ECN CAPITAL

Interim Condensed Consolidated Financial Statements

MARCH 31, 2023

Interim condensed consolidated statements of financial position

[in thousands of United States dollars]

	March 31, 2023	December 31, 2022
	$	$
Assets		
Cash	**22,509**	12,715
Restricted funds *[note 9]*	**2,594**	2,577
Finance receivables *[note 5]*	**701,442**	700,509
Accounts receivable	**206,648**	203,385
Taxes receivable	**14,743**	15,875
Other assets *[note 6]*	**23,183**	25,775
Retained reserve interest *[note 17]*	**38,863**	36,479
Continuing involvement asset	**65,254**	70,377
Notes receivable *[note 13]*	**28,308**	31,613
Derivative financial instruments *[note 14]*	**242**	878
Leasehold improvements and other equipment *[note 7]*	**66,734**	69,181
Intangible assets	**105,387**	104,479
Deferred tax assets	**15,178**	17,042
Goodwill *[note 8]*	**126,827**	125,446
Total assets	**1,417,912**	1,416,331
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities *[note 6]*	**83,406**	78,344
Taxes payable	**820**	—
Continuing involvement liability	**65,254**	70,377
Derivative financial instruments *[note 14]*	**25,991**	26,188
Borrowings *[note 9]*	**1,031,054**	1,007,998
Other liabilities *[note 16]*	**39,337**	39,749
Total liabilities	**1,245,862**	1,222,656
Shareholders' equity	**172,050**	193,675
	1,417,912	1,416,331

See accompanying notes

On behalf of the Board:

(signed) *"William W. Lovatt"*	(signed) *"Steven K. Hudson"*
William W. Lovatt	Steven K. Hudson
Director	Director

Interim condensed consolidated statements of operations

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

	Three-month period ended March 31, 2023	Three-month period ended March 31, 2022
	$	$
Revenues		
Loan origination revenues	**22,674**	23,596
Servicing revenue	**6,358**	4,682
Interest income	**19,204**	6,112
Other revenue *[note 12]*	**(393)**	142
	47,843	34,532
Operating expenses and other		
Compensation and benefits	**16,257**	12,780
General and administrative expenses	**8,184**	8,113
Interest expense	**18,221**	6,226
Depreciation and amortization	**1,703**	1,687
Share-based compensation *[note 11]*	**4,660**	4,716
Other expenses *[note 12]*	**16,042**	1,063
	65,067	34,585
Loss before income taxes from continuing operations	**(17,224)**	(53)
Provision for (recovery of) income taxes	**2,298**	(17)
Net loss from continuing operations	**(19,522)**	(36)
Net income from discontinued operations *[note 4]*	**—**	5,506
Net (loss) income for the period	**(19,522)**	5,470
(Loss) earnings per common share - Basic		
Continuing operations *[note 15]*	**(0.09)**	—
Discontinued operations *[note 15]*	**—**	0.02
Total basic (loss) earnings per share *[note 15]*	**(0.09)**	0.02
(Loss) earnings per common share - Diluted		
Continuing operations *[note 15]*	**(0.09)**	—
Discontinued operations *[note 15]*	**—**	0.02
Total diluted (loss) earnings per share *[note 15]*	**(0.09)**	0.02

See accompanying notes

Interim condensed consolidated statements of comprehensive (loss) income

[in thousands of United States dollars]

	Three-month period ended March 31, 2023	Three-month period ended March 31, 2022
	$	$
Net (loss) income for the period	**(19,522)**	5,470
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges *[note 14]*	**993**	425
Net unrealized foreign exchange (loss) gain	**(444)**	3,188
Deferred tax expense	**(107)**	(449)
Total other comprehensive income (loss)	**442**	3,164
Comprehensive (loss) income for the period	**(19,080)**	8,634

See accompanying notes

Interim condensed consolidated statements of changes in shareholders' equity

[in thousands of United States dollars]

