



# Interim Condensed Consolidated Financial Statements

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**MARCH 31, 2022**

## Interim condensed consolidated statements of financial position

[in thousands of United States dollars]

	March 31, 2022	December 31, 2021
	\$	\$
<b>Assets</b>		
Cash	34,538	45,041
Restricted funds <i>[note 5]</i>	2,043	2,198
Finance receivables <i>[note 4]</i>	282,829	226,715
Accounts receivable	156,864	148,902
Other assets <i>[note 9]</i>	54,868	66,205
Retained reserve interest	34,066	32,767
Continuing involvement asset	94,344	103,592
Notes receivable <i>[note 10]</i>	28,816	29,656
Derivative financial instruments <i>[note 11]</i>	23,439	13,383
Leasehold improvements and other equipment	77,344	70,168
Intangible assets	134,059	138,424
Deferred tax assets	38,969	38,898
Goodwill	230,166	230,166
<b>Total assets</b>	<b>1,192,345</b>	<b>1,146,115</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities <i>[note 9]</i>	188,137	220,140
Taxes payable	294,186	293,623
Continuing involvement liability	94,344	103,592
Derivative financial instruments <i>[note 11]</i>	976	—
Borrowings <i>[note 5]</i>	365,242	274,597
Other liabilities <i>[note 13]</i>	19,152	35,536
<b>Total liabilities</b>	<b>962,037</b>	<b>927,488</b>
<b>Shareholders' equity</b>	<b>230,308</b>	<b>218,627</b>
	<b>1,192,345</b>	<b>1,146,115</b>

See accompanying notes

On behalf of the Board:

(signed) "William W. Lovatt"

William W. Lovatt

Director

(signed) "Steven K. Hudson"

Steven K. Hudson

Director

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

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
<b>Revenues</b>		
Loan origination revenues	23,596	12,585
Asset management and servicing revenues	25,463	18,917
Marketing and other services revenue	4,587	2,904
Interest income	6,157	4,816
Other revenue [note 8]	52	3,326
	<b>59,855</b>	<b>42,548</b>
<b>Operating expenses and other</b>		
Compensation and benefits	20,441	17,622
General and administrative expenses	11,942	8,966
Interest expense	6,229	5,567
Depreciation and amortization	1,955	1,793
Share-based compensation [note 7]	5,168	5,205
Other expenses [note 8]	6,051	5,557
	<b>51,786</b>	<b>44,710</b>
Income (loss) before income taxes from continuing operations	8,069	(2,162)
Provision for (recovery of) income taxes	2,599	(424)
<b>Net income (loss) from continuing operations</b>	<b>5,470</b>	<b>(1,738)</b>
Net income from discontinued operations [note 3]	—	10,044
<b>Net income for the period</b>	<b>5,470</b>	<b>8,306</b>
<b>Earnings (loss) per common share - Basic</b>		
Continuing operations [note 12]	0.02	(0.02)
Discontinued operations [note 12]	—	0.04
<b>Total basic earnings per share [note 12]</b>	<b>0.02</b>	<b>0.02</b>
<b>Earnings (loss) per common share - Diluted</b>		
Continuing operations [note 12]	0.02	(0.02)
Discontinued operations [note 12]	—	0.04
<b>Total diluted earnings per share [note 12]</b>	<b>0.02</b>	<b>0.02</b>

See accompanying notes

## Interim condensed consolidated statements of comprehensive income

[in thousands of United States dollars]

	Three-month period ended March 31, 2022	Three-month period ended March 31, 2021
	\$	\$
<b>Net income for the period</b>	<b>5,470</b>	8,306
<b>Other comprehensive income</b>		
Cash flow hedges <i>[note 11]</i>	425	1,840
Net unrealized foreign exchange gain	3,188	1,137
Deferred tax expense	(449)	(831)
<b>Total other comprehensive income</b>	<b>3,164</b>	2,146
<b>Comprehensive income for the period</b>	<b>8,634</b>	10,452

See accompanying notes

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

[in thousands of United States dollars]

