ECN CAPITAL

Interim Condensed Consolidated Financial Statements

JUNE 30, 2023

Interim condensed consolidated statements of financial position

[in thousands of United States dollars]

	June 30, 2023	December 31, 2022
	$	$
Assets		
Cash	**46,856**	12,715
Restricted funds *[note 9]*	**2,597**	2,577
Finance receivables *[note 5]*	**625,951**	700,509
Accounts receivable	**180,056**	203,385
Taxes receivable	**16,085**	15,875
Other assets *[note 6]*	**23,877**	25,775
Retained reserve interest *[note 17]*	**36,812**	36,479
Continuing involvement asset	**59,982**	70,377
Notes receivable *[note 13]*	**28,730**	31,613
Derivative financial instruments *[note 14]*	**—**	878
Leasehold improvements and other equipment *[note 7]*	**26,005**	69,181
Intangible assets	**106,363**	104,479
Deferred tax assets	**10,913**	17,042
Goodwill *[note 8]*	**126,827**	125,446
Total assets	**1,291,054**	1,416,331
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities *[note 6]*	**70,275**	78,344
Continuing involvement liability	**59,982**	70,377
Derivative financial instruments *[note 14]*	**24,456**	26,188
Borrowings *[note 9]*	**956,694**	1,007,998
Other liabilities *[note 16]*	**38,514**	39,749
Total liabilities	**1,149,921**	1,222,656
Shareholders' equity	**141,133**	193,675
	1,291,054	1,416,331

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, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	$	$	$	$
Revenues				
Loan origination revenues	**13,327**	38,362	**36,001**	61,958
Servicing revenue	**6,902**	5,207	**13,260**	9,889
Interest income	**18,987**	7,864	**38,191**	13,976
Other revenue *[note 12]*	**(1,286)**	2,576	**(1,679)**	2,718
	37,930	54,009	**85,773**	88,541
Operating expenses and other				
Compensation and benefits	**14,843**	15,172	**31,100**	27,952
General and administrative expenses	**11,163**	13,172	**19,347**	21,285
Interest expense	**20,141**	8,463	**38,362**	14,689
Depreciation and amortization	**1,747**	1,646	**3,450**	3,333
Share-based compensation *[note 11]*	**2,138**	1,592	**6,798**	6,308
Other expenses *[note 12]*	**11,478**	6,732	**27,520**	7,795
	61,510	46,777	**126,577**	81,362
(Loss) income before income taxes from continuing operations	**(23,580)**	7,232	**(40,804)**	7,179
Provision for income taxes	**5,050**	2,601	**7,348**	2,584
Net (loss) income from continuing operations	**(28,630)**	4,631	**(48,152)**	4,595
Net income from discontinued operations *[note 4]*	**—**	4,610	**—**	10,116
Net (loss) income for the period	**(28,630)**	9,241	**(48,152)**	14,711
(Loss) earnings per common share - Basic				
Continuing operations *[note 15]*	**(0.12)**	0.01	**(0.21)**	0.01
Discontinued operations *[note 15]*	**—**	0.02	**—**	0.04
Total basic (loss) earnings per share *[note 15]*	**(0.12)**	0.03	**(0.21)**	0.05
(Loss) earnings per common share - Diluted				
Continuing operations *[note 15]*	**(0.12)**	0.01	**(0.21)**	0.01
Discontinued operations *[note 15]*	**—**	0.02	**—**	0.04
Total diluted (loss) earnings per share *[note 15]*	**(0.12)**	0.03	**(0.21)**	0.05

See accompanying notes

Interim condensed consolidated statements of comprehensive (loss) income

[in thousands of United States dollars]

	Three-month period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	$	$	$	$
Net (loss) income for the period	**(28,630)**	9,241	**(48,152)**	14,711
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges *[note 14]*	**32**	(4,392)	**1,025**	(3,967)
Net unrealized foreign exchange gain (loss)	**485**	(4,880)	**41**	(1,692)
	517	(9,272)	**1,066**	(5,659)
Deferred tax recovery (expense)	**2**	2,427	**(105)**	1,978
Total other comprehensive income (loss)	**519**	(6,845)	**961**	(3,681)
Comprehensive (loss) income for the period	**(28,111)**	2,396	**(47,191)**	11,030