	Common share capital	Preferred share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
	$	$	$	$	$	$
Balance, December 31, 2021	590,501	67,052	77,640	(507,671)	(8,895)	218,627
Employee stock option expense	—	—	343	—	—	343
Employee restricted stock unit expense	—	—	2,649	—	—	2,649
Common share issuance	3,392	—	—	—	—	3,392
Common share repurchases	(213)	—	—	—	—	(213)
Comprehensive income for the period	—	—	—	5,470	3,164	8,634
Dividends – preferred shares	—	—	—	(1,146)	—	(1,146)
Dividends – common shares	—	—	—	(1,978)	—	(1,978)
Balance, March 31, 2022	593,680	67,052	80,632	(505,325)	(5,731)	230,308
Balance, December 31, 2022	586,227	67,052	79,013	(504,319)	(34,298)	193,675
Employee stock options expense	**—**	**—**	**301**	**—**	**—**	**301**
Employee restricted stock unit expense	**—**	**—**	**333**	**—**	**—**	**333**
Comprehensive loss for the period	**—**	**—**	**—**	**(19,522)**	**442**	**(19,080)**
Dividends – preferred shares *[note 10]*	**—**	**—**	**—**	**(1,364)**	**—**	**(1,364)**
Dividends – common shares *[note 10]*	**—**	**—**	**—**	**(1,815)**	**—**	**(1,815)**
Balance, March 31, 2023	**586,227**	**67,052**	**79,647**	**(527,020)**	**(33,856)**	**172,050**

See accompanying notes

Interim condensed consolidated statements of cash flows

[in thousands of United States dollars]

	Three-month period ended March 31, 2023	Three-month period ended March 31, 2022
	$	$
Operating activities		
Net loss for the period from continuing operations	**(19,522)**	(36)
Items not affecting cash:		
Share-based compensation *[note 11]*	**4,660**	4,716
Depreciation and amortization	**1,703**	1,687
Amortization of intangible assets	**1,887**	1,063
Accretion of deferred purchase consideration	**128**	—
Amortization of deferred financing costs	**1,453**	1,339
	(9,691)	8,769
Changes in operating assets and liabilities:		
Change in finance receivables, net *[note 5]*	**(933)**	(56,114)
Change in accounts receivable, net	**(3,255)**	(4,863)
Change in taxes payable	**820**	732
Other operating assets and liabilities	**6,184**	(31,323)
Cash used in operating activities - continuing operations	**(6,875)**	(82,799)
Investing activities		
Acquisition of Wake Lending, net of cash acquired *[note 3]*	**(2,489)**	—
Purchase of property, equipment and leasehold improvements	**(306)**	(13,786)
Proceeds from sale of equipment	**—**	19,992
(Increase) decrease in notes receivable	**(160)**	840
Repayment of equipment financing	**—**	(16,377)
Cash used in investing activities - continuing operations	**(2,955)**	(9,331)
Financing activities		
Common shares purchased	**—**	(213)
Common shares issued	**—**	3,392
Payments of lease liabilities	**(637)**	(515)
Payments of deferred financing costs	**(191)**	(530)
Borrowings on term senior credit facility, net	**21,833**	60,000
Issuance of secured promissory note	**—**	28,000
Dividends paid	**(1,364)**	(3,124)
Cash provided by financing activities - continuing operations	**19,641**	87,010
Cash flows from discontinued operations		
Cash used in operating activities - discontinued operations	**—**	(5,315)
Cash used in financing activities - discontinued operations	**—**	(223)
Cash used in discontinued operations *[note 4]*	**—**	(5,538)
Net increase (decrease) in cash during the period	**9,811**	(10,658)
Cash and restricted funds, beginning of period	**15,292**	47,239
Cash and restricted funds, end of period	**25,103**	36,581

See accompanying notes

Interim condensed consolidated statements of cash flows (continued)

[in thousands of United States dollars]

Cash and restricted funds reported in the interim condensed consolidated statements of cash flows:	**Three-month period ended March 31, 2023**	**Three-month period ended March 31, 2022**
	$	$
Cash	**22,509**	34,538
Restricted funds	**2,594**	2,043
Total	**25,103**	36,581

Supplemental cash flow information:	**Three-month period ended March 31, 2023**	**Three-month period ended March 31, 2022**
	$	$
Cash taxes paid, net	**1,450**	2,318
Cash interest paid	**14,344**	2,347

See accompanying notes

Notes to interim condensed consolidated financial statements

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

March 31, 2023

1. Corporate Information

ECN Capital Corp. (“ECN Capital” or the “Company”) is a leading provider of business services to North American-based banks, credit unions, life insurance companies, pension funds and investment funds (collectively, its “Partners”). ECN Capital originates, manages and advises on credit assets on behalf of its Partners, specifically consumer (manufactured housing and recreational vehicle and marine) loans and commercial (inventory finance or floorplan) loans. Its Partners are seeking high-quality assets to match with their deposits, term insurance or other liabilities. These services are offered through two operating segments: (i) Manufactured Housing Finance, and (ii) Recreational Vehicle and Marine ("RV and Marine") Finance. Headquartered in South Florida and Toronto, the registered office is located at 161 Bay Street, Suite 2800, 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 (“TSX”) under the symbol “ECN.”

2. Basis of Presentation and Summary of Significant Accounting Policies

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), 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, 2022, 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 (the “Board”) of the Company on May 15, 2023.