	Common share capital	Preferred share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2020</b>	608,707	139,143	107,961	(16,056)	(17,194)	822,561
Employee stock options exercised	225	—	—	—	—	225
Employee stock option expense	—	—	1,017	—	—	1,017
Common share repurchases	(7,020)	—	—	—	—	(7,020)
Preferred share repurchases	—	(1,403)	—	—	—	(1,403)
Comprehensive income for the period	—	—	—	8,306	2,146	10,452
Dividends – preferred shares	—	—	—	(2,395)	—	(2,395)
Dividends – common shares	—	—	—	(5,830)	—	(5,830)
<b>Balance, March 31, 2021</b>	601,912	137,740	108,978	(15,975)	(15,048)	817,607
<b>Balance, December 31, 2021</b>	590,501	67,052	77,640	(507,671)	(8,895)	218,627
Employee stock options expense	—	—	343	—	—	343
Employee restricted stock unit expense	—	—	2,649	—	—	2,649
Common share issuance [note 6]	3,392	—	—	—	—	3,392
Common share repurchases [note 6]	(213)	—	—	—	—	(213)
Comprehensive income for the period	—	—	—	5,470	3,164	8,634
Dividends – preferred shares [note 6]	—	—	—	(1,146)	—	(1,146)
Dividends – common shares [note 6]	—	—	—	(1,978)	—	(1,978)
<b>Balance, March 31, 2022</b>	593,680	67,052	80,632	(505,325)	(5,731)	230,308

See accompanying notes

## Interim condensed consolidated statements of cash flows

[in thousands of United States dollars]

	<b>Three-month period ended March 31, 2022</b>	<b>Three-month period ended March 31, 2021</b>
	\$	\$
<b>Operating activities</b>		
Net income (loss) for the period from continuing operations	5,470	(1,738)
Items not affecting cash:		
Share-based compensation <i>[note 7]</i>	5,168	5,205
Depreciation and amortization	1,955	1,793
Amortization of intangible assets	5,347	4,595
Deferred purchase consideration	704	962
Amortization of deferred financing costs	1,339	1,102
	<b>19,983</b>	<b>11,919</b>
Changes in operating assets and liabilities:		
Change in finance receivables, net <i>[note 4]</i>	(56,114)	(6,373)
Other operating assets and liabilities	(51,983)	3,972
<b>Cash (used in) provided by operating activities - continuing operations</b>	<b>(88,114)</b>	<b>9,518</b>
<b>Investing activities</b>		
Decrease in restricted funds	155	3,016
Decrease in notes receivable	840	865
Purchase of property, equipment and leasehold improvements	(13,786)	(995)
Repayment of equipment financing	(16,377)	—
Proceeds from sale of equipment	19,992	—
<b>Cash (used in) provided by investing activities - continuing operations</b>	<b>(9,176)</b>	<b>2,886</b>
<b>Financing activities</b>		
Option exercises <i>[note 6]</i>	—	225
Common share repurchases <i>[note 6]</i>	(213)	(7,020)
Common shares issued <i>[note 6]</i>	3,392	(1,403)
Payments of lease liabilities	(738)	(744)
Payments of deferred financing costs	(530)	—
Borrowings on term senior credit facility, net of repayments <i>[note 5]</i>	60,000	42,692
Issuance of promissory note <i>[note 5]</i>	28,000	—
Dividends paid <i>[note 6]</i>	(3,124)	(8,225)
<b>Cash provided by financing activities - continuing operations</b>	<b>86,787</b>	<b>25,525</b>
<b>Net changes in cash provided by discontinued operations</b>	<b>—</b>	<b>(41,388)</b>
Net decrease in cash during the period	(10,503)	(3,459)
Cash, beginning of period	45,041	37,977
<b>Cash, end of period</b>	<b>34,538</b>	<b>34,518</b>
<b>Supplemental cash flow information</b>		
Cash taxes paid, net	2,318	1,170
Cash interest paid	2,347	5,672

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]

March 31, 2022

## **1. Corporate Information**

ECN Capital Corp. ("ECN Capital" or the "Company") is a leading provider of business services to North American based banks, credit unions, life insurance companies, pension funds and investment funds (collectively its "Partners"). ECN Capital originates, manages and advises on credit assets on behalf of its Partners, specifically consumer (manufactured housing and recreational vehicle and marine) loans and credit card receivables. Its Partners are seeking high quality assets to match with their deposits or other liabilities. These services are offered through three operating businesses: Triad Financial Services, Inc. ("Triad Financial Services"), Source One Financial Services, LLC ("Source One"), and Kessler Financial Services ("KG"). Headquartered in South Florida and Toronto, the registered office is located at 161 Bay Street, Suite 2800, Toronto, Ontario, Canada. ECN Capital has approximately 490 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 May 12, 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.

