



Interim Condensed Consolidated Financial Statements

SEPTEMBER 30, 2022

Interim condensed consolidated statements of financial position

[in thousands of United States dollars]

	September 30, 2022	December 31, 2021
	\$	\$
Assets		
Cash	19,064	45,041
Restricted funds [note 6]	2,621	2,198
Finance receivables [note 5]	514,763	226,715
Accounts receivable	182,233	148,902
Other assets [note 10]	47,401	66,205
Retained reserve interest	36,269	32,767
Continuing involvement asset	77,556	103,592
Notes receivable [note 11]	31,203	29,656
Derivative financial instruments [note 12]	1,471	13,383
Leasehold improvements and other equipment	71,071	70,168
Intangible assets	105,039	138,424
Deferred tax assets	30,318	38,898
Goodwill	125,170	230,166
Total assets excluding assets held-for-sale	1,244,179	1,146,115
Assets held-for-sale [note 4]	270,218	—
Total assets	1,514,397	1,146,115
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities [note 10]	95,020	220,140
Taxes payable	11,736	293,623
Continuing involvement liability	77,556	103,592
Derivative financial instruments [note 12]	7,486	—
Borrowings [note 6]	993,595	274,597
Other liabilities [note 14]	36,858	35,536
Total liabilities excluding liabilities held-for-sale	1,222,251	927,488
Liabilities held-for-sale [note 4]	85,608	—
Total liabilities	1,307,859	927,488
Shareholders' equity	206,538	218,627
	1,514,397	1,146,115

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 September 30, 2022	Three-month period ended September 30, 2021	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
	\$	\$	\$	\$
Revenues				
Loan origination revenues	37,695	22,097	99,653	54,796
Asset management and servicing revenues	5,743	4,102	15,632	10,268
Interest income	11,284	5,117	25,260	14,569
Other revenue [note 9]	3,288	5,000	6,006	11,724
	58,010	36,316	146,551	91,357
Operating expenses and other				
Compensation and benefits	16,676	11,387	44,628	34,671
General and administrative expenses	9,908	8,103	31,193	26,425
Interest expense	13,129	4,758	27,818	14,609
Depreciation and amortization	1,770	2,072	5,103	5,295
Share-based compensation [note 8]	2,392	3,933	8,700	10,895
Other expenses [note 9]	2,008	772	9,803	2,374
	45,883	31,025	127,245	94,269
Income (loss) before income taxes from continuing operations	12,127	5,291	19,306	(2,912)
Provision for (recovery of) income taxes	4,406	686	6,990	(990)
Net income (loss) from continuing operations	7,721	4,605	12,316	(1,922)
Net (loss) income from discontinued operations [note 4]	(1)	18,565	10,115	50,794
Net income for the period	7,720	23,170	22,431	48,872
Earnings (loss) per common share - Basic				
Continuing operations [note 13]	0.03	0.01	0.03	(0.04)
Discontinued operations [note 13]	—	0.08	0.04	0.21
Total basic earnings per share [note 13]	0.03	0.09	0.07	0.17
Earnings (loss) per common share - Diluted				
Continuing operations [note 13]	0.03	0.01	0.03	(0.04)
Discontinued operations [note 13]	—	0.07	0.04	0.20
Total diluted earnings per share [note 13]	0.03	0.08	0.07	0.16

See accompanying notes

Interim condensed consolidated statements of comprehensive (loss) income

[in thousands of United States dollars]

	Three-month period ended September 30, 2022	Three-month period ended September 30, 2021	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
	\$	\$	\$	\$
Net income for the period	7,720	23,170	22,431	48,872
Other comprehensive (loss) income				
Cash flow hedges <i>[note 12]</i>	(4,235)	3,406	(8,202)	8,544
Net unrealized foreign exchange loss	(13,876)	(5,474)	(15,568)	(3,968)
Deferred tax benefit (expense)	188	549	2,166	(1,218)
Total other comprehensive (loss) income	(17,923)	(1,519)	(21,604)	3,358
Comprehensive (loss) income for the period	(10,203)	21,651	827	52,230

