



# Interim Condensed Consolidated Financial Statements

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**JUNE 30, 2022**

# ECN Capital Corp.

## Interim condensed consolidated statements of financial position

[in thousands of United States dollars]

	June 30, 2022	December 31, 2021
	\$	\$
<b>Assets</b>		
Cash	83,832	45,041
Restricted funds [note 5]	2,514	2,198
Finance receivables [note 4]	380,516	226,715
Accounts receivable	210,450	148,902
Other assets [note 9]	49,090	66,205
Retained reserve interest	34,056	32,767
Continuing involvement asset	87,227	103,592
Notes receivable [note 10]	27,640	29,656
Derivative financial instruments [note 11]	10,665	13,383
Leasehold improvements and other equipment	71,888	70,168
Intangible assets	131,647	138,424
Deferred tax assets	34,653	38,898
Goodwill	229,134	230,166
<b>Total assets</b>	<b>1,353,312</b>	<b>1,146,115</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities [note 9]	189,321	220,140
Taxes payable	11,293	293,623
Continuing involvement liability	87,227	103,592
Borrowings [note 5]	818,338	274,597
Other liabilities [note 13]	18,278	35,536
<b>Total liabilities</b>	<b>1,124,457</b>	<b>927,488</b>
<b>Shareholders' equity</b>	<b>228,855</b>	<b>218,627</b>
	<b>1,353,312</b>	<b>1,146,115</b>

See accompanying notes

On behalf of the Board:

(signed) "William W. Lovatt"

William W. Lovatt

Director

(signed) "Steven K. Hudson"

Steven K. Hudson

Director

**Interim condensed consolidated statements of operations**  
[in thousands of United States dollars, except for per share amounts]

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$	\$	\$
<b>Revenues</b>				
Loan origination revenues	38,362	20,114	61,958	32,699
Asset management and servicing revenues	21,814	22,720	47,277	41,637
Marketing and other services revenue	10,651	2,682	15,238	5,586
Interest income	7,885	5,009	14,042	9,825
Other revenue [note 8]	2,851	3,257	2,903	6,583
	<b>81,563</b>	<b>53,782</b>	<b>141,418</b>	<b>96,330</b>
<b>Operating expenses and other</b>				
Compensation and benefits	20,611	17,887	41,052	35,509
General and administrative expenses	22,097	12,496	34,039	21,462
Interest expense	8,464	4,938	14,693	10,505
Depreciation and amortization	1,913	2,071	3,868	3,864
Share-based compensation [note 7]	2,333	4,683	7,501	9,888
Other expenses [note 8]	11,713	5,614	17,764	11,171
	<b>67,131</b>	<b>47,689</b>	<b>118,917</b>	<b>92,399</b>
Income before income taxes from continuing operations	14,432	6,093	22,501	3,931
Provision for income taxes	5,191	1,508	7,790	1,084
<b>Net income from continuing operations</b>	<b>9,241</b>	<b>4,585</b>	<b>14,711</b>	<b>2,847</b>
Net income from discontinued operations [note 3]	—	12,811	—	22,855
<b>Net income for the period</b>	<b>9,241</b>	<b>17,396</b>	<b>14,711</b>	<b>25,702</b>
<b>Earnings (loss) per common share - Basic</b>				
Continuing operations [note 12]	0.03	0.01	0.05	(0.01)
Discontinued operations [note 12]	—	0.05	—	0.09
<b>Total basic earnings per share [note 12]</b>	<b>0.03</b>	<b>0.06</b>	<b>0.05</b>	<b>0.09</b>
<b>Earnings (loss) per common share - Diluted</b>				
Continuing operations [note 12]	0.03	0.01	0.05	(0.01)
Discontinued operations [note 12]	—	0.05	—	0.09
<b>Total diluted earnings per share [note 12]</b>	<b>0.03</b>	<b>0.06</b>	<b>0.05</b>	<b>0.08</b>

See accompanying notes

**Interim condensed consolidated statements of comprehensive income**

[in thousands of United States dollars]