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	—	—	566	—	—	566
Employee restricted stock unit expense	—	—	3,865	—	—	3,865
Common share issuance	3,391	—	—	—	—	3,391
Common share repurchases	(2,462)	—	—	—	—	(2,462)
Comprehensive income for the period	—	—	—	14,711	(3,681)	11,030
Dividends – preferred shares	—	—	—	(2,270)	—	(2,270)
Dividends – common shares	—	—	—	(3,892)	—	(3,892)
Balance, June 30, 2022	591,430	67,052	82,071	(499,122)	(12,576)	228,855
Balance, December 31, 2022	586,227	67,052	79,013	(504,319)	(34,298)	193,675
Employee stock options expense	**—**	**—**	**551**	**—**	**—**	**551**
Employee restricted stock unit expense	**—**	**—**	**530**	**—**	**—**	**530**
Comprehensive loss for the period	**—**	**—**	**—**	**(48,152)**	**961**	**(47,191)**
Dividends – preferred shares *[note 10]*	**—**	**—**	**—**	**(2,748)**	**—**	**(2,748)**
Dividends – common shares *[note 10]*	**—**	**—**	**—**	**(3,684)**	**—**	**(3,684)**
Balance, June 30, 2023	**586,227**	**67,052**	**80,094**	**(558,903)**	**(33,337)**	**141,133**

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of cash flows

[in thousands of United States dollars]

	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	$	$
Operating activities		
Net (loss) income for the period from continuing operations	**(48,152)**	4,595
Items not affecting cash:		
Share-based compensation *[note 11]*	**6,798**	6,308
Depreciation and amortization	**3,450**	3,333
Amortization of intangible assets	**3,784**	2,163
Accretion of deferred purchase consideration	**256**	—
Amortization of deferred financing costs	**2,920**	2,686
Loss on sale of fixed assets	**2,040**	—
	(28,904)	19,085
Changes in operating assets and liabilities:		
Change in finance receivables, net *[note 5]*	**74,558**	(153,801)
Change in accounts receivable, net	**23,337**	(48,177)
Change in taxes payable	**—**	(282,330)
Other operating assets and liabilities	**(3,490)**	(29,189)
Cash provided by (used in) operating activities - continuing operations	**65,501**	(494,412)
Investing activities		
Acquisition of Wake Lending, net of cash acquired *[note 3]*	**(2,489)**	—
Purchase of property, equipment and leasehold improvements	**(16,695)**	(26,608)
Proceeds from sale of equipment	**54,000**	36,742
Decrease in notes receivable	**4**	2,016
Repayment of equipment financing	**—**	(16,377)
Cash provided by (used in) investing activities - continuing operations	**34,820**	(4,227)
Financing activities		
Common shares purchased	**—**	(2,462)
Common shares issued	**—**	3,391
Payments of lease liabilities	**(1,654)**	(1,213)
Payments of deferred financing costs	**(255)**	(501)
(Repayments) borrowings on term senior credit facility, net	**(24,050)**	517,103
Repayment of promissory note	**(33,769)**	—
Issuance of secured promissory note	**—**	28,000
Dividends paid	**(6,432)**	(6,162)
Cash (used in) provided by financing activities - continuing operations	**(66,160)**	538,156
Cash flows from discontinued operations		
Cash provided by operating activities - discontinued operations	**—**	37
Cash used in financing activities - discontinued operations	**—**	(447)
Cash used in discontinued operations *[note 4]*	**—**	(410)
Net increase in cash during the period	**34,161**	39,107
Cash and restricted funds, beginning of period	**15,292**	47,239
Cash and restricted funds, end of period	**49,453**	86,346

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:	**Six-month period ended June 30, 2023**	**Six-month period ended June 30, 2022**
	$	$
Cash	**46,856**	83,832
Restricted funds	**2,597**	2,514
Total	**49,453**	86,346

Supplemental cash flow information:	**Six-month period ended June 30, 2023**	**Six-month period ended June 30, 2022**
	$	$
Cash taxes paid, net	**4,203**	284,040
Cash interest paid	**35,337**	12,130

See accompanying notes

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 199 Bay Street, Suite 4000, Toronto, Ontario, Canada. ECN Capital has approximately 590 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange ("TSX") under the symbol "ECN."

2. Basis of Presentation and Summary of Significant Accounting Policies

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International 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 August 14, 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.

