	(36,758)	(30,488)	(67,246)
<b>Net investment</b>	<b>104,277</b>	<b>287,075</b>	<b>391,352</b>
Unamortized deferred costs and subsidies	1,096	724	1,820
Security deposits	(2,091)	(655)	(2,746)
Other receivables	702	922	1,624
Allowance for credit losses	(1,989)	(171)	(2,160)
<b>Total finance receivables</b>	<b>101,995</b>	<b>287,895</b>	<b>389,890</b>

**ECN Capital Corp.**

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

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

	June 30, 2018		December 31, 2017	
	\$	%	\$	%
31 - 60 days past due	106	0.03	710	0.18
61 - 90 days past due	617	0.14	305	0.08
Greater than 90 days past due	—	—	—	—
Total past due	723	0.17	1,015	0.26
Current	428,917	99.83	390,337	99.74
Total net investment, continuing operations [1]	429,640	100.00	391,352	100.00

[1] There were no finance receivables outstanding as at June 30, 2018 related to discontinued operations. For December 31, 2017, amounts have been adjusted to exclude discontinued operations.

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

	June 30, 2018		December 31, 2017	
	Leases	Loans	Leases	Loans
	\$	\$	\$	\$
Net investment, continuing operations	\$94,137	\$335,503	\$104,277	\$287,075
Weighted average fixed interest rate	6.04%	5.93%	6.12%	5.42%
Weighted average floating interest rate	n/a	6.20%	n/a	4.26%
Percentage of portfolio with fixed interest rate	100.00%	64.92%	100.00%	64.68%

[1] There were no finance receivables outstanding as at June 30, 2018 related to discontinued operations. For December 31, 2017, amounts have been adjusted to exclude discontinued operations.



**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

The following table provides net investments in finance receivables segregated by Stage:

	June 30, 2018			
	Stage 1	Stage 2	Stage 3	
	(Performing)	(Under-Performing)	(Non-Performing)	Total
	\$	\$	\$	\$
Low risk	220,770	—	—	220,770
Medium risk	207,353	704	—	208,057
High risk	—	813	—	813
Gross carrying amount	428,123	1,517	—	429,640
Default	—	—	3,504	3,504
	428,123	1,517	3,504	433,144

	December 31, 2017			
	Stage 1	Stage 2	Stage 3	
	(Performing)	(Under-Performing)	(Non-Performing)	Total
	\$	\$	\$	\$
Low risk	152,859	—	—	152,859
Medium risk	236,682	1,774	—	238,456
High risk	—	37	—	37
Gross carrying amount	389,541	1,811	—	391,352

**Low risk:** Loans that have below average probability of default with credit risk that is lower than the Company's risk appetite and risk tolerance levels. While the Company does originate loans under this category, these loans may have lower yield due to high credit quality.

**Medium risk:** Loans that have an average probability of default with credit risk which is within the Company's risk appetite and risk tolerance. The Company actively originates loans under this category due to higher yields.

**High risk:** Loans that were originated within the Company's risk appetite but have subsequently experienced an increase in credit risk which is outside of the Company's typical risk appetite and risk tolerance levels. The Company will generally not originate loans in this category.

**Default:** Loans that are over 120 days past due or loans for which there is objective evidence of impairment.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**Allowance for credit losses**

The reconciliation of the Company's closing allowance for credit losses in accordance with IAS 39 as at December 31, 2017 and the January 1, 2018 allowance for credit losses in accordance with IFRS 9 is shown in the table below:

	As at June 30, 2018			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
	\$	\$	\$	\$
<b>Balance as at December 31, 2017</b>				2,160
IFRS 9 transition adjustment				6,951
Balance as at January 1, 2018	5,220	3,891	—	9,111
Provision for credit losses	52	—	—	52
<b>Balance as at March 31, 2018</b>	5,272	3,891	—	9,163
Provision for credit losses	43	—	—	43
Charge-offs, net of recoveries	(1,457)	(3,093)	—	(4,550)
Stage transfers	—	(712)	712	—
Impact of foreign exchange rates	(36)	—	—	(36)
<b>Balance as at June 30, 2018</b>	3,822	86	712	4,620

During the three-month period ended June 30, 2018, the allowance for credit losses was reduced by approximately \$4.6 million as a result of the sale of aviation assets for which the allowance was directly attributable.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**5. Equipment Under Operating Leases**

The Company acts as a lessor in connection with equipment under operating leases and recognizes the leased assets in its interim condensed consolidated statements of financial position. The lease payments received, are recognized in income as rental revenue.