Critical accounting estimates and use of judgments

The preparation of these interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and judgments are made based on information available as at the date the interim condensed consolidated financial statements are issued.

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

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses. Although the outcome of litigation cannot be predicted with certainty, and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company, it is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows.

3. Business Acquisitions and Disposals

Acquisition of Wake Lending, LLC

On January 31, 2023, the Company acquired all of the outstanding equity interests in Wake Lending, LLC ("Wake Lending"), a recreational vehicle and marine finance company, for total consideration of $2.5 million. This acquisition expands the Company's geographic presence of the RV and Marine Finance segment.

The table below presents the preliminary allocation of fair values to the net assets acquired. The Company will finalize the purchase price allocation as soon as practicable within the twelve-month period from the date of acquisition.

Consideration paid:		
Cash	$	2,500
Fair value of identifiable assets and liabilities:		
Cash		11
Accounts receivable		8
Goodwill		1,381
Intangible assets		1,100
Net assets acquired		2,500

The allocation to goodwill of $1.4 million is primarily attributable to senior management's ability to maintain and grow both its dealer and funding relationships in support of the continued growth of the business. The Company expects that all of the goodwill will be deductible for tax purposes.

Operating results attributable to Wake Lending are included in the Company's consolidated statements of operations from the date of acquisition and were not material to the Company's consolidated operating results for the three-month period ended March 31, 2023.

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

Acquisition of Intercoastal Financial Group, LLC

On July 1, 2022, the Company acquired all of the outstanding equity interests in Intercoastal Financial Group, LLC ("IFG"), an RV and marine finance company, for total consideration of $74.2 million, including $55.8 million in cash and deferred consideration of $18.3 million to be paid over the next two years. This acquisition expands the Company's geographic presence of the RV and Marine Finance segment. Acquisition-related costs were $2.1 million, including advisory fees, legal, accounting, due diligence, and other transaction-related expenses, and are recorded in general and administrative expenses on the consolidated statements of operations.

The table below presents the final allocation of fair values to the net assets acquired. Adjustments to the preliminary purchase price allocation were not material.

Consideration paid:		
Cash	$	55,814
Fair value of deferred consideration		18,347
Total consideration		74,161
Fair value of identifiable assets and liabilities:		
Cash		2,406
Accounts receivable and other assets		2,646
Intangible assets		38,700
Goodwill		34,725
Accounts payable and other liabilities		(4,316)
Net assets acquired		74,161

The allocation to goodwill of $34.7 million is primarily attributable to senior management's ability to maintain and grow both its dealer and funding relationships in support of the continued growth of the business. The Company expects that all of the goodwill will be deductible for tax purposes.

Operating results attributable to IFG are included in the Company's consolidated statements of operations from the date of acquisition. IFG contributed approximately $1.8 million and $0.6 million in total revenues and pre-tax operating income, respectively, during the three-month period ended March 31, 2023.

Sale of Kessler Financial Services

On October 4, 2022, the Company completed the sale of all of the issued and outstanding equity interests in ECN Kessler Holdco LLC, a wholly owned, indirect subsidiary of the Company through which ECN Capital operates the Kessler Financial Services business ("KG"), to funds managed by Stone Point Capital LLC for cash proceeds of approximately $200 million plus approximately $9 million of additional capital returned prior to the closing of the transaction.

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

Operating results attributable to KG are presented as discontinued operations in the Company's consolidated statements of operations for all periods presented. See Note 4, *Discontinued Operations*, for further details.

4. Discontinued Operations

Results of discontinued operations

Discontinued operations for the three-month period ended March 31, 2022 include the results of KG.

	March 31, 2022
	$
Revenues	25,323
Operating expenses and other costs	
Compensation and benefits	7,661
Other operating expenses	3,829
Interest expense	3
Depreciation and amortization	268
Share-based compensation	452
Amortization of intangible assets	4,284
Accretion of deferred purchase consideration	704
	17,201
Income from discontinued operations before income taxes	8,122
Provision for income taxes	2,616
Net income from discontinued operations	5,506

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

5. Finance Receivables

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

	March 31, 2023	December 31, 2022
	$	$
Floorplan loans	**468,229**	472,199
RV and Marine loans	**12,045**	9,642
Gross finance receivables at amortized cost	**480,274**	481,841
Allowance for credit losses	**(1,064)**	(1,066)
Net finance receivables at amortized cost	**479,210**	480,775
Held-for-trading financial assets	**222,232**	219,734
Total finance receivables	**701,442**	700,509

Floorplan loans

Floorplan loans are comprised entirely of secured loans issued by Triad Financial Services to finance dealer inventory. Floorplan loans are secured by first priority, fully perfected liens in the underlying units that are financed by Triad Financial Services. Triad Financial Services is also the beneficiary of a manufacturer's repurchase guarantee on each financed unit.