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$	\$	\$
<b>Net income for the period</b>	<b>9,241</b>	17,396	<b>14,711</b>	25,702
<b>Other comprehensive (loss) income</b>				
Cash flow hedges <i>[note 11]</i>	<b>(4,392)</b>	3,298	<b>(3,967)</b>	5,138
Net unrealized foreign exchange (loss) gain	<b>(4,880)</b>	369	<b>(1,692)</b>	1,506
Deferred tax benefit (expense)	<b>2,427</b>	(936)	<b>1,978</b>	(1,767)
<b>Total other comprehensive (loss) income</b>	<b>(6,845)</b>	2,731	<b>(3,681)</b>	4,877
<b>Comprehensive income for the period</b>	<b>2,396</b>	20,127	<b>11,030</b>	30,579

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 income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2020</b>	608,707	139,143	107,961	(16,056)	(17,194)	822,561
Employee stock options exercised	225	—	—	—	—	225
Employee stock option expense	—	—	2,205	—	—	2,205
Exchange of consideration for stock option settlement	—	—	(4,103)	—	—	(4,103)
Common share repurchases	(9,262)	—	—	—	—	(9,262)
Preferred share repurchases	—	(1,883)	—	—	—	(1,883)
Comprehensive income for the period	—	—	—	25,702	4,877	30,579
Dividends – preferred shares	—	—	—	(4,854)	—	(4,854)
Dividends – common shares	—	—	—	(11,755)	—	(11,755)
<b>Balance, June 30, 2021</b>	599,670	137,260	106,063	(6,963)	(12,317)	823,713
<b>Balance, December 31, 2021</b>	590,501	67,052	77,640	(507,671)	(8,895)	218,627
Employee stock options expense	—	—	566	—	—	566
Employee restricted stock unit expense	—	—	3,865	—	—	3,865
Common share issuance [note 6]	3,391	—	—	—	—	3,391
Common share repurchases [note 6]	(2,462)	—	—	—	—	(2,462)
Comprehensive income for the period	—	—	—	14,711	(3,681)	11,030
Dividends – preferred shares [note 6]	—	—	—	(2,270)	—	(2,270)
Dividends – common shares [note 6]	—	—	—	(3,892)	—	(3,892)
<b>Balance, June 30, 2022</b>	591,430	67,052	82,071	(499,122)	(12,576)	228,855

See accompanying notes

Interim condensed consolidated statements of cash flows

[in thousands of United States dollars]

	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$
<b>Operating activities</b>		
Net income for the period from continuing operations	14,711	2,847
Items not affecting cash:		
Share-based compensation [note 7]	7,501	9,888
Depreciation and amortization	3,868	3,864
Amortization of intangible assets	10,732	9,189
Deferred purchase consideration	1,400	1,982
Amortization of deferred financing costs	2,686	2,208
	<b>40,898</b>	<b>29,978</b>
Changes in operating assets and liabilities:		
Change in finance receivables, net [note 4]	(153,801)	(7,257)
Change in accounts receivable, net	(61,548)	(43,948)
Change in taxes payable	(282,330)	(5,319)
Other operating assets and liabilities	(37,594)	13,131
<b>Cash used in operating activities - continuing operations</b>	<b>(494,375)</b>	<b>(13,415)</b>
<b>Investing activities</b>		
(Increase) decrease in restricted funds	(316)	3,875
Decrease in notes receivable	2,016	1,772
Purchase of property, equipment and leasehold improvements	(26,608)	(3,154)
Repayment of equipment financing	(16,377)	—
Proceeds from sale of equipment	36,742	10,954
<b>Cash (used in) provided by investing activities - continuing operations</b>	<b>(4,543)</b>	<b>13,447</b>
<b>Financing activities</b>		
Option exercises [note 6]	—	225
Common share repurchases [note 6]	(2,462)	(9,262)
Common shares issued [note 6]	3,391	—
Preferred share repurchases [note 13]	—	(1,883)
Payment for stock option settlement [note 14]	—	(4,103)
Payments of lease liabilities	(1,660)	(1,518)
Payments of deferred financing costs	(501)	(1,862)
Borrowings on term senior credit facility, net of repayments [note 5]	517,103	85,624
Issuance of promissory note [note 5]	28,000	—
Dividends paid [note 6]	(6,162)	(16,609)
<b>Cash provided by financing activities - continuing operations</b>	<b>537,709</b>	<b>50,612</b>
<b>Net changes in cash provided by discontinued operations</b>	<b>—</b>	<b>(40,476)</b>
Net increase in cash during the period	38,791	10,168
Cash, beginning of period	45,041	37,977
<b>Cash, end of period</b>	<b>83,832</b>	<b>48,145</b>
<b>Supplemental cash flow information</b>		
Cash taxes paid, net	284,040	3,197
Cash interest paid	12,130	9,730