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, 2020	608,707	139,143	107,961	(16,056)	(17,194)	822,561
Employee stock options exercised [note 7]	374	—	—	—	—	374
Employee stock option expense	—	—	3,262	—	—	3,262
Exchange of consideration for stock option settlement	—	—	(4,103)	—	—	(4,103)
Common share repurchases [note 7]	(24,213)	—	—	—	—	(24,213)
Preferred share repurchases	—	(1,883)	—	—	—	(1,883)
Comprehensive income for the period	—	—	—	48,872	3,358	52,230
Dividends – preferred shares [note 7]	—	—	—	(7,234)	—	(7,234)
Dividends – common shares [note 7]	—	—	—	(17,459)	—	(17,459)
Balance, September 30, 2021	584,868	137,260	107,120	8,123	(13,836)	823,535
Balance, December 31, 2021	590,501	67,052	77,640	(507,671)	(8,895)	218,627
Employee stock options expense	—	—	702	—	—	702
Employee restricted stock unit expense	—	—	2,323	—	—	2,323
Reclassification to liability for restricted stock unit modification	—	—	(2,292)	—	—	(2,292)
Common share issuance [note 7]	5,596	—	—	—	—	5,596
Common share repurchases [note 7]	(9,870)	—	—	—	—	(9,870)
Comprehensive income (loss) for the period	—	—	—	22,431	(21,604)	827
Dividends – preferred shares [note 7]	—	—	—	(3,679)	—	(3,679)
Dividends – common shares [note 7]	—	—	—	(5,696)	—	(5,696)
Balance, September 30, 2022	586,227	67,052	78,373	(494,615)	(30,499)	206,538

See accompanying notes

Interim condensed consolidated statements of cash flows

[in thousands of United States dollars]

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
	\$	\$
Operating activities		
Net income (loss) for the period from continuing operations	12,316	(1,922)
Items not affecting cash:		
Share-based compensation [note 8]	8,700	10,895
Depreciation and amortization	5,103	5,295
Amortization of intangible assets	4,043	930
Deferred purchase consideration	128	1,444
Amortization of deferred financing costs	4,128	2,671
	34,418	19,313
Changes in operating assets and liabilities:		
Change in finance receivables, net [note 5]	(288,048)	(111,066)
Change in accounts receivable, net	(84,667)	(12,446)
Change in taxes payable	(281,887)	4,165
Other operating assets and liabilities	(56,429)	8,395
Cash used in operating activities - continuing operations	(676,613)	(91,639)
Investing activities		
Acquisition of IFG	(53,173)	—
(Increase) decrease in restricted funds	(423)	3,737
Decrease in notes receivable [note 11]	(1,547)	1,100
Purchase of property, equipment and leasehold improvements	(26,963)	(4,028)
Repayment of equipment financing	(16,377)	—
Proceeds from sale of equipment	36,742	10,954
Cash (used in) provided by investing activities - continuing operations	(61,741)	11,763
Financing activities		
Option exercises [note 7]	—	374
Common share repurchases [note 7]	(9,870)	(24,213)
Common share issuances [note 7]	5,596	—
Preferred share repurchases [note 7]	—	(1,883)
Payment for stock option settlement	—	(4,103)
Payments of lease liabilities	(2,360)	(2,092)
Payments of deferred financing costs	(1,792)	(2,575)
Borrowings on term senior credit facility, net of repayments [note 6]	697,487	(3,000)
Issuance of promissory note [note 6]	35,000	—
Dividends paid [note 7]	(9,375)	(24,693)
Cash provided by (used in) financing activities - continuing operations	714,686	(62,185)
Net changes in cash provided by discontinued operations	(2,309)	137,150
Net decrease in cash during the period	(25,977)	(4,911)
Cash, beginning of period	45,041	37,977
Cash, end of period	19,064	33,066
Supplemental cash flow information		
Cash taxes paid, net	284,579	5,902
Cash interest paid	21,621	14,056

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]

September 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 marine and recreational vehicle) loans. Its Partners are seeking high quality assets to match with their deposits or other liabilities. These services are offered through two operating segments: (i) Manufactured Housing Finance, and (ii) Marine and Recreational Vehicles Finance. Headquartered in South Florida and Toronto, the registered office is located at 161 Bay Street, Suite 2800, Toronto, Ontario, Canada. ECN Capital has approximately 580 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 November 9, 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]

September 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.