Seasonality of operations

The Company's business segments are impacted by seasonality, with the second and third quarters of the year being the strongest performing quarters. As a result, higher revenues and operating profits are usually expected during the second and third quarters as compared to the first and fourth quarters.

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

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 and six-month periods ended June 30, 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 $2.9 million and $4.7 million in total revenues and $1.5 million and $2.1 million in pre-tax operating income during the three and six-month periods ended June 30, 2023, respectively.

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 and six-month periods ended June 30, 2022 include the results of KG.

	Three-month period ended June 30, 2022	Six-month period ended June 30, 2022
	$	$
Revenues	27,554	52,877
Operating expenses and other costs		
Compensation and benefits	5,439	13,100
General and administrative expenses	8,925	12,754
Interest expense	1	4
Depreciation and amortization	267	535
Share-based compensation	741	1,193
Amortization of intangibles	4,285	8,569
Accretion of deferred purchase consideration	696	1,400
	20,354	37,555
Income from discontinued operations before income taxes	7,200	15,322
Provision for income taxes	2,590	5,206
Net income from discontinued operations	4,610	10,116

[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:

	June 30, 2023	December 31, 2022
	$	$
Floorplan loans	**321,932**	472,199
RV and Marine loans	**11,972**	9,642
Gross finance receivables at amortized cost	**333,904**	481,841
Allowance for credit losses	**(1,467)**	(1,066)
Net finance receivables at amortized cost	**332,437**	480,775
Held-for-trading financial assets	**293,514**	219,734
Total finance receivables	**625,951**	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 June 30, 2023 includes $252.6 million (December 31, 2022 - $212.7 million) in manufactured housing loans and $40.9 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:

	June 30, 2023		December 31, 2022	
	$	%	$	%
31 - 60 days past due	**—**	**—**	—	—
61 - 90 days past due	**1,279**	**0.38**	—	—
Greater than 90 days past due	**10**	**—**	—	—
Total past due	**1,289**	**0.38**	—	—
Current	**332,615**	**99.62**	481,841	100.00
Total investment	**333,904**	**100.00**	481,841	100.00

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

	June 30, 2023	December 31, 2022
Net investment	**$333,904**	$481,841
Weighted average interest rate	**10.20 %**	9.23 %

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

	June 30, 2023			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	$	$	$	$
Low risk	**184,908**	**—**	**—**	**184,908**
Medium risk	**147,296**	**—**	**—**	**147,296**
High risk	**411**	**10**	**1,279**	**1,700**
Default	**—**	**—**	**—**	**—**
Gross carrying amount	**332,615**	**10**	**1,279**	**333,904**

	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

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

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
Provision for credit losses	127	—	—	127
Balance as at June 30, 2022	722	—	—	722
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**
Provision for credit losses	**(267)**	**—**	**670**	**403**
Stage transfers	**(2)**	**—**	**2**	**—**
Balance as at June 30, 2023	**794**	**1**	**672**	**1,467**

[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:

	June 30, 2023	December 31, 2022
	$	$
Corporate investments	**9,759**	11,706
Prepaid expenses and other assets	**14,118**	14,069
Total	**23,877**	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 six-month period ended June 30, 2023, the Company recorded an impairment of approximately $0.6 million in respect of its investment, reducing the carrying value to nil as at June 30, 2023.

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

	June 30, 2023	December 31, 2022
	$	$
Accounts payable and accrued liabilities	**43,187**	39,699
Accrued payroll and share-based compensation liabilities	**26,293**	37,124
Unearned revenue	**795**	1,521
Total	**70,275**	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:

	June 30, 2023	December 31, 2022
	$	$
Fixed assets	**8,686**	50,083
Right-of-use assets	**17,319**	19,098
Total	**26,005**	69,181

Fixed assets include a corporate fixed asset with a carrying value of approximately $6.0 million which is held-for-sale as at June 30, 2023. No impairment loss was recorded, as the carrying value of the asset approximates fair value less cost to sell.