See accompanying notes

## **ECN Capital Corp.**

### **Notes to interim condensed consolidated financial statements**

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

June 30, 2022

## **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 credit card receivables. Its Partners are seeking high quality assets to match with their deposits or other liabilities. These services are offered through three operating businesses: Triad Financial Services, Inc. ("Triad Financial Services"), Source One Financial Services, LLC ("Source One"), and Kessler Financial Services ("KG"). Headquartered in South Florida and Toronto, the registered office is located at 161 Bay Street, Suite 2800, Toronto, Ontario, Canada. ECN Capital has approximately 560 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange ("TSX") under the symbol "ECN."

## **2. Basis of Presentation and Summary of Significant Accounting Policies**

### **Statement of compliance**

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements. They should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2021, 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 August 11, 2022.

### **Critical accounting estimates and use of judgments**

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

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

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.

**Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**3. Business Acquisitions and Disposals**

**Acquisition of Source One Holdings, LLC**

On December 21, 2021, the Company acquired all of the outstanding equity interests in Source One Financial Services, LLC and subsidiary ("Source One"), a marine and recreational vehicle finance company, for cash consideration of \$91.6 million. This acquisition expands the Company's product portfolio and geographic presence of the Secured Consumer Loans segment. The table below presents the final allocation of fair values to the net assets acquired.

<b>Consideration paid:</b>	
Cash	\$ <u>91,640</u>
<b>Fair value of identifiable assets and liabilities:</b>	
Cash	2,531
Restricted funds	2,198
Accounts receivable and other	1,747
Fixed assets	578
Intangible assets	46,300
Goodwill	42,246
Accounts payable and other liabilities	<u>(3,960)</u>
<b>Net assets acquired</b>	<b><u>91,640</u></b>

Acquisition-related costs were \$3.1 million, including advisory fees, legal, accounting, due diligence, and other transaction-related expenses. The allocation to goodwill of \$42.2 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.



**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**Sale of Service Finance**

On December 6, 2021, the Company completed the sale of all of the issued and outstanding equity interests in each of Service Finance Company, LLC and Service Finance Holdings, LLC (together "Service Finance"), each wholly-owned indirect subsidiaries of the Company, to Truist Bank, the wholly owned bank subsidiary of Truist Financial Corporation, for cash proceeds of approximately \$2.05 billion.

Operating results attributable to Service Finance are presented as discontinued operations in the Company's interim condensed consolidated statements of operations for all periods presented.

**Results of discontinued operations**

The following table presents the results of discontinued operations for Service Finance for the three and six-month periods ended June 30, 2021:

	<b>Three-month period ended</b>	<b>Six-month period ended</b>
	<b>June 30, 2021</b>	<b>June 30, 2021</b>
	\$	\$
<b>Revenues</b>	38,360	69,829
<b>Operating expenses and other costs</b>		
Compensation and benefits	7,363	14,279
Other operating expenses	6,159	11,216
Interest expense	1,484	2,008
Depreciation and amortization	1,251	2,227
Share-based compensation	1,243	2,908
Amortization of intangible assets	3,835	7,669
	21,335	40,307
Income from discontinued operations before income taxes	17,025	29,522
Provision for income taxes	4,214	6,667
<b>Net income from discontinued operations</b>	12,811	22,855

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**4. Finance Receivables**

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

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	\$	\$
Manufactured housing loans	<b>280,988</b>	182,556
Allowance for credit losses	<b>(722)</b>	(527)
Net finance receivables at amortized cost	<b>280,266</b>	182,029
Held-for-trading financial assets	<b>100,250</b>	44,686
<b>Total finance receivables</b>	<b>380,516</b>	226,715

**Manufactured housing loans**

Manufactured housing loans are primarily comprised of secured floorplan loans issued by Triad Financial Services to finance dealer inventory. Floorplan loans are secured by first priority, fully perfected liens in the underlying manufactured housing 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.