Segment reporting

During the three-month period ended September 30, 2022, the Company changed the organization of its operating segments as a result of its expansion in marine and recreational vehicle secured consumer loan originations and the sale of its unsecured consumer loans business segment. Under the revised structure, the Company's operating segments include Manufactured Housing Finance and Marine and Recreational Vehicles Finance. As a result, the prior period presentation of its operating segments has been restated to conform to the current period's presentation. See Note 16, *Segmented Information*, for further information regarding the Company's reportable segments.

Comparative figures

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

3. Business Acquisitions and Disposals

Sale of Kessler Financial Services

On August 24, 2022, the Company announced that it had entered into a definitive agreement (the "Transaction Agreement") with funds managed by Stone Point Capital LLC to sell 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 ("KG") business, for cash proceeds of approximately US\$210 million, subject to standard adjustment in accordance with the Transaction Agreement (the "Transaction"). The Company closed the Transaction on October 4, 2022. See Note 17, *Subsequent Events*, for further details.

Operating results attributable to KG are presented as discontinued operations in the Company's interim condensed consolidated statements of operations for all periods presented, and the assets and liabilities of KG have been reclassified to assets held-for-sale and liabilities held-for-sale in the Company's interim condensed consolidated statement of financial position as at September 30, 2022. See Note 4, *Discontinued Operations and Assets and Liabilities Held-for-Sale*, for further details.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

Acquisition of Intercoastal Financial Group

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 \$73.9 million, including \$55.6 million in cash and deferred consideration of \$18.3 million, net of an estimated working capital adjustment of \$0.6 million, to be paid over the next two years. This acquisition expands the Company's geographic presence of the Marine and Recreational Vehicles Finance segment. The table below presents the preliminary allocation of fair values to the net assets acquired as at September 30, 2022. The Company will finalize the purchase price allocation as soon as practicable within the twelve-month period from the date of acquisition.

Consideration paid:

Cash	\$ 55,579
Fair value of deferred consideration	<u>18,347</u>
Total consideration	<u>73,926</u>

Fair value of identifiable assets and liabilities:

Cash	2,406
Accounts receivable and other assets	2,673
Intangible assets	38,700
Goodwill	34,450
Accounts payable and other liabilities	<u>(4,303)</u>
Net assets acquired	<u>73,926</u>

Acquisition-related costs were \$2.1 million, including advisory fees, legal, accounting, due diligence, and other transaction-related expenses. The allocation to goodwill of \$34.5 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. Earnings related to IFG were not material to the Company's consolidated operating results for the three-month period ended September 30, 2022.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

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, 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 Marine and Recreational Vehicles 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	\$ <u>91,640</u>
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Fair value of identifiable assets and liabilities:

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>
Net assets acquired	<u>91,640</u>

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.

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. See Note 4, *Discontinued Operations and Assets and Liabilities Held-for-Sale*, for further details.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

4. Discontinued Operations and Assets and Liabilities Held-for-Sale

Results of discontinued operations

Discontinued operations for the three and nine-month periods ended September 30, 2022 include the results of KG. Discontinued operations for the three and nine-month periods ended September 30, 2021 include the results of KG and Service Finance.

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Revenues	23,963	62,505	76,840	173,623
Operating expenses and other costs				
Compensation and benefits	10,150	13,431	23,250	39,935
Other operating expenses	7,689	11,132	20,443	25,488
Interest (income) expense	(22)	1,550	(18)	4,212
Depreciation and amortization	267	1,050	802	3,918
Share-based compensation	2,395	3,324	3,588	9,158
Amortization of intangible assets	2,534	5,974	11,103	22,212
Accretion of deferred purchase consideration	951	500	2,351	1,500
	23,964	36,961	61,519	106,423
Income from discontinued operations before income taxes	(1)	25,544	15,321	67,200
Provision for income taxes	—	6,979	5,206	16,406
Net (loss) income from discontinued operations	(1)	18,565	10,115	50,794