[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 six-month period ended June 30, 2023 and June 30, 2022 were as follows:

	June 30, 2023	June 30, 2022
	$	$
Balance, beginning of period	**125,446**	230,166
Additions from acquisitions	**1,381**	—
Adjustments	**—**	(1,032)
Balance, end of period	**126,827**	229,134

9. Borrowings

Borrowings consist of the following as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	$	$
Term senior credit facility	**795,254**	817,734
Senior unsecured debentures	**161,440**	156,763
Other	**—**	33,501
Total	**956,694**	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 dollar 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. dollar 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, 2023		December 31, 2022	
	Balance outstanding	**Weighted average interest rate [1]**	**Balance outstanding**	**Weighted average interest rate [1]**
	$	%	$	%
Term senior credit facility	**805,652**	**7.22**	829,703	6.45
Deferred financing costs	**(10,398)**		(11,969)	
Total secured borrowings	**795,254**		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 June 30, 2023, the unutilized balance of the facility was $94,348 (December 31, 2022 - $70,297).

Senior unsecured debentures

As at June 30, 2023, 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:

	June 30, 2023	December 31, 2022
	$	$
6.0% senior unsecured debentures due 2025	**56,640**	55,335
6.0% senior unsecured debentures due 2026	**65,136**	63,635
6.25% senior unsecured debentures due 2027	**45,312**	44,268
	167,088	163,238
Deferred financing costs	**(5,648)**	(6,475)
Total unsecured debentures	**161,440**	156,763

Other

Other borrowings of $33,501 as at December 31, 2022 is comprised of a secured promissory note which was repaid in full during the six-month period ended June 30, 2023.

Restricted funds

Restricted funds as at June 30, 2023 of $2,597 (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.

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	(550,200)	(2,462)
Common share issuance [1]	815,927	3,391
Exercise of options	396,515	—
Balance, June 30, 2022	246,780,797	591,430
Balance, December 31, 2022	245,382,585	586,227
Exercise of options and vesting of restricted share units	**397,410**	—
Balance, June 30, 2023	**245,779,995**	**586,227**

[1] During the six-month period ended June 30, 2022, the Company issued $3.4 million (C$4.5 million), or 815,927 common shares, in private placements to senior management.

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

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

During the three and six-month periods ended June 30, 2023, the Company did not purchase any of its common shares or Series C Preferred Shares pursuant to the NCIBs. 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, 2023, the Company paid $1,869 and $3,684 or C$0.01 and C$0.02, respectively, per common share in dividends (June 30, 2022 - $1,914 and $3,892 or C$0.01 and C$0.02, respectively, per common share). The Company's common share dividends are designated to be eligible dividends for income tax purposes.

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

Preferred share dividends

During the three and six-month periods ended June 30, 2023, the Company paid $1,384 and $2,748 or C$0.4960625 and C$0.9921250, respectively, per Series C Preferred Share, in dividends (June 30, 2022 - $1,124 and $2,270, or C$0.3906250 and C$0.7812500, respectively, 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 and six-month periods ended June 30, 2023 and June 30, 2022:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Performance share units and restricted share units	**1,635**	1,179	**5,553**	4,597
Stock options	**250**	223	**551**	566
Deferred share units	**253**	190	**694**	1,145
Share-based compensation - continuing operations	**2,138**	1,592	**6,798**	6,308

During the six-month period ended June 30, 2023, the Company granted 481,762 deferred share units ("DSUs") to members of the Company's Board of Directors. The Company did not grant any performance share units, restricted share units or stock options during the six-month period ended June 30, 2023.

12. Other Revenue and Other Expenses

Other revenue consists of the following for the three and six-month periods ended June 30, 2023 and June 30, 2022:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Foreign exchange	**(1,146)**	1,189	**(1,317)**	(598)
Loss on corporate investments	**(485)**	123	**(810)**	88
Other fees	**345**	111	**448**	63
Loss on sale of equipment	**—**	(66)	**—**	(332)
Other	**—**	1,219	**—**	3,497
Total other revenue - continuing operations	**(1,286)**	2,576	**(1,679)**	2,718

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

Other expenses consist of the following for the three and six-month periods ended June 30, 2023 and June 30, 2022:

	Three-month period ended		Six-month period ended	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
	$	$	$	$
Amortization of intangible assets	**1,897**	1,100	**3,784**	2,163
Accretion of deferred purchase consideration	**128**	—	**256**	—
Asset disposal, litigation and corporate restructure costs	**7,303**	—	**18,664**	—
Transaction and strategic review costs	**2,150**	5,632	**4,816**	5,632
Total other expenses - continuing operations	**11,478**	6,732	**27,520**	7,795

Asset disposal, litigation and corporate restructure costs of $7.3 million and $18.7 million for the three and six-month periods ended June 30, 2023, respectively, 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 $2.2 million and $4.8 million for the three and six-month periods ended June 30, 2023, respectively, primarily reflect costs related to the Company's review of strategic alternatives.