	June 30, 2018	December 31, 2017
	\$	\$
Cost	949,411	979,883
Accumulated depreciation	(71,024)	(76,167)
Net carrying amount of equipment under operating leases	<b>878,387</b>	903,716

**6. Inventories**

The following table presents the assets currently held in inventory for realization or awaiting new lease arrangements and presented at their net estimated realizable value. The majority of railcar inventory items represent current purchases where the Company is negotiating new lease arrangements.

	Railcar	Aviation	Continuing operations	Discontinued operations [1]	Total
	\$	\$	\$	\$	\$
<b>At December 31, 2016</b>	42,135	44,431	86,566	17,716	104,282
Net additions during the period	52,498	4,240	56,738	(12,574)	44,164
Valuation reserve	—	(311)	(311)	—	(311)
Foreign exchange rate adjustments	(621)	(47)	(668)	236	(432)
<b>At June 30, 2017</b>	94,012	48,313	142,325	5,378	147,703
<b>At December 31, 2017</b>	34,572	52,870	87,442	6,364	93,806
Net additions/removals during the period	<b>8,770</b>	<b>30,938</b>	<b>39,708</b>	<b>(4,446)</b>	<b>35,262</b>
Valuation reserve	—	1,359	1,359	—	1,359
Foreign exchange rate adjustments	—	—	—	(73)	(73)
<b>At March 31, 2018</b>	<b>43,342</b>	<b>85,167</b>	<b>128,509</b>	<b>1,845</b>	<b>130,354</b>
Net additions/removals during the period	<b>(2,475)</b>	<b>(32,609)</b>	<b>(35,084)</b>	<b>(641)</b>	<b>(35,725)</b>
Valuation reserve	—	1,986	1,986	—	1,986
Foreign exchange rate adjustments	—	—	—	(24)	(24)
<b>At June 30, 2018</b>	<b>40,867</b>	<b>54,544</b>	<b>95,411</b>	<b>1,180</b>	<b>96,591</b>

[1] Canada and U.S. C&V Finance inventories represent discontinued operations.

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**7. Secured Borrowings**

June 30, 2018					
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves	
	\$	%	\$	\$	
Asset-backed securities	287,121	3.59	396,571	7,751	
Term senior credit facility [2]	640,578	3.85	—	—	
	<b>927,699</b>	<b>3.77</b>	<b>396,571</b>	<b>7,751</b>	
Deferred financing costs	<b>(14,218)</b>				
<b>Total secured borrowings</b>	<b>913,481</b>				

December 31, 2017					
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves	
	\$	%	\$	\$	
Life insurance company term funding facilities	115,806	2.89	116,544	16,915	
Securitization programs	304,349	2.39	326,434	3,326	
Asset-backed securities	293,481	3.56	399,197	7,857	
Term senior credit facility [2]	444,681	3.30	—	—	
	1,158,317	3.08	842,175	28,098	
Deferred financing costs	<b>(15,943)</b>				
<b>Total secured borrowings</b>	<b>1,142,374</b>				

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

[2] The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of first priority interest on all property.

**Term senior credit facility**

The Company's \$2,200,000 term senior credit facility is syndicated to a group of 13 Canadian, U.S. and international banks with a maturity date of December 31, 2020. At June 30, 2018, the Company has available capacity of \$1,559,422 [December 31, 2017 - \$1,755,319]. The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 2018.

## ECN Capital Corp.

### Notes to interim condensed consolidated financial statements

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

#### Restricted funds

	June 30, 2018	December 31, 2017
	\$	\$
Restricted - cash in collection accounts	19,624	31,313
Restricted - cash reserves	7,751	28,098
	<b>27,375</b>	<b>59,411</b>

#### 8. Share Capital

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

	Common shares	
	Shares	Amount
	#	\$
<b>Balance, December 31, 2016</b>	387,112,489	1,056,738
Exercise of options	1,414,394	433
<b>Balance, June 30, 2017</b>	388,526,883	1,057,171
<b>Balance, December 31, 2017</b>	377,628,587	1,023,479
SIB repurchases	<b>(31,944,444)</b>	<b>(91,392)</b>
NCIB repurchases	<b>(16,310,122)</b>	<b>(49,000)</b>
Exercise of options	<b>663,298</b>	<b>224</b>
<b>Balance, June 30, 2018</b>	<b>330,037,319</b>	<b>883,311</b>

#### Substantial Issuer Bid

On April 16, 2018, the Company completed its modified "Dutch auction" substantial issuer bid ("SIB") to purchase for cancellation up to C\$115 million of its outstanding common shares from shareholders for cash. The Company purchased 31,944,444 shares at a purchase price of C\$3.60 per share for an aggregate purchase price of approximately \$91.4 million (C\$115 million) including fees and expenses.