Notes to interim condensed consolidated financial statements

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

September 30, 2022

Assets held-for-sale and liabilities held-for-sale

The following table presents the Company's assets held-for-sale and liabilities held-for-sale, which include the assets and liabilities of KG, as at September 30, 2022:

	September 30, 2022
	<u>\$</u>
Assets held-for-sale	
Goodwill and intangible assets	201,355
Accounts receivable	54,010
Other assets	14,853
Total assets held-for-sale	<u>270,218</u>
Liabilities held-for-sale	
Deferred revenue	26,973
Accrued payroll and other liabilities	58,635
Total liabilities held-for-sale	<u>85,608</u>

5. Finance Receivables

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

	September 30, 2022	December 31, 2021
	<u>\$</u>	<u>\$</u>
Manufactured housing loans	356,044	182,556
Allowance for credit losses	(911)	(527)
Net finance receivables at amortized cost	355,133	182,029
Held-for-trading financial assets	159,630	44,686
Total finance receivables	<u>514,763</u>	<u>226,715</u>

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.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

Held-for-trading financial assets

The loans balance as at September 30, 2022 includes \$157.8 million (December 31, 2021 - \$44.7 million) in manufactured housing loans and \$1.9 million (December 31, 2021 - nil) in marine and recreational vehicle 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 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.

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

	September 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	356,044	100.00	182,556	100.00
Total net investment	356,044	100.00	182,556	100.00

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

	September 30, 2022	December 31, 2021
	\$	\$
Net investment, continuing operations	\$356,044	\$182,556
Weighted average interest rate	8.09 %	6.66 %

Notes to interim condensed consolidated financial statements

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

September 30, 2022

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

	September 30, 2022			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
Low risk	134,995	—	—	134,995
Medium risk	219,766	—	—	219,766
High risk	1,283	—	—	1,283
Default	—	—	—	—
Gross carrying amount	356,044	—	—	356,044

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
	(Performing)	(Under-performing)	(Non-performing)	
	\$	\$	\$	\$
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]

September 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
	\$	\$	\$	\$
Balance as at December 31, 2020	829	2	37	868
Provision for credit losses	(85)	25	81	21
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	35	(2)	(33)	—
Balance as at March 31, 2021	779	25	90	894
Provision for credit losses	167	13	33	213
Charge-offs, net of recoveries	—	—	(75)	(75)
Balance as at June 30, 2021	946	38	48	1,032
Provision for credit losses	(66)	—	—	(66)
Transfer to held-for-trading financial assets	(614)	(38)	(48)	(700)
Balance as at September 30, 2021	266	—	—	266
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
Provision for credit losses	189	—	—	189
Balance as at September 30, 2022	911	—	—	911

Notes to interim condensed consolidated financial statements

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

September 30, 2022

6. Borrowings

Term senior credit facility

The Company is party to a \$900 million term senior credit facility, amended July 11, 2022, 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 SOFR rate plus 2.0% per annum on outstanding U.S. denominated balances. The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property. The following table summarizes the Company's outstanding balance on its term senior credit facility:

	September 30, 2022		December 31, 2021	
	Balance outstanding	Weighted average interest rate ^[1]	Balance outstanding	Weighted average interest rate ^[1]
	\$	%	\$	%
Term senior credit facility	819,487	5.11	122,000	2.10
Deferred financing costs	(12,966)		(14,336)	
Total secured borrowings	806,521		107,664	

[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 September 30, 2022, the unutilized balance of the facility was \$80,513 (December 31, 2021 - \$578,000).

Senior unsecured debentures

As at September 30, 2022, the Company had outstanding listed senior unsecured debentures with an aggregate principal of C\$221.25 million (the "Debentures"), consisting of C\$75.0 million of debentures due December 31, 2025, which bear interest at a rate of 6.0% per annum, C\$86.25 million of debentures due December 31, 2026, which bear interest at a rate of 6.0% per annum, and C\$60.0 million due December 31, 2027, which bear interest at a rate of 6.25% per annum. The Company has the option to satisfy its obligations to repay the principal and accrued interest of each of the debentures at redemption or maturity by issuing and delivering that number of common shares in the capital of the Company in accordance with the terms of the respective indentures.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	\$	\$
6.0% senior unsecured debentures due 2025	54,233	59,340
6.0% senior unsecured debentures due 2026	62,367	68,241
6.25% senior unsecured debentures due 2027	43,386	47,472
	159,986	175,053
Deferred financing costs	(6,870)	(8,120)
Total unsecured debentures	153,116	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 Note agreement also provides the Company the option to borrow an additional \$7.0 million principal amount, which was exercised in full and bears interest at a rate of 4.99% per annum.