During the six-month period ended June 30, 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 six-month period ended June 30, 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 $28,730 as at June 30, 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 six-month periods ended June 30, 2023 and June 30, 2022 were as follows:

	June 30, 2023	June 30, 2022
	$	$
Notes receivable, beginning of period	**31,613**	29,656
Additions	**—**	3,492
Interest income	**234**	297
Repayments (interest and principal)	**(4)**	(5,520)
Transfers out [1]	**(3,465)**	—
Foreign exchange	**352**	(285)
Notes receivable, end of period	**28,730**	27,640

[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 June 30, 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 $175 for the six-month period ended June 30, 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 and six-month periods ended June 30, 2023 and June 30, 2022:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	$	$	$	$
Foreign exchange agreements recorded in other revenue	**(1,146)**	1,189	**(1,317)**	(598)
Fair value gain recorded in other comprehensive income	**32**	(4,392)	**1,025**	(3,967)

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, 2023		December 31, 2022	
	Notional principal	Fair value	Notional principal	Fair value
	$	$	$	$
Derivative assets				
Foreign exchange agreements	**—**	**—**	331,846	878
	—	**—**	331,846	878
Derivative liabilities				
Foreign exchange agreements	**165,455**	**1,128**	—	—
Total return swaps	**51,444**	**23,328**	63,291	26,188
	216,899	**24,456**	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		Six-month period ended	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
	$	$	$	$
Net (loss) income from continuing operations	**(28,630)**	4,631	**(48,152)**	4,595
Cumulative dividends on preferred shares	**1,384**	1,124	**2,748**	2,270
Net (loss) income from continuing operations attributable to common shareholders	**(30,014)**	3,507	**(50,900)**	2,325
Net income from discontinued operations attributable to common shareholders	**—**	4,610	**—**	10,116
Total net (loss) income attributable to common shareholders	**(30,014)**	8,117	**(50,900)**	12,441
Weighted average number of common shares outstanding - basic	**245,727,007**	247,223,693	**245,554,796**	246,926,559
Basic (loss) earnings per share from continuing operations	**$ (0.12)**	$ 0.01	**$ (0.21)**	$ 0.01
Basic earnings per share from discontinued operations	**$ —**	$ 0.02	**$ —**	$ 0.04
Total basic (loss) earnings per share	**$ (0.12)**	$ 0.03	**$ (0.21)**	$ 0.05
Weighted average number of common shares outstanding - diluted	**245,727,007**	248,545,545	**245,952,205**	248,472,161
Diluted (loss) earnings per share from continuing operations	**$ (0.12)**	$ 0.01	**$ (0.21)**	$ 0.01
Diluted earnings per share from discontinued operations	**$ —**	$ 0.02	**$ —**	$ 0.04
Total diluted (loss) earnings per share	**$ (0.12)**	$ 0.03	**$ (0.21)**	$ 0.05

For the three and six-month periods ended June 30, 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 and six-month periods ended June 30, 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:

	June 30, 2023	December 31, 2022
	$	$
Borrowings on term senior credit facility and other	**795,254**	851,235
Accounts payable and accrued liabilities	**70,275**	78,344
Other liabilities [1]	**38,514**	39,749
	904,043	969,328
Senior unsecured debentures [2]	**161,440**	156,763
Shareholders' equity	**141,133**	193,675
	1,206,616	1,319,766

[1] Other liabilities primarily include a $18.5 million (December 31, 2022 - $18.6 million) deferred purchase consideration liability related to the acquisition of IFG, and a $20.0 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:

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	**46,856**	**—**	**—**	**46,856**
Restricted funds	**2,597**	**—**	**—**	**2,597**
Held-for-trading financial assets	**—**	**—**	**293,514**	**293,514**
Corporate investments	**—**	**9,759**	**—**	**9,759**
Retained reserve interest	**—**	**—**	**36,812**	**36,812**
Derivative financial instruments, net	**—**	**(24,456)**	**—**	**(24,456)**
Total	**49,453**	**(14,697)**	**330,326**	**365,082**

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	12,715	—	—	12,715
Restricted funds	2,577	—	—	2,577
Held-for-trading financial assets	—	—	219,734	219,734
Corporate investments	—	11,706	—	11,706
Retained reserve interest	—	—	36,479	36,479
Derivative financial instruments, net	—	(25,310)	—	(25,310)
Total	15,292	(13,604)	256,213	257,901

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.