**Held-for-trading financial assets**

The loans balance as at June 30, 2022 includes \$100.3 million (December 31, 2021 - \$44.7 million) in manufactured housing loans, which are classified as held-for-trading. Finance receivables are classified as held-for-trading if the related loans were originated with the intention of selling the instrument in the near term. Held-for-trading finance receivables are measured on the interim condensed consolidated financial statements at fair value through profit and loss. These loans are considered Level 3 assets and the Company measures the fair value of these loans based on a valuation model using internal inputs. Upon origination, the Company's internal valuation may determine a fair value that is in excess of the origination or transaction value of the loan. In these circumstances, the Company will not recognize such gains until the fair value estimated by the internal model is substantiated by a market-observable event such as an executed sales contract.

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

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

	June 30, 2022		December 31, 2021	
	\$	%	\$	%
31 - 60 days past due	—	—	—	—
61 - 90 days past due	—	—	—	—
Greater than 90 days past due	—	—	—	—
Total past due	—	—	—	—
Current	<b>280,988</b>	<b>100.00</b>	182,556	100.00
<b>Total net investment</b>	<b>280,988</b>	<b>100.00</b>	182,556	100.00

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

	June 30, 2022	December 31, 2021
	\$	\$
Net investment, continuing operations	<b>\$280,988</b>	\$182,556
Weighted average interest rate	<b>7.13 %</b>	6.66 %

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

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

	June 30, 2022			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	97,183	—	—	97,183
Medium risk	182,967	—	—	182,967
High risk	838	—	—	838
Default	—	—	—	—
Gross carrying amount	280,988	—	—	280,988

	December 31, 2021			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	64,554	—	—	64,554
Medium risk	117,615	—	—	117,615
High risk	387	—	—	387
Default	—	—	—	—
Gross carrying amount	182,556	—	—	182,556

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

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

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

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

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**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
	\$	\$	\$	\$
<b>Balance as at December 31, 2020</b>	829	2	37	868
Provision for credit losses	(85)	25	81	21
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	35	(2)	(33)	—
<b>Balance as at March 31, 2021</b>	779	25	90	894
Provision for credit losses	167	13	33	213
Charge-offs, net of recoveries	—	—	(75)	(75)
<b>Balance as at June 30, 2021</b>	946	38	48	1,032
<b>Balance as at December 31, 2021</b>	527	—	—	527
Provision for credit losses	68	—	—	68
<b>Balance as at March 31, 2022</b>	595	—	—	595
Provision for credit losses	127	—	—	127
<b>Balance as at June 30, 2022</b>	722	—	—	722

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**5. Borrowings****Term senior credit facility**

The Company is party to a \$700,000 term senior credit facility, amended December 6, 2021, which is syndicated to a group of eight 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 LIBOR 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:

	June 30, 2022		December 31, 2021	
	Balance outstanding	Weighted average interest rate <sup>[1]</sup>	Balance outstanding	Weighted average interest rate <sup>[1]</sup>
	\$	%	\$	%
Term senior credit facility	639,103	3.94	122,000	2.10
Deferred financing costs	(12,563)		(14,336)	
<b>Total secured borrowings</b>	<b>626,540</b>		<b>107,664</b>	

[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 June 30, 2022, the unutilized balance of the facility was \$60,897 (December 31, 2021 - \$578,000).

On July 11, 2022, the Company increased its funding capacity under the term senior credit facility to \$900 million.

**Senior unsecured debentures**

As at June 30, 2022, the Company had outstanding listed senior unsecured debentures with an aggregate principal of C\$221.25 million (US\$173.9 million) (the "Debentures"), consisting of C\$75.0 million (US\$57.1 million) of debentures due December 31, 2025, which bear interest at a rate of 6.0% per annum, C\$86.25 million (US\$69.9 million) of debentures due December 31, 2026, which bear interest at a rate of 6.0% per annum, and C\$60.0 million (US\$46.9 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.