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

	<u>September 30, 2022</u>
	\$
Secured promissory note	34,242
Deferred financing costs	(284)
Total promissory note	33,958

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

Restricted funds

Restricted cash as at September 30, 2022 of \$2,621 (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]

September 30, 2022

7. 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, 2020	244,540,489	608,707
Common share repurchases	(3,381,876)	(24,213)
Exercise of options	1,473,269	374
Balance, September 30, 2021	242,631,882	584,868
Balance, December 31, 2021	246,118,555	590,501
Common share repurchases ^[1]	(2,550,200)	(9,870)
Common share issuance ^[2]	1,416,395	5,596
Exercise of options and vesting of restricted share units	397,835	—
Balance, September 30, 2022	245,382,585	586,227

[1] During the nine-month period ended September 30, 2022, the Company repurchased \$2.5 million (C\$3.2 million) or 550,200 common shares under its NCIB and \$7.4 million (C\$10.1 million) or 2,000,000 shares in a private transaction from a member of KG senior management in connection with the sale of KG.

[2] During the nine-month period ended September 30, 2022, the Company issued \$5.6 million (C\$7.3 million) or 1,416,395 common shares in private placements to senior management.

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

	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.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

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-month period ended September 30, 2022, the Company did not purchase any of its common shares pursuant to the Common Share Bid. During the nine-month period ended September 30, 2022, the Company purchased 550,200 common shares for a total of \$2.5 million (C\$3.2 million) or C\$5.04 per common share pursuant to the Common Share Bid. During the three and nine-month periods ended September 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 nine-month periods ended September 30, 2022, the Company paid \$1,804 and \$5,696 or C\$0.01 and C\$0.03 per common share in dividends, respectively (September 30, 2021 - \$5,704 and \$17,459 or C\$0.03 and C\$0.09 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 nine-month periods ended September 30, 2022, the Company paid \$1,409 and \$3,679 or C\$0.4960625 and C\$1.2773125 per Series C Preferred Share in dividends, respectively (September 30, 2021 - \$1,146 and \$3,483 or C\$0.390625 and C\$1.718750 per Series C Preferred Share). The Company's Series C Preferred Share dividends are designated to be eligible dividends for income tax purposes.

Notes to interim condensed consolidated financial statements

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

September 30, 2022

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

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

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Performance share units and restricted share units	2,098	2,515	6,695	6,064
Stock options	135	1,026	701	3,231
Deferred share units	159	392	1,304	1,600
Share-based compensation - continuing operations	2,392	3,933	8,700	10,895

During the three and nine-month periods ended September 30, 2022, the Company granted 739,148 and 5,158,193 performance share units ("PSUs"), respectively, to senior executives and employees of the Company.

During the three and nine-month periods ended September 30, 2022, the Company granted nil and 3,086,124 stock options, respectively, to employees with a weighted average exercise price of C\$6.34 per share.

During the three and nine-month periods ended September 30, 2022, the Company granted 64,640 and 362,791 deferred share units ("DSUs"), respectively, to members of the Company's Board of Directors.

9. Other Revenue and Other Expenses

Other revenue consists of the following for the three and nine-month periods ended September 30, 2022 and September 30, 2021:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
(Loss) gain on corporate investments	(140)	27	(52)	38
Other fees	(17)	13	46	514
Gain (loss) on sale of equipment	5	—	(329)	(51)
Legacy businesses revenue	—	1,288	—	4,764
Foreign exchange and other	3,440	3,672	6,341	6,459
Total other revenue - continuing operations	3,288	5,000	6,006	11,724