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

The following table presents the estimated impact of a change in each of these key assumptions on the fair value of the retained reserve interest asset as at June 30, 2023.

	June 30, 2023	
Assumption	**Change**	**Amount**
	basis points	$
Charge-off rate	**5**	**2,700**
Prepayment rate	**100**	**3,500**
Discount rate	**100**	**2,800**

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.

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. Based on its exposure as at June 30, 2023, the Company estimates that a hypothetical 50 basis point increase in interest rates may result in a decrease of approximately $5.3 million in the carrying value of its held-for-trading financial assets.

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

(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 periods ended June 30, 2023 and June 30, 2022 were as follows:

	Held-for-trading financial assets	Retained reserve interest
	$	$
Balance, December 31, 2021	44,686	32,767
Issues	116,728	5,825
Sales	(59,995)	—
Settlements	(1,266)	(4,536)
Change in fair value included in earnings	97	—
Balance, June 30, 2022	100,250	34,056
Balance, December 31, 2022	219,734	36,479
Issues	**369,302**	**6,937**
Sales	**(283,296)**	**—**
Settlements	**(3,405)**	**(6,604)**
Change in fair value included in earnings	**(8,821)**	**—**
Balance, June 30, 2023	**293,514**	**36,812**

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

As at June 30, 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 which are considered Level 2 inputs in the fair value hierarchy. 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.

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

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 and six-month periods ended June 30, 2023 and June 30, 2022 are shown in the following tables:

	For the three-month period ended June 30, 2023			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	7,107	6,220	—	13,327
Servicing revenue	6,902	—	—	6,902
Interest income & other revenue	17,513	1,007	(819)	17,701
Total revenue	31,522	7,227	(819)	37,930
Operating expenses and other				
Compensation and benefits	11,013	2,246	1,584	14,843
General and administrative expenses	8,915	803	1,445	11,163
Interest expense	13,420	621	6,100	20,141
Depreciation and amortization	963	245	539	1,747
Share-based compensation	413	241	1,484	2,138
Other expenses	310	1,715	9,453	11,478
	35,034	5,871	20,605	61,510
(Loss) income before income taxes from continuing operations	(3,512)	1,356	(21,424)	(23,580)

Notes to interim condensed consolidated financial statements

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

June 30, 2023

	For the six-month period ended June 30, 2023			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	**25,111**	**10,890**	**—**	**36,001**
Servicing revenue	**13,260**	**—**	**—**	**13,260**
Interest income & other revenue	**35,836**	**1,532**	**(856)**	**36,512**
Total revenue	**74,207**	**12,422**	**(856)**	**85,773**
Operating expenses and other				
Compensation and benefits	**23,367**	**4,641**	**3,092**	**31,100**
General and administrative expenses	**14,719**	**1,373**	**3,255**	**19,347**
Interest expense	**25,892**	**861**	**11,609**	**38,362**
Depreciation and amortization	**1,850**	**492**	**1,108**	**3,450**
Share-based compensation	**2,051**	**541**	**4,206**	**6,798**
Other expenses	**620**	**3,420**	**23,480**	**27,520**
	68,499	**11,328**	**46,750**	**126,577**
Income (loss) before income taxes from continuing operations	**5,708**	**1,094**	**(47,606)**	**(40,804)**

	For the three-month period ended June 30, 2022			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	31,084	7,278	—	38,362
Servicing revenue	5,207	—	—	5,207
Interest income & other revenue	7,784	4	2,652	10,440
Total revenue	44,075	7,282	2,652	54,009
Operating expenses and other				
Compensation and benefits	11,718	1,427	2,027	15,172
General and administrative expenses	9,947	528	2,697	13,172
Interest expense	2,820	4	5,639	8,463
Depreciation and amortization	628	45	973	1,646
Share-based compensation	1,154	857	(419)	1,592
Other expenses	310	790	5,632	6,732
	26,577	3,651	16,549	46,777
Income (loss) before income taxes from continuing operations	17,498	3,631	(13,897)	7,232