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

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

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	\$	\$
6.0% senior unsecured debentures due 2025	<b>58,260</b>	59,340
6.0% senior unsecured debentures due 2026	<b>66,999</b>	68,241
6.25% senior unsecured debentures due 2027	<b>46,608</b>	47,472
	<b>171,867</b>	175,053
Deferred financing costs	<b>(7,409)</b>	(8,120)
<b>Total unsecured debentures</b>	<b>164,458</b>	166,933

**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 Company also has the option to borrow an additional \$7.0 million principal amount under the Note agreement.

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

	<b>June 30, 2022</b>
	\$
Secured promissory note	<b>27,639</b>
Deferred financing costs	<b>(299)</b>
<b>Total promissory note</b>	<b>27,340</b>

The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 2022.

**Restricted funds**

Restricted cash as at June 30, 2022 of \$2,514 (December 31, 2021 - \$2,198) represents cash deposits that are reserved in accordance with the Company's agreements with its Partners and are not available for general corporate purposes.

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**6. Share Capital**

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

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

	<b>Common shares</b>	
	<b>Shares</b>	<b>Amount</b>
	#	\$
<b>Balance, December 31, 2020</b>	244,540,489	608,707
Common share repurchases	(1,468,438)	(9,262)
Exercise of options	666,894	225
<b>Balance, June 30, 2021</b>	<b>243,738,945</b>	<b>599,670</b>
<b>Balance, December 31, 2021</b>	246,118,555	590,501
Common share repurchases	<b>(550,200)</b>	<b>(2,462)</b>
Common share issuance <sup>[1]</sup>	<b>815,927</b>	<b>3,391</b>
Exercise of options and vesting of restricted share units	<b>396,515</b>	—
<b>Balance, June 30, 2022</b>	<b>246,780,797</b>	<b>591,430</b>

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

The following table summarizes the Company's outstanding preferred share capital as at June 30, 2022:

	<b>Shares</b>	<b>Amount</b>
	#	\$
<b>Series C 7.937% Rate Reset Preferred Shares</b>	<b>3,712,400</b>	<b>67,052</b>

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.



**Notes to interim condensed consolidated financial statements**

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

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**Normal Course Issuer Bids**

On September 14, 2021, the TSX approved the renewal of the Company's Normal Course Issuer Bid (the "Common Share Bid") for common shares of the Company and the Company's notice of intention to commence a Normal Course Issuer Bid (the "Preferred Share Bid" and, together with the Common Share Bid, the "NCIBs") for the Company's Series A Rate Reset Preferred Shares (the "Series A Preferred Shares") and Series C Rate Reset Preferred Shares (the "Series C Preferred Shares") for commencement on September 17, 2021. Pursuant to the NCIBs, the Company may repurchase up to an additional 22,455,925 common shares, 384,210 Series A Preferred Shares and 371,040 Series C Preferred Shares, representing approximately 10% of the public float of each of the common shares, the Series A Preferred Shares and Series C Preferred Shares. The NCIBs will end on the earlier of September 16, 2022 or the completion of purchases under the applicable NCIB. On December 31, 2021, the Company completed the redemption of all of its issued and outstanding Series A Preferred Shares.

During the three and six-month periods ended June 30, 2022, the Company purchased 500,000 and 550,200 common shares, respectively, for a total of \$2.2 million (C\$2.9 million) and \$2.5 million (C\$3.2 million), respectively, or C\$5.84 and C\$5.79 per common share, respectively, pursuant to the Common Share Bid. During the three and six-month periods ended June 30, 2022, the Company did not purchase any of its Series C Preferred Shares pursuant to the Preferred Share Bid.