Notes to interim condensed consolidated financial statements

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

September 30, 2022

Other expenses consist of the following for the three and nine-month periods ended September 30, 2022 and September 30, 2021:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Amortization of intangible assets	1,880	310	4,043	930
Accretion of deferred purchase consideration	128	462	128	1,444
Transaction costs	—	—	5,632	—
Total other expenses - continuing operations	2,008	772	9,803	2,374

10. Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in other assets:

	September 30, 2022	December 31, 2021
	\$	\$
Corporate investments	14,760	19,715
Prepaid expenses and other assets	19,738	29,328
Taxes receivable	12,903	17,162
Total	47,401	66,205

Equity-accounted investments are included in corporate investments and are equity-accounted private company investments with a carrying value of approximately \$1.7 million and \$1.9 million as at September 30, 2022 and December 31, 2021, respectively. Corporate investments as at September 30, 2022 and December 31, 2021 also include a receivable of approximately \$2.5 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:

	September 30, 2022	December 31, 2021
	\$	\$
Accounts payable and accrued liabilities	42,900	86,617
Accrued payroll and share-based compensation liabilities	51,186	89,416
Unearned revenue	934	44,107
Total	95,020	220,140

Notes to interim condensed consolidated financial statements

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

September 30, 2022

11. Related Party Transactions

Notes receivable

Notes receivable of \$31,203 as at September 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 nine-month periods ended September 30, 2022 and September 30, 2021 were as follows:

	September 30, 2022	September 30, 2021
	\$	\$
Notes receivable, beginning of period	29,656	47,553
Additions	9,793	20
Interest income	435	711
Repayments (interest and principal)	(5,520)	(1,917)
Reclassifications to short-term receivables and other assets ^[1]	(1,802)	—
Foreign exchange	(1,359)	86
	31,203	46,453
Defeased amounts	—	(13,052)
Notes receivable, end of period	31,203	33,401

[1] These amounts represent loans to former employees that are being repaid pursuant to a fixed repayment schedule and remain secured by ECN Capital shares.

12. 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.

Notes to interim condensed consolidated financial statements

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

September 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 nine-month periods ended September 30, 2022 and September 30, 2021:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenue	3,440	3,646	2,842	7,086
Fair value (loss) gain recorded in other comprehensive income	(4,235)	3,406	(8,202)	8,544

Notional amounts and fair values of derivative instruments

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

	September 30, 2022		December 31, 2021	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Foreign exchange agreements	—	—	283,592	3,479
Total return swaps	20,212	1,471	39,067	9,904
	20,212	1,471	322,659	13,383
Derivative liabilities				
Foreign exchange agreements	329,451	3,765	—	—
Total return swaps	41,821	3,721	—	—
	371,272	7,486	—	—

Notes to interim condensed consolidated financial statements

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

September 30, 2022

13. Earnings Per Share

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Net income (loss) from continuing operations	7,721	4,605	12,316	(1,922)
Cumulative dividends on preferred shares	1,409	2,380	3,679	7,234
Net income (loss) from continuing operations attributable to common shareholders	6,312	2,225	8,637	(9,156)
Net (loss) income from discontinued operations attributable to common shareholders	(1)	18,565	10,115	50,794
Total net income attributable to common shareholders	6,311	20,790	18,752	41,638
Weighted average number of common shares outstanding - basic	246,765,989	243,333,819	246,872,447	243,768,609
Basic earnings (loss) per share from continuing operations	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.04)
Basic earnings per share from discontinued operations	\$ —	\$ 0.08	\$ 0.04	\$ 0.21
Total basic earnings per share	\$ 0.03	\$ 0.09	\$ 0.07	\$ 0.17
Weighted average number of common shares outstanding - diluted	247,299,078	251,208,423	248,080,545	251,197,694
Diluted earnings (loss) per share from continuing operations	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.04)
Diluted earnings per share from discontinued operations	\$ —	\$ 0.07	\$ 0.04	\$ 0.20
Total diluted earnings per share	\$ 0.03	\$ 0.08	\$ 0.07	\$ 0.16

Notes to interim condensed consolidated financial statements

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

September 30, 2022

14. Capital Disclosures

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

The Company's capitalization is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Borrowings on term senior credit facility and other	840,479	107,664
Accounts payable and accrued liabilities	95,020	220,140
Taxes payable	11,736	293,623
Other liabilities ^[1]	36,858	35,536
	984,093	656,963
Senior unsecured debentures ^[2]	153,116	166,933
Shareholders' equity	206,538	218,627
	1,343,747	1,042,523

[1] Other liabilities primarily include a \$18.5 million (2021 - nil) deferred purchase consideration liability related to the acquisition of IFG, and a \$18.6 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.