RV and Marine loans

RV and Marine loans are primarily comprised of high-quality retail marine loans that are secured by first priority, fully perfected liens in the underlying financed units.

Held-for-trading financial assets

The loans balance as at March 31, 2023 includes $203.2 million (December 31, 2022 - $212.7 million) in manufactured housing loans and $19.0 million (December 31, 2022 - $7.0 million) in RV and Marine loans, that 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 or 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.

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

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

	March 31, 2023		December 31, 2022	
	$	%	$	%
31 - 60 days past due	**—**	**—**	—	—
61 - 90 days past due	**—**	**—**	—	—
Greater than 90 days past due	**14**	**—**	—	—
Total past due	**14**	**—**	—	—
Current	**480,260**	**100.00**	481,841	100.00
Total net investment	**480,274**	**100.00**	481,841	100.00

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

	March 31, 2023	December 31, 2022
Net investment	**$480,274**	$481,841
Weighted average interest rate	**9.84 %**	9.23 %

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

	March 31, 2023			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	$	$	$	$
Low risk	**249,146**	**—**	**—**	**249,146**
Medium risk	**230,555**	**—**	**—**	**230,555**
High risk	**559**	**14**	**—**	**573**
Default	**—**	**—**	**—**	**—**
Gross carrying amount	**480,260**	**14**	**—**	**480,274**

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

	December 31, 2022			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	$	$	$	$
Low risk	206,431	—	—	206,431
Medium risk	274,613	—	—	274,613
High risk	797	—	—	797
Default	—	—	—	—
Gross carrying amount	481,841	—	—	481,841

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.

Allowance for credit losses

The Company's allowance for credit losses is shown in the table below:

	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	$	$	$	$
Balance as at December 31, 2021	527	—	—	527
Provision for credit losses	68	—	—	68
Balance as at March 31, 2022	595	—	—	595
Balance as at December 31, 2022	1,066	—	—	1,066
Recovery of credit losses	**(2)**	**—**	**—**	**(2)**
Stage transfers	**(1)**	**1**	**—**	**—**
Balance as at March 31, 2023	**1,063**	**1**	**—**	**1,064**

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

6. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	March 31, 2023	December 31, 2022
	$	$
Corporate investments	**10,216**	11,706
Prepaid expenses and other assets	**12,967**	14,069
Total	**23,183**	25,775

Corporate investments as at December 31, 2022 include a private company investment with a carrying value of approximately $0.6 million. During the three-month period ended March 31, 2023, the Company recorded an impairment of approximately $0.6 million in respect of its investment, reducing the carrying value to nil as at March 31, 2023.

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

	March 31, 2023	December 31, 2022
	$	$
Accounts payable and accrued liabilities	**43,525**	39,699
Accrued payroll and share-based compensation liabilities	**39,162**	37,124
Unearned revenue	**719**	1,521
Total	**83,406**	78,344

7. Leasehold Improvements and Other Equipment

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

	March 31, 2023	December 31, 2022
	$	$
Fixed assets	**48,340**	50,083
Right-of-use assets	**18,394**	19,098
Total	**66,734**	69,181

During the three-month period ended March 31, 2023, the Company entered into an agreement to sell a corporate fixed asset with a carrying value of approximately $40.0 million. No impairment loss was recorded, as the carrying value of the asset approximated fair value less costs to sell. In connection with the sale agreement and to expedite the sale process, the Company also entered into an agreement to purchase a corporate fixed asset from the buyer for approximately $16.0 million, which the Company is actively marketing and will sell following the closing of the transactions.

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

8. Goodwill

Changes in the Company's goodwill balance for the three-month periods ended March 31, 2023 and March 31, 2022 were as follows:

	March 31, 2023	March 31, 2022
	$	$
Balance, beginning of period	**125,446**	230,166
Additions from acquisitions	**1,381**	34,725
Adjustments	**—**	(1,033)
Disposals	**—**	(138,412)
Balance, end of period	**126,827**	125,446

9. Borrowings

Borrowings consist of the following as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
	$	$
Term senior credit facility	**840,140**	817,734
Senior unsecured debentures	**157,627**	156,763
Other	**33,287**	33,501
Total	**1,031,054**	1,007,998