**Common share dividends**

During the three and six-month periods ended June 30, 2022, the Company paid \$1,914 and \$3,892 or C\$0.01 and C\$0.02 per common share in dividends, respectively (June 30, 2021 - \$5,925 and \$11,755 or C\$0.03 and C\$0.06 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 and six-month periods ended June 30, 2022, the Company paid \$1,124 and \$2,270 or C\$0.390625 and C\$0.781250 per Series C share in dividends, respectively. During the three and six-month periods ended June 30, 2021, the Company paid \$1,184 and \$2,337 or C\$0.390625 and C\$0.781250 per Series C share, respectively. The Company's preferred share dividends are designated to be eligible dividends for income tax purposes.

**Notes to interim condensed consolidated financial statements**

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June 30, 2022

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

Share-based compensation expense consists of the following for the three and six-month periods ended June 30, 2022 and June 30, 2021:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Performance share units and restricted share units	1,919	3,031	5,790	6,475
Stock options	224	1,188	566	2,205
Deferred share units	190	464	1,145	1,208
<b>Share-based compensation - continuing operations</b>	<b>2,333</b>	<b>4,683</b>	<b>7,501</b>	<b>9,888</b>

During the three and six-month periods ended June 30, 2022, the Company granted 1,405,742 and 4,419,045 performance share units ("PSUs"), respectively, to senior executives and employees of the Company as long-term employment incentives in conjunction with a significant reduction in cash compensation.

During the three and six-month periods ended June 30, 2022, the Company granted nil and 3,086,123 stock options, respectively, to employees with a weighted average exercise price of C\$6.34 per share.

During the three and six-month periods ended June 30, 2022, the Company granted 57,982 and 298,151 deferred share units ("DSUs"), respectively, to members of the Company's Board of Directors.

**8. Other Revenue and Other Expenses**

Other revenue consists of the following for the periods ended June 30, 2022 and June 30, 2021:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Gain (loss) on corporate investments	140	(399)	106	10
Other fees	81	202	63	572
Loss on sale of equipment	(66)	(51)	(332)	(51)
Legacy Businesses revenue	—	1,798	—	3,476
Foreign exchange and other	2,696	1,707	3,066	2,576
<b>Total other revenue - continuing operations</b>	<b>2,851</b>	<b>3,257</b>	<b>2,903</b>	<b>6,583</b>

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

Other expenses consist of the following for the periods ended June 30, 2022 and June 30, 2021:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Amortization of intangible assets	5,384	4,594	10,732	9,189
Accretion of deferred purchase consideration	697	1,020	1,400	1,982
Transaction costs	5,632	—	5,632	—
<b>Total other expenses - continuing operations</b>	<b>11,713</b>	<b>5,614</b>	<b>17,764</b>	<b>11,171</b>

**9. Other Assets and Accounts Payable and Accrued Liabilities**

The following table presents the assets reported in other assets:

	June 30, 2022	December 31, 2021
	\$	\$
Corporate investments	16,359	19,715
Prepaid expenses and other assets	19,380	29,328
Taxes receivable	13,351	17,162
<b>Total</b>	<b>49,090</b>	<b>66,205</b>

Equity-accounted investments are included in corporate investments and are equity-accounted private company investments with a carrying value of approximately \$1.8 million and \$1.9 million as at June 30, 2022 and December 31, 2021, respectively. Corporate investments as at June 30, 2022 and December 31, 2021 also include a receivable of approximately \$2.7 million and \$2.9 million, respectively, associated with its equity-accounted investment.

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

	June 30, 2022	December 31, 2021
	\$	\$
Accounts payable and accrued liabilities	79,423	86,617
Accrued payroll and share-based compensation liabilities	75,823	89,416
Unearned revenue <sup>[1]</sup>	34,075	44,107
<b>Total</b>	<b>189,321</b>	<b>220,140</b>

[1] Represents upfront payments received from Partners of the Company for future management and advisory services.

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**10. Related Party Transactions**

**Notes receivable**

Notes receivable of \$27,640 as at June 30, 2022 (December 31, 2021 - \$29,656) 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 six-month periods ended June 30, 2022 and June 30, 2021 were as follows:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
	\$	\$
<b>Notes receivable, beginning of period</b>	<b>29,656</b>	47,553
Additions	<b>3,492</b>	20
Interest income	<b>297</b>	477
Repayments (interest and principal)	<b>(5,520)</b>	(1,863)
Foreign exchange	<b>(285)</b>	716
	<b>27,640</b>	46,903
Defeased amounts	—	(12,742)
<b>Notes receivable, end of period</b>	<b>27,640</b>	34,161

**11. Derivative Financial Instruments**

**Cash flow hedging relationships**

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

**Total return swaps**

The Company 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.