15. 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.

Notes to interim condensed consolidated financial statements

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

September 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:

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	19,064	—	—	19,064
Restricted cash	2,621	—	—	2,621
Held-for-trading financial assets	—	—	159,630	159,630
Retained reserve interest	—	—	36,269	36,269
Derivative financial instruments, net	—	(6,015)	—	(6,015)
Total	21,685	(6,015)	195,899	211,569

	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
Total	47,239	13,383	77,453	138,075

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]

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

16. 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) Marine and Recreational Vehicles 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 nine-month periods ended September 30, 2022 and September 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]

September 30, 2022

	Three-month period ended September 30, 2022			
	Manufactured Housing Finance	Marine and Recreational Vehicles Finance	Corporate	Total continuing operations
	\$	\$	\$	\$
Revenues	46,943	7,898	3,169	58,010
Operating and other expenses				
Compensation and benefits	12,722	2,215	1,739	16,676
General and administrative expenses	6,724	581	2,603	9,908
Interest expense	5,755	62	7,312	13,129
Depreciation and amortization	717	77	976	1,770
Share-based compensation	(243)	881	1,754	2,392
Other expenses	310	1,698	—	2,008
	25,985	5,514	14,384	45,883
Income (loss) before income taxes from continuing operations	20,958	2,384	(11,215)	12,127

Notes to interim condensed consolidated financial statements

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

September 30, 2022

	Nine-month period ended September 30, 2022			
	Manufactured Housing Finance	Marine and Recreational Vehicles Finance	Corporate	Total continuing operations
	\$	\$	\$	\$
Revenues	121,175	19,004	6,372	146,551
Operating expenses				
Compensation and benefits	34,333	4,983	5,312	44,628
General and administrative expenses	21,609	1,421	8,163	31,193
Interest expense	10,632	71	17,115	27,818
Depreciation and amortization	1,978	168	2,957	5,103
Share-based compensation	3,087	1,738	3,875	8,700
Other expenses	930	3,241	5,632	9,803
	72,569	11,622	43,054	127,245
Income (loss) before income taxes from continuing operations	48,606	7,382	(36,682)	19,306

Notes to interim condensed consolidated financial statements

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

September 30, 2022

	Three-month period ended September 30, 2021		
	Manufactured Housing Finance	Corporate	Total continuing operations
	\$	\$	\$
Revenues	31,023	5,293	36,316
Operating and other expenses			
Compensation and benefits	8,804	2,583	11,387
General and administrative expenses	4,733	3,370	8,103
Interest expense	951	3,807	4,758
Depreciation and amortization	366	1,706	2,072
Share-based compensation	1,142	2,791	3,933
Other expenses	310	462	772
	16,306	14,719	31,025
Income (loss) before income taxes from continuing operations	14,717	(9,426)	5,291

Notes to interim condensed consolidated financial statements

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

September 30, 2022

	Nine-month period ended September 30, 2021		
	Manufactured Housing Finance	Corporate	Total continuing operations
	\$	\$	\$
Revenues	78,509	12,848	91,357
Operating and other expenses			
Compensation and benefits	23,447	11,224	34,671
General and administrative expenses	14,891	11,534	26,425
Interest expense	2,779	11,830	14,609
Depreciation and amortization	999	4,296	5,295
Share-based compensation	1,766	9,129	10,895
Other expenses	930	1,444	2,374
	44,812	49,457	94,269
Income (loss) before income taxes from continuing operations	33,697	(36,609)	(2,912)

Notes to interim condensed consolidated financial statements

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

September 30, 2022

17. Subsequent Event

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 operates the KG business, to funds managed by Stone Point Capital LLC. Cash proceeds received from the sale were approximately \$210 million, subject to final working capital adjustments.