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

Term senior credit facility

The Company is party to a $900 million term senior credit facility, amended February 3, 2023, which is syndicated to a group of seven Canadian, U.S. and international banks with a maturity date of December 6, 2025. The facility bears interest at the prime rate plus 1.0% or one-month bankers' acceptance rate plus 2.0% per annum on outstanding Canadian denominated balances and U.S. base rate plus 1.0% per annum or one-month SOFR rate plus 2.0% per annum on outstanding U.S. denominated balances. The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property. The following table summarizes the Company's outstanding balance on its term senior credit facility:

	March 31, 2023		December 31, 2022	
	Balance outstanding	**Weighted average interest rate [1]**	**Balance outstanding**	**Weighted average interest rate [1]**
	$	%	$	%
Term senior credit facility	**851,535**	**7.08**	829,703	6.45
Deferred financing costs	**(11,395)**		(11,969)	
Total secured borrowings	**840,140**		817,734	

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

As at March 31, 2023, the unutilized balance of the facility was $48,465 (December 31, 2022 - $70,297).

Senior unsecured debentures

As at December 31, 2022, the Company had outstanding listed senior unsecured debentures with an aggregate principal of C$221.25 million (the "Debentures"), consisting of C$75.0 million of debentures due December 31, 2025, which bear interest at a rate of 6.0% per annum, C$86.25 million of debentures due December 31, 2026, which bear interest at a rate of 6.0% per annum, and C$60.0 million due December 31, 2027, which bear interest at a rate of 6.25% per annum. The Company has the option to satisfy its obligations to repay the principal and accrued interest of each of the debentures at redemption or maturity by issuing and delivering that number of common shares in the capital of the Company in accordance with the terms of the respective indentures.

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

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

	March 31, 2023	December 31, 2022
	$	$
6.0% senior unsecured debentures due 2025	**55,485**	55,335
6.0% senior unsecured debentures due 2026	**63,808**	63,635
6.25% senior unsecured debentures due 2027	**44,388**	44,268
	163,681	163,238
Deferred financing costs	**(6,054)**	(6,475)
Total unsecured debentures	**157,627**	156,763

Other

The Company secured term liquidity through the replacement of an operating lease obligation with the issuance of a promissory note (the "Note") to a third party in the principal amount of $28.0 million. The Note is payable on March 23, 2027, bears interest at a rate of 4.5% per annum, and is secured by an interest in certain existing fixed assets of the Company. The Note may be prepaid in whole at any time following the first anniversary. The Note agreement also provides the Company the option to borrow an additional $7.0 million principal amount, which was exercised in full and bears interest at a rate of 4.99% per annum.

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

	March 31, 2023	December 31, 2022
	$	$
Secured promissory note	**33,287**	33,769
Deferred financing costs	**—**	(268)
Total promissory note	**33,287**	33,501

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2023.

Restricted funds

Restricted funds as at March 31, 2023 of $2,594 (December 31, 2022 - $2,577) represent cash deposits that are reserved in accordance with the Company's agreements with its Partners and are not available for general corporate purposes.

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

10. Share Capital

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

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

	Common shares	
	Shares	Amount
	#	$
Balance, December 31, 2021	246,118,555	590,501
Common share repurchases	(50,200)	(213)
Common share issuance [1]	815,927	3,392
Balance, March 31, 2022	246,884,282	593,680
Balance, December 31, 2022	245,382,585	586,227
Balance, March 31, 2023	**245,382,585**	**586,227**

[1] During the first quarter of 2022, the Company issued $3.4 million (C$4.5 million), or 815,927 common shares, in private placements to senior management.

The following table summarizes the Company's outstanding preferred share capital as at March 31, 2023:

	Shares	Amount
	#	$
Series C 7.937% Rate Reset Preferred Shares	**3,712,400**	**67,052**

On June 20, 2022, the fixed annual dividend rate for the Series C Rate Reset Preferred Shares (the "Series C Preferred Shares") was reset from 6.25% to 7.937%. The Series C Preferred Shares are redeemable by the Company in whole or in part at their par value of C$25.00 per share on June 30, 2027 and on June 30 of every fifth year thereafter.

Normal Course Issuer Bids

On September 14, 2022, the TSX approved the renewal of the Company's Normal Course Issuer Bid (the "Common Share Bid") for common shares of the Company and the Company's notice of intention to commence a Normal Course Issuer Bid (the "Preferred Share Bid" and, together with the Common Share Bid, the "NCIBs") for the Company's Series C Preferred Shares for commencement on September 18, 2022. Pursuant to the NCIBs, the Company may repurchase up to an additional 22,170,050 common shares and 371,040 Series C Preferred Shares, representing approximately 10% of the public float of each of the common shares and Series C Preferred Shares. The NCIBs will end on the earlier of September 18, 2023 or the completion of purchases under the applicable NCIB.