Notes to interim condensed consolidated financial statements

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

June 30, 2023

	For the six-month period ended June 30, 2022			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total continuing operations
	$	$	$	$
Revenues				
Loan origination revenues	50,857	11,101	—	61,958
Servicing revenue	9,889	—	—	9,889
Interest income & other revenue	13,486	5	3,203	16,694
Total revenue	74,232	11,106	3,203	88,541
Operating expenses and other				
Compensation and benefits	21,611	2,768	3,573	27,952
General and administrative expenses	14,884	841	5,560	21,285
Interest expense	4,877	9	9,803	14,689
Depreciation and amortization	1,261	91	1,981	3,333
Share-based compensation	3,330	857	2,121	6,308
Other expenses	620	1,543	5,632	7,795
	46,583	6,109	28,670	81,362
Income (loss) before income taxes from continuing operations	27,649	4,997	(25,467)	7,179

Total assets and total liabilities by segment as at June 30, 2023 and December 31, 2022 are shown in the following tables:

	June 30, 2023			
	Manufactured Housing Finance	RV and Marine Finance	Corporate	Total
	$	$	$	$
Total assets	**975,884**	**232,335**	**82,835**	**1,291,054**
Total liabilities	**764,019**	**68,840**	**317,062**	**1,149,921**

	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

Strategic Partnership with Skyline Champion Corporation

On August 14, 2023, the Company entered into a strategic partnership with Skyline Champion Corporation ("Skyline Champion"), which includes: (i) an acquisition of 19.9% of the voting shares of ECN, including 33,550,000 common shares (the "Common Shares") and 27,450,000 in voting and mandatory convertible preferred shares ("the Preferred Shares") (the "Strategic Investment"), and ii) the formation of a joint venture captive finance company with Skyline Champion, which will enable Skyline Champion to capture a greater share of economics from financing its product suite, capture competitive market share by offering a comprehensive dealer/customer solution, increase control of and significantly improve the customer experience, and generate higher dealer loyalty and ensure deep access to financing through economic cycles. The joint venture will be 51% owned by Skyline Champion and 49% owned by Triad. The common shares will be issued at C$3.04.

Equity Investment

The Preferred Shares are initially convertible on a one-for-one basis into an aggregate of 27,450,000 Common Shares based on an initial liquidation preference and conversion price equal to the Share Issue Price, which are subject to customary anti-dilution adjustments. The Preferred Shares are convertible at any time at the option of Skyline Champion, are redeemable at the option of the Company in connection with a change of control of the Company and will automatically convert into Common Shares on the fifth anniversary of closing of the Private Placement, in each case subject to a conversion cap in the event that, as a result of any conversion, Skyline Champion would hold in excess of 19.9% of outstanding Common Shares.

The holder of the Preferred Shares will be entitled to receive cumulative cash dividends at a rate of 4.0% per annum on the liquidation preference, payable semi-annually, vote on an as-converted basis for all matters on which holders of Common Shares vote and will vote together as a single class with the Common Shares. The Preferred Shares will not be transferable other than to affiliates of Skyline Champion or with the prior approval of the Board of Directors of the Company. The Common Shares to be acquired by Skyline Champion pursuant to the Private Placement are subject to a two-year lock-up period, subject to permitted transfers to affiliates of Skyline Champion.

The Private Placement is expected to close in September 2023, subject to certain customary closing conditions. The Company intends to use the net proceeds of the Private Placement for general corporate purposes.

Investor Rights Agreement

Pursuant to an investor rights agreement to be entered into on closing of the Private Placement (the “Investor Rights Agreement”), Skyline Champion will have the right to nominate one director to serve on the Board of Directors of ECN Capital. Additionally, pursuant to the Investor Rights Agreement, for a two-year period from closing of the Private Placement: (i) unanimous approval of the Board of Directors of ECN Capital will be required in order to market the sale of Triad, pursue any material acquisitions or dispositions outside of the ordinary course (subject to certain agreed upon dispositions) or pay any dividends in excess of the Company’s current quarterly dividends and dividends on the Preferred Shares; and (ii) Skyline Champion will have a right to match in connection with unsolicited offers to acquire the Company or Triad.

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