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

June 30, 2022

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three and six-month periods ended June 30, 2022 and June 30, 2021:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	1,449	1,707	(431)	2,576
Fair value (losses) gains recorded in other comprehensive income	(4,392)	3,298	(3,967)	5,138

**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, 2022		December 31, 2021	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Foreign exchange agreements	283,385	218	283,592	3,479
Total return swaps	56,285	10,447	39,067	9,904
	339,670	10,665	322,659	13,383

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

June 30, 2022

**12. Earnings Per Share**

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Net income from continuing operations	<b>9,241</b>	4,585	<b>14,711</b>	2,847
Cumulative dividends on preferred shares	<b>1,124</b>	2,459	<b>2,270</b>	4,854
Net income (loss) from continuing operations attributable to common shareholders	<b>8,117</b>	2,126	<b>12,441</b>	(2,007)
Net income from discontinued operations attributable to common shareholders	—	12,811	—	22,855
<b>Total net income attributable to common shareholders</b>	<b>8,117</b>	14,937	<b>12,441</b>	20,848
Weighted average number of common shares outstanding - basic	<b>247,223,693</b>	243,478,063	<b>246,926,559</b>	243,987,369
Basic earnings (loss) per share from continuing operations	\$ <b>0.03</b>	\$ 0.01	\$ <b>0.05</b>	\$ (0.01)
Basic earnings per share from discontinued operations	\$ —	\$ 0.05	\$ —	\$ 0.09
<b>Total basic earnings per share</b>	<b>\$ 0.03</b>	\$ 0.06	<b>\$ 0.05</b>	\$ 0.09
Weighted average number of common shares outstanding - diluted	<b>248,545,545</b>	251,075,843	<b>248,472,161</b>	251,193,695
Diluted earnings (loss) per share from continuing operations	\$ <b>0.03</b>	\$ 0.01	\$ <b>0.05</b>	\$ (0.01)
Diluted earnings per share from discontinued operations	\$ —	\$ 0.05	\$ —	\$ 0.09
<b>Total diluted earnings per share</b>	<b>\$ 0.03</b>	\$ 0.06	<b>\$ 0.05</b>	\$ 0.08

## Notes to interim condensed consolidated financial statements

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

June 30, 2022

### 13. Capital Disclosures

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

The Company's capitalization is as follows:

	June 30, 2022	December 31, 2021
	\$	\$
Borrowings on term senior credit facility and other	653,880	107,664
Accounts payable and accrued liabilities	189,321	220,140
Taxes payable	11,293	293,623
Other liabilities <sup>[1]</sup>	18,278	35,536
	<b>872,772</b>	656,963
Senior unsecured debentures <sup>[2]</sup>	164,458	166,933
Shareholders' equity	228,855	218,627
	<b>1,266,085</b>	1,042,523

[1] Other liabilities primarily include a \$18.2 million (December 31, 2021 - \$19.6 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.

### 14. 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.

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

June 30, 2022

**(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:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	83,832	—	—	83,832
Restricted cash	2,514	—	—	2,514
Held-for-trading financial assets	—	—	100,250	100,250
Retained reserve interest	—	—	34,056	34,056
Derivative financial instruments, net	—	10,665	—	10,665
<b>Total</b>	<b>86,346</b>	<b>10,665</b>	<b>134,306</b>	<b>231,317</b>

  

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	45,041	—	—	45,041
Restricted cash	2,198	—	—	2,198
Held-for-trading financial assets	—	—	44,686	44,686
Retained reserve interest	—	—	32,767	32,767
Derivative financial instruments, net	—	13,383	—	13,383
<b>Total</b>	<b>47,239</b>	<b>13,383</b>	<b>77,453</b>	<b>138,075</b>

*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.

*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.



**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

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.