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

During the three-month period ended March 31, 2023, the Company did not purchase any of its common shares or Series C Preferred Shares pursuant to the NCIBs. During the three-month period ended March 31, 2022, the Company purchased 50,200 common shares for a total of $0.2 million (C$0.3 million) or C$5.30 per common share pursuant to the Common Share Bid.

Common share dividends

During the three-month period ended March 31, 2023, the Company declared $1,815 or C$0.01 per common share in dividends (March 31, 2022 - $1,978 or C$0.01 per common share). The Company's common share dividends are designated to be eligible dividends for income tax purposes.

Preferred share dividends

During the three-month period ended March 31, 2023, the Company paid $1,364 or C$0.4960625 per Series C Preferred Share, in dividends (March 31, 2022 - $1,146, or C$0.3906250 per Series C Preferred Share). The Company's preferred share dividends are designated to be eligible dividends for income tax purposes.

11. Share-Based Compensation

Share-based compensation expense consists of the following for the three-month periods ended March 31, 2023 and March 31, 2022:

	Three-month period ended	
	March 31, 2023	**March 31, 2022**
	$	$
Performance share units and restricted share units	**3,919**	3,418
Stock options	**301**	343
Deferred share units	**440**	955
Share-based compensation - continuing operations	**4,660**	4,716

During the three-month period ended March 31, 2023, the Company did not grant any awards under its share-based payment plans.

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

12. Other Revenue and Other Expenses

Other revenue consists of the following for the three-month periods ended March 31, 2023 and March 31, 2022:

	Three-month period ended	
	March 31, 2023	March 31, 2022
	$	$
Loss on corporate investments	**(325)**	(34)
Other fees	**103**	(18)
Loss on sale of equipment	**—**	(266)
Foreign exchange	**(171)**	(1,787)
Other	**—**	2,247
Total other revenue - continuing operations	**(393)**	142

Other expenses consist of the following for the three-month periods ended March 31, 2023 and March 31, 2022:

	Three-month period ended	
	March 31, 2023	March 31, 2022
	$	$
Amortization of intangible assets	**1,887**	1,063
Accretion of deferred purchase consideration	**128**	—
Asset disposal, litigation and corporate restructure costs	**11,361**	—
Transaction and strategic review costs	**2,666**	—
Total other expenses - continuing operations	**16,042**	1,063

Asset disposal, litigation and corporate restructure costs of $11.4 million primarily reflect costs related to the termination of office leases, disposition of corporate assets and executive head count reductions in connection with the previously announced cost reduction program. Transaction and strategic review costs of $2.7 million primarily reflect costs related to the Company's review of strategic alternatives and the pursuit of M&A opportunities.

Subsequent to March 31, 2023, the Company settled a legal matter related to a claim against a former subsidiary for approximately $4.9 million, of which approximately $3.0 million was accrued as at December 31, 2022 and approximately $1.9 million was accrued during the three-month period ended March 31, 2023 and recorded in asset disposal, litigation and corporate restructure costs in the table above.

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

13. Related Party Transactions

Notes receivable

Notes receivable of $28,308 as at March 31, 2023 (December 31, 2022 - $31,613) represent loans to certain employees and officers of the Company granted in order to help finance the purchase of the Company's shares. Interest is accrued on the loans based on applicable U.S. interest rates, and the principal is payable on demand in the event of non-payment of interest. The notes receivable are secured by ECN Capital shares purchased with full recourse to the employee/officer.

The changes in notes receivable for the three-month periods ended March 31, 2023 and March 31, 2022 were as follows:

	March 31, 2023	March 31, 2022
	$	$
Notes receivable, beginning of period	**31,613**	29,656
Additions	**—**	3,492
Interest income	**124**	157
Repayments (interest and principal)	**(4)**	(4,652)
Transfers out [1]	**(3,465)**	—
Foreign exchange	**40**	163
Notes receivable, end of period	**28,308**	28,816

[1] These amounts primarily include loans to former employees that are being repaid pursuant to a fixed repayment schedule and remain secured by ECN Capital shares. As at March 31, 2023, $3.5 million of these loans remained outstanding.

Other related party transactions

The Company is party to a five-year lease agreement, expiring September 30, 2027, with a member of management of a subsidiary company to lease office space for use in the normal course of business. Payments under the lease agreement were approximately $88 for the three-month period ended March 31, 2023.

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

14. Derivative Financial Instruments

Cash flow hedging relationships

In the normal course of business, and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk and foreign exchange forward agreements to manage foreign currency exposure. All derivative instruments are designated in hedging relationships.