#### Normal Course Issuer Bid

On June 30, 2017, the Toronto Stock Exchange ["TSX"] approved the Company's notice of intention to commence a Normal Course Issuer Bid ["NCIB"]. Pursuant to the NCIB, the Company may repurchase up to 36,999,219 common shares, representing approximately 10% of the "public float" as at June 29, 2017. The NCIB period commenced on July 5, 2017 and will end on the earlier of July 4, 2018, and the completion of purchases under the NCIB. During the six-month period ended June 30, 2018, the Company purchased 16,310,122 common shares for a total of \$49.0 million (C\$61.2 million) or C\$3.75 per common share (period-ended June 30, 2017 - purchased nil common shares).

## ECN Capital Corp.

### Notes to interim condensed consolidated financial statements

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

On June 28, 2018, the TSX approved the renewal of the Company's NCIB commencing on July 5, 2018. Pursuant to the NCIB, the Company may repurchase up to 31,339,030 representing approximately 10% of the public float. The NCIB will end on the earlier of July 4, 2019 and the completion of purchases under the NCIB.

#### Preferred share dividends

The following table summarizes the Company's outstanding preferred share capital:

	Preferred shares	
	Shares	Amount
	#	\$
<b>Balance, December 31, 2016</b>	4,000,000	72,477
Issuance of shares, net of costs	4,000,000	72,441
<b>Balance, December 31, 2017</b>	8,000,000	144,918
<b>Balance, June 30, 2018</b>	<b>8,000,000</b>	<b>144,918</b>

On May 25, 2017, the Company issued through a public offering, 4,000,000 6.25% Cumulative 5-year Minimum Rate Reset Preferred Shares, Series C ["Series C shares"], at a price of C\$25.00 per preferred share for gross proceeds of C\$100,000. The issuance included pre-tax transaction costs of C\$3,537 [or after-tax transaction costs of C\$2,919].

During the three and six-month periods ended June 30, 2018, the Company paid \$1,259 and \$2,543 [after tax cost of \$1,295 and \$2,616] or C \$0.40625 and C \$0.8125 per Series A share in dividends. During the three and six-month period ended June 30, 2017, the Company paid \$1,209 and \$2,419 [after tax cost of \$1,242 and \$2,486] or C\$0.40625 and C\$0.93604 per Series A share in preferred share dividends.

During the three and six-month period ended June 30, 2018 the Company paid \$1,211 and \$2,447 [after tax cost of \$1,246 and \$2,518] or \$0.390625 and \$0.78125 per Series C share in dividends. For the three and six-month ended June 30, 2017, the Company accrued \$458 or \$0.15411 per Series C preferred share.

#### Common share dividends

During the three and six-month period ended June 30, 2018, the Company paid a \$2,874 and \$5,896 or C\$0.01 and C\$0.02 per common share [June 30, 2017- \$2,886 and \$5,812 or C\$0.01 and C\$0.02 per common share].

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**9. Share-Based Compensation**

**Share-based compensation expense**

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Stock options	480	1,804	1,667	2,168
Deferred share units ("DSUs")	445	496	450	1,018
Performance share units and restricted share units ("PSUs" and "RSUs")	1,625	—	3,843	—
<b>Share-based compensation - continuing operations</b>	<b>2,550</b>	<b>2,300</b>	<b>5,960</b>	<b>3,186</b>

In the three-month period ended June 30, 2018, the Company granted 250,000 stock options to employees and 323,411 DSUs to members of the Company's Board of Directors. In the three-month period ended March 31, 2018, the Company granted 3,012,240 PSUs and RSUs to senior executives and employees of the Company.

**10. Other Revenue and Other Expenses**

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Syndication fees	1,010	—	1,064	1,824
Foreign exchange and other	1,115	1,478	2,700	3,889
<b>Total other revenue - continuing operations</b>	<b>2,125</b>	<b>1,478</b>	<b>3,764</b>	<b>5,713</b>

## ECN Capital Corp.

### Notes to interim condensed consolidated financial statements

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Amortization of intangible assets related to business combinations	2,218	—	4,553	—
Separation and reorganization costs	—	—	—	1,947
Deferred purchase consideration	819	—	1,638	—
Business acquisition costs	13,143	—	13,393	—
Business disposal gain	—	(1,724)	—	(1,724)
<b>Total other expenses - continuing operations</b>	<b>16,180</b>	<b>(1,724)</b>	<b>19,584</b>	<b>223</b>

## 11. Related Party Transactions

### Notes receivable

Notes receivable of \$55,205 as at June 30, 2018 [December 31, 2017 - \$46,411] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of of the Company's shares post-separation. The loans bear interest at a rate of Canadian prime less 50 basis points with interest payable monthly or annually. The principal is payable on demand in the event of non-payment of interest, and the notes receivable are secured by the Element Fleet Management Corp. and ECN Capital shares purchased with full recourse to the employee/officer.