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

As at June 30, 2022 and December 31, 2021, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

**15. Segmented Information**

**Operating segments**

ECN Capital's operating results of continuing operations are categorized into two core operating segments and a Corporate and Other segment. The Company's core operating segments consist of: (a) Secured Consumer Loans - Triad Financial Services and Source One; and (b) Consumer Credit Card and Related Unsecured Consumer Loans - KG. 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 and six-month periods ended June 30, 2022 and June 30, 2021 are shown in the following tables:

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

	For the three-month period ended June 30, 2022			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total
	\$	\$	\$	\$
<b>Revenues</b>	<b>51,357</b>	<b>27,554</b>	<b>2,652</b>	<b>81,563</b>
<b>Operating and other expenses</b>				
Compensation and benefits	13,145	5,439	2,027	20,611
General and administrative expenses	10,475	8,925	2,697	22,097
Interest expense	2,824	1	5,639	8,464
Depreciation and amortization	673	267	973	1,913
Share-based compensation	2,011	741	(419)	2,333
Other expenses	1,100	4,981	5,632	11,713
	<b>30,228</b>	<b>20,354</b>	<b>16,549</b>	<b>67,131</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>21,129</b>	<b>7,200</b>	<b>(13,897)</b>	<b>14,432</b>

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

	For the six-month period ended June 30, 2022			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total continuing operations
	\$	\$	\$	\$
<b>Revenues</b>	<b>85,338</b>	<b>52,877</b>	<b>3,203</b>	<b>141,418</b>
<b>Operating expenses</b>				
Compensation and benefits	24,379	13,100	3,573	41,052
General and administrative expenses	15,725	12,754	5,560	34,039
Interest expense	4,886	4	9,803	14,693
Depreciation and amortization	1,352	535	1,981	3,868
Share-based compensation	4,187	1,193	2,121	7,501
Other expenses	2,163	9,969	5,632	17,764
	<b>52,692</b>	<b>37,555</b>	<b>28,670</b>	<b>118,917</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>32,646</b>	<b>15,322</b>	<b>(25,467)</b>	<b>22,501</b>

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

	For the three-month period ended June 30, 2021			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total continuing operations
	\$	\$	\$	\$
<b>Revenues</b>	28,585	21,548	3,649	53,782
<b>Operating and other expenses</b>				
Compensation and benefits	7,829	5,755	4,303	17,887
General and administrative expenses	6,330	1,790	4,376	12,496
Interest expense	997	315	3,626	4,938
Depreciation and amortization	316	326	1,429	2,071
Share-based compensation	527	1,163	2,993	4,683
Other expenses	310	4,784	520	5,614
	16,309	14,133	17,247	47,689
<b>Income (loss) before income taxes from continuing operations</b>	12,276	7,415	(13,598)	6,093

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

	For the six-month period ended June 30, 2021			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total continuing operations
	\$	\$	\$	\$
<b>Revenues</b>	47,486	41,289	7,555	96,330
<b>Operating and other expenses</b>				
Compensation and benefits	14,643	12,225	8,641	35,509
General and administrative expenses	10,158	3,140	8,164	21,462
Interest expense	1,828	654	8,023	10,505
Depreciation and amortization	633	641	2,590	3,864
Share-based compensation	624	2,926	6,338	9,888
Other expenses	620	9,569	982	11,171
	28,506	29,155	34,738	92,399
<b>Income (loss) before income taxes from continuing operations</b>	18,980	12,134	(27,183)	3,931

**Notes to interim condensed consolidated financial statements**

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

June 30, 2022

**16. Subsequent Events**

**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"), a marine and recreational vehicle finance company, for total consideration of \$75.0 million, consisting of \$55.0 million in cash and deferred consideration of \$20.0 million to be paid over the next two years. This acquisition expands the Company's geographic presence of the Secured Consumer Loans segment. The results of IFG will be included in the Company's consolidated financial statements from the date of acquisition.

The Company is in the process of determining the fair values of intangible and tangible assets acquired and liabilities assumed. Although the initial accounting is incomplete, the Company believes the goodwill recorded will be deductible for tax purposes.