Total return swaps

The Company enters into total return swaps to hedge the variability in cash flows associated with forecasted future obligations to members of the Company's Board of Directors, senior executives and eligible employees on vesting of DSUs, RSUs and PSUs attributable to changes in the Company's stock price related to its liability with respect to these instruments. These derivatives are designated as hedges for accounting purposes, and as such, the gains or losses of the hedging derivative are offset by the gains or losses of the hedged item.

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three-month periods ended March 31, 2023 and March 31, 2022:

	Three-month period ended	
	March 31, 2023	March 31, 2022
	$	$
Foreign exchange agreements recorded in other revenue	**(171)**	(1,787)
Fair value gain recorded in other comprehensive income	**993**	425

Notional amounts and fair values of derivative instruments

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

	March 31, 2023		December 31, 2022	
	Notional principal	Fair value	Notional principal	Fair value
	$	$	$	$
Derivative assets				
Foreign exchange agreements	**159,246**	**242**	331,846	878
	159,246	**242**	331,846	878
Derivative liabilities				
Total return swaps	**63,465**	**25,991**	63,291	26,188
	63,465	**25,991**	63,291	26,188

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

15. Earnings Per Share

	Three-month period ended	
	March 31, 2023	March 31, 2022
	$	$
Net loss from continuing operations	**(19,522)**	(36)
Cumulative dividends on preferred shares	**1,364**	1,146
Net loss from continuing operations attributable to common shareholders	**(20,886)**	(1,182)
Net income from discontinued operations attributable to common shareholders	**—**	5,506
Total net (loss) income attributable to common shareholders	**(20,886)**	4,324
Weighted average number of common shares outstanding - basic	**245,382,585**	246,626,123
Basic loss per share from continuing operations	**$ (0.09)**	$ —
Basic earnings per share from discontinued operations	**$ —**	$ 0.02
Total basic (loss) earnings per share	**$ (0.09)**	$ 0.02
Weighted average number of common shares outstanding - diluted	**245,779,994**	248,395,475
Diluted (loss) per share from continuing operations	**$ (0.09)**	$ —
Diluted earnings per share from discontinued operations	**$ —**	$ 0.02
Total diluted (loss) earnings per share	**$ (0.09)**	$ 0.02

For the three-month period ended March 31, 2023, 3,086,124 potentially dilutive stock options were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. There were no potentially dilutive instruments excluded from the computation of diluted earnings per share for the three-month period ended March 31, 2022.

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

16. 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:

	March 31, 2023	December 31, 2022
	$	$
Borrowings on term senior credit facility and other	**873,427**	851,235
Accounts payable and accrued liabilities	**83,406**	78,344
Taxes payable	**820**	—
Other liabilities [1]	**39,337**	39,749
	996,990	969,328
Senior unsecured debentures [2]	**157,627**	156,763
Shareholders' equity	**172,050**	193,675
	1,326,667	1,319,766

[1] Other liabilities primarily include a $18.7 million (December 31, 2022 - $18.6 million) deferred purchase consideration liability related to the acquisition of IFG, and a $20.6 million (December 31, 2022 - $21.1 million) lease liability.

[2] In accordance with the terms of the indentures, the Company has the option to satisfy its obligations to repay the principal and interest of its senior unsecured debentures by issuing common shares in the capital of the Company.

17. 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.

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

(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:

	March 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Cash	**22,509**	**—**	**—**	**22,509**
Restricted cash	**2,594**	**—**	**—**	**2,594**
Held-for-trading financial assets	**—**	**—**	**222,232**	**222,232**
Retained reserve interest	**—**	**—**	**38,863**	**38,863**
Derivative financial instruments, net	**—**	**(25,749)**	**—**	**(25,749)**
Total	**25,103**	**(25,749)**	**261,095**	**260,449**

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Cash	12,715	—	—	12,715
Restricted cash	2,577	—	—	2,577
Held-for-trading financial assets	—	—	219,734	219,734
Retained reserve interest	—	—	36,479	36,479
Derivative financial instruments, net	—	(25,310)	—	(25,310)
Total	15,292	(25,310)	256,213	246,195

Transfers between levels of the fair value hierarchy are recognized at the date of the event that caused the transfer. There were no transfers between levels of the fair value hierarchy for the years presented.

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 Triad Financial Services. The Company estimates 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. A significant increase or decrease in loan loss assumptions, prepayment rates, or discount rates would result in a lower or higher, respectively, fair value measurement of the retained reserve interest asset.

Held-for-trading financial assets

The fair value of held-for-trading financial assets 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.