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

	Six-month period ended June 30, 2018	Year ended December 31, 2017
	\$	\$
<b>Notes receivable, beginning of period</b>	<b>46,411</b>	30,288
Additions	11,583	17,378
Interest income	653	841
Repayments (interest and principal)	(1,588)	(4,569)
Foreign exchange	(1,854)	2,473
<b>Notes receivable, end of period</b>	<b>55,205</b>	46,411



**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**12. Earnings Per Share**

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Net income from continuing operations attributable to shareholders	2,649	9,446	4,803	17,206
Cumulative dividends on preferred shares	2,469	1,667	4,989	3,269
Net income from continuing operations attributable to common shareholders	180	7,779	(186)	13,937
Net income from discontinued operations attributable to common shareholders	—	2,389	1,137	91,860
<b>Total net income attributable to common shareholders</b>	<b>180</b>	<b>10,168</b>	<b>951</b>	<b>105,797</b>
Weighted average number of common shares outstanding - basic	336,166,139	388,380,693	351,008,482	387,844,429
Basic earnings per share from continuing operations	\$0.00	\$0.02	\$0.00	\$0.04
Basic earnings per share from discontinued operations	\$0.00	\$0.01	\$0.00	\$0.24
<b>Total earnings per share</b>	<b>\$0.00</b>	<b>\$0.03</b>	<b>\$0.00</b>	<b>\$0.28</b>
Weighted average number of common shares outstanding - diluted	342,161,892	398,021,098	357,322,496	396,407,359
Diluted earnings per share from continuing operations	\$0.00	\$0.02	\$0.00	\$0.04
Diluted earnings per share from discontinued operations	\$0.00	\$0.01	\$0.00	\$0.23
<b>Total diluted earnings per share</b>	<b>\$0.00</b>	<b>\$0.03</b>	<b>\$0.00</b>	<b>\$0.27</b>

Instruments outstanding as at June 30, 2018 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 5,995,753 and 6,314,014 stock options for the three and six-month periods ended June 30, 2018, respectively [three and six-month periods ended June 30, 2017 - nil and 1,750,194, respectively].

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**13. Derivative Financial Instruments**

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.

**Cash flow hedging relationships**

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	112	(3,339)	356	(7,834)
Fair value gains recorded in other comprehensive income (loss)	2,144	(1,497)	2,818	2,147

**Notional amounts and fair values of derivative instruments**

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

	June 30, 2018		December 31, 2017	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Interest rate contracts	98,323	1,126	361,368	2,151
Foreign exchange agreements	10,000	111	337,284	529
	<b>108,323</b>	<b>1,237</b>	<b>698,652</b>	<b>2,680</b>
Derivative liabilities				
Interest rate contracts	159,833	598	405,844	1,745
Foreign exchange agreements	3,012	104	13,727	21
	<b>162,845</b>	<b>702</b>	<b>419,571</b>	<b>1,766</b>

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

**14. Capital Disclosures**

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value.

The Company's capitalization is as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Secured borrowings	<b>913,481</b>	1,142,374
Accounts payable and accrued liabilities	<b>98,185</b>	103,186
Other liabilities <sup>[1]</sup>	<b>100,566</b>	32,587
	<b>1,112,232</b>	1,278,147
Shareholders' equity	<b>1,343,746</b>	1,498,392
	<b>2,455,978</b>	2,776,539

[1] Includes a \$66.3 million (December 31, 2017 - nil) redemption liability to the non-controlling interests of Kessler and a \$34.3 million (December 31, 2017 - \$32.6 million) deferred purchase consideration liability relating to the acquisition of Service Finance in 2017.

**15. Segmented Information**

**Operating segments**

ECN Capital's operating results are categorized into five operating and reporting segments and a Corporate segment. The operating segment consists of: [a] Service Finance - Unsecured Consumer Loans; [b] Triad - Secured Consumer Loans; [c] Kessler - Consumer Credit Cards; [d] Rail Finance; and [e] Aviation Finance. 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 and two legacy business segments is consistent with the manner in which management currently evaluates the operating segment performance.