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

The assertion that the carrying value of held-for-trading financial assets approximates fair value requires the use of estimates and significant judgment. The underlying assets are credit-scored and/or valued 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, 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. A significant increase or decrease in market interest rates and/or yields on comparable finance assets would result in a lower or higher, respectively, fair value measurement of held-for-trading financial assets.

(b) Reconciliation of Level 3 fair value measurements of financial instruments

The changes in the Company's Level 3 assets measured at fair value on a recurring basis for the three-month periods ended March 31, 2023 and March 31, 2022 were as follows:

	Held-for-trading financial assets	Retained reserve interest
	$	$
Balance, December 31, 2021	44,686	32,767
Issues	74,112	1,440
Sales	(34,074)	—
Settlements	(582)	(141)
Change in fair value included in earnings	(756)	—
Balance, March 31, 2022	83,386	34,066
Balance, December 31, 2022	219,734	36,479
Issues	**137,728**	2,759
Sales	**(133,935)**	—
Settlements	**(1,272)**	(375)
Change in fair value included in earnings	**(23)**	—
Balance, March 31, 2023	**222,232**	**38,863**

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

As at March 31, 2023, the Company assessed the fair value of a corporate fixed asset, which it has entered into an agreement to sell, based on the related contract value and third-party appraisals. No impairment loss was recorded as a result of its assessment, as the carrying value of the asset approximated fair value less costs to sell.

As at December 31, 2022, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

18. Segmented Information

Operating segments

ECN Capital's operating results of continuing operations are categorized into two core operating segments and a Corporate segment. The Company's core operating segments consist of: (i) Manufactured Housing Finance; and (ii) RV and Marine Finance. The Company's Chief Operating Decision Maker, the CEO, reviews the operating results, assesses performance and makes capital allocation decisions at the business segment level. Therefore, each of the Company's business segments is an operating and reporting segment for financial reporting purposes.

The financial reporting of ECN Capital's two core business segments is consistent with the manner in which management currently evaluates the operating segment performance.

The interim condensed consolidated statements of operations by segment for the three-month periods ended March 31, 2023 and March 31, 2022 are shown in the following tables:

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

	For the three-month period ended March 31, 2023			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	**18,004**	**4,670**	**—**	**22,674**
Servicing revenue	**6,358**	**—**	**—**	**6,358**
Interest income & other revenue	**18,323**	**525**	**(37)**	**18,811**
Total revenue	**42,685**	**5,195**	**(37)**	**47,843**
Operating expenses and other				
Compensation and benefits	**12,354**	**2,395**	**1,508**	**16,257**
General and administrative expenses	**5,804**	**570**	**1,810**	**8,184**
Interest expense	**12,472**	**240**	**5,509**	**18,221**
Depreciation and amortization	**887**	**247**	**569**	**1,703**
Share-based compensation	**1,638**	**300**	**2,722**	**4,660**
Other expenses	**310**	**1,705**	**14,027**	**16,042**
	33,465	**5,457**	**26,145**	**65,067**
Income (loss) before income taxes from continuing operations	**9,220**	**(262)**	**(26,182)**	**(17,224)**

	For the three-month period ended March 31, 2022			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	19,774	3,822	—	23,596
Servicing revenue	4,682	—	—	4,682
Interest income & other revenue	5,702	1	551	6,254
Total revenue	30,158	3,823	551	34,532
Operating expenses and other				
Compensation and benefits	9,893	1,341	1,546	12,780
General and administrative expenses	4,938	312	2,863	8,113
Interest expense	2,057	5	4,164	6,226
Depreciation and amortization	633	46	1,008	1,687
Share-based compensation	2,176	—	2,540	4,716
Other expenses	310	753	—	1,063
	20,007	2,457	12,121	34,585
Income (loss) before income taxes from continuing operations	10,151	1,366	(11,570)	(53)

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

Total assets and total liabilities by segment as at March 31, 2023 and December 31, 2022 are shown in the following tables:

	March 31, 2023			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total
	$	$	$	$
Total assets	**1,074,264**	**209,222**	**134,426**	**1,417,912**
Total liabilities	**772,951**	**49,224**	**423,687**	**1,245,862**

	December 31, 2022			
	Manufactured Housing Finance	Marine and RV Finance	Corporate	Total
	$	$	$	$
Total assets	1,073,886	192,801	149,644	1,416,331
Total liabilities	781,815	35,730	405,111	1,222,656

19. Subsequent Event

On May 12, 2023, Triad Financial Services entered into an agreement with an existing institutional partner to sell and manage up to $300 million in manufactured housing floorplan loans. Triad will sell approximately $110 million of manufactured housing floorplan loans to this partner during the second quarter of 2023 and will execute monthly transactions thereafter.

ecncapitalcorp.com