The interim condensed consolidated statements of operations by segment for the periods ended June 30 are shown in the tables below:

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

	For the three-month period ended June 30, 2018						
	Service Finance - Unsecured Consumer Loans	Triad - Secured Consumer Loans	Kessler - Consumer Credit Cards	Rail Finance	Aviation Finance	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>	20,559	13,695	5,666	13,781	6,347	1,614	61,662
<b>Operating and other expenses</b>							
Compensation and benefits	4,036	4,382	2,380	171	187	2,921	14,077
General and administrative expenses	2,500	2,575	693	1,122	952	3,094	10,936
Interest expense	764	301	—	2,911	—	6,311	10,287
Depreciation and amortization	67	120	73	3,903	2,141	329	6,633
Provision for credit losses	—	—	—	—	43	—	43
Share-based compensation	—	—	—	—	—	2,550	2,550
Other expenses	—	—	—	—	—	16,180	16,180
	<b>7,367</b>	<b>7,378</b>	<b>3,146</b>	<b>8,107</b>	<b>3,323</b>	<b>31,385</b>	<b>60,706</b>
<b>Income (loss) before income taxes from continuing operations</b>	13,192	6,317	2,520	5,674	3,024	(29,771)	956

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

For the six-month period ended June 30, 2018

	Service Finance - Unsecured Consumer Loans	Triad - Secured Consumer Loans	Kessler - Consumer Credit Cards	Rail Finance	Aviation Finance	Corporate	Total continuing operations
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>	<b>35,318</b>	<b>22,150</b>	<b>5,666</b>	<b>25,694</b>	<b>15,029</b>	<b>3,791</b>	<b>107,648</b>
<b>Operating expenses</b>							
Compensation and benefits	7,821	8,368	2,380	387	362	6,330	25,648
General and administrative expenses	4,667	4,530	693	2,324	1,729	6,689	20,632
Interest expense	1,151	329	—	5,838	—	11,275	18,593
Depreciation and amortization	123	234	73	7,717	5,055	663	13,865
Provision for credit losses	—	—	—	—	95	—	95
Share-based compensation	—	—	—	—	—	5,960	5,960
Other expenses	—	—	—	—	—	19,584	19,584
	<b>13,762</b>	<b>13,461</b>	<b>3,146</b>	<b>16,266</b>	<b>7,241</b>	<b>50,501</b>	<b>104,377</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>21,556</b>	<b>8,689</b>	<b>2,520</b>	<b>9,428</b>	<b>7,788</b>	<b>(46,710)</b>	<b>3,271</b>

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

	<b>For the three-month period ended June 30, 2017</b>			
	<b>Rail Finance</b>	<b>Aviation Finance</b>	<b>Corporate</b>	<b>Total Continuing Operations</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	36,222	12,993	936	50,151
<b>Operating expenses</b>				
Compensation and benefits	708	160	2,177	3,045
General and administrative expenses	2,418	1,092	1,774	5,284
Interest expense	12,135	219	4,329	16,683
Depreciation and amortization	9,098	4,019	187	13,304
Provision for credit losses	—	1,331		1,331
Share-based compensation	—	—	2,300	2,300
Other expenses	—	—	(1,724)	(1,724)
	<u>24,359</u>	<u>6,821</u>	<u>9,043</u>	<u>40,223</u>
<b>Income (loss) before income taxes from continuing operations</b>	<u>11,863</u>	<u>6,172</u>	<u>(8,107)</u>	<u>9,928</u>

**Notes to interim condensed consolidated financial statements**

[unaudited, in thousands of United States dollars, except where otherwise noted and per share amounts]

June 30, 2018

	<b>For the six-month period ended June 30, 2017</b>			
	<b>Rail Finance</b>	<b>Aviation Finance</b>	<b>Corporate</b>	<b>Total continuing operations</b>
	\$	\$	\$	\$
<b>Revenues</b>	74,666	27,282	2,609	104,557
<b>Operating Expenses</b>				
Compensation and benefits	1,785	1,854	3,529	7,168
General and administrative expenses	5,137	1,467	3,817	10,421
Interest expense	24,945	810	10,148	35,903
Depreciation and amortization	18,173	8,205	297	26,675
Provision for credit losses	—	1,419	—	1,419
Share-based compensation	—	—	3,916	3,916
Other expenses	—	—	223	223
	<u>50,040</u>	<u>13,755</u>	<u>21,930</u>	<u>85,725</u>
<b>Income (loss) before income taxes before continuing operations</b>	<u>24,626</u>	<u>13,527</u>	<u>(19,321)</u>	<u>18,832</u>