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

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows.

**Comparative figures**

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

**3. Business Acquisitions and Disposals**

**Acquisition of Source One Holdings, LLC**

On December 21, 2021, the Company acquired all of the outstanding equity interests in Source One Financial Services, LLC and subsidiary ("Source One"), a marine and recreational vehicle finance company, for cash consideration of \$91.6 million. This acquisition expands the Company's product portfolio and geographic presence of the Secured Consumer Loans segment. The table below presents the preliminary allocation of fair values to the net assets acquired as at March 31, 2022. The Company will finalize the purchase price allocation in 2022.

**Consideration paid:**

Cash	\$ 91,624
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**Fair value of identifiable assets and liabilities:**

Cash	2,531
Restricted funds	2,198
Accounts receivable and other	1,751
Fixed assets	578
Intangible assets	45,200
Goodwill	43,279
Accounts payable and other liabilities	(3,913)
<b>Net assets acquired</b>	<b>91,624</b>

Acquisition-related costs were \$3.1 million, including advisory fees, legal, accounting, due diligence, and other transaction-related expenses. The preliminary allocation to goodwill of \$43.3 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.



**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

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

**Results of discontinued operations**

The following table presents the results of discontinued operations for Service Finance for the three-month period ended March 31, 2021:

	<u>March 31, 2021</u>
	<u>\$</u>
<b>Revenues</b>	<u>31,469</u>
<b>Operating expenses and other costs</b>	
Compensation and benefits	6,916
Other operating expenses	5,057
Interest expense	524
Depreciation and amortization	976
Share-based compensation	1,665
Amortization of intangibles	<u>3,834</u>
	<u>18,972</u>
Income from discontinued operations before income taxes	12,497
Provision for income taxes	<u>2,453</u>
<b>Net income from discontinued operations</b>	<u>10,044</u>

**4. Finance Receivables**

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
	<u>\$</u>	<u>\$</u>
Manufactured housing loans	<b>221,225</b>	182,556
Allowance for credit losses	<b>(595)</b>	(527)
Net finance receivables at amortized cost	<u>220,630</u>	182,029
Held-for-trading financial assets	<b>62,199</b>	44,686
<b>Total finance receivables</b>	<u>282,829</u>	226,715

**Manufactured housing loans**

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

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

**Held-for-trading financial assets**

The loans balance as at March 31, 2022 includes \$62.2 million (December 31, 2021 - \$44.7 million) in manufactured housing loans, which are classified as held-for-trading. Finance receivables are classified as held-for-trading if the related loans were originated with the intention of selling the instrument in the near term. Held-for-trading finance receivables are measured on the interim condensed consolidated financial statements at fair value through profit and loss. These loans are considered Level 3 assets and the Company measures the fair value of these loans based on a valuation model using internal inputs. Upon origination, the Company's internal valuation may determine a fair value that is in excess of the origination or transaction value of the loan. In these circumstances, the Company will not recognize such gains until the fair value estimated by the internal model is substantiated by a market-observable event such as an executed sales contract.

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

	March 31, 2022		December 31, 2021	
	\$	%	\$	%
31 - 60 days past due	—	—	—	—
61 - 90 days past due	—	—	—	—
Greater than 90 days past due	—	—	—	—
Total past due	—	—	—	—
Current	<b>221,225</b>	<b>100.00</b>	182,556	100.00
<b>Total net investment</b>	<b>221,225</b>	<b>100.00</b>	182,556	100.00

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

	March 31, 2022	December 31, 2021
	\$	\$
Net investment, continuing operations	<b>\$221,225</b>	\$182,556
Weighted average interest rate	<b>7.50 %</b>	7.50 %

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

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

	March 31, 2022			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-performing)	Total
	\$	\$	\$	\$
Low risk	53,217	—	—	53,217
Medium risk	167,816	—	—	167,816
High risk	192	—	—	192
Default	—	—	—	—
Gross carrying amount	221,225	—	—	221,225

  

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

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

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

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

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

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

**Allowance for credit losses**

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

	Stage 1 (Performing)	Stage 2 (Under- performing)	Stage 3 (Non- performing)	Total
	\$	\$	\$	\$
<b>Balance as at December 31, 2020</b>	829	2	37	868
Provision for credit losses	(85)	25	81	21
Charge-offs, net of recoveries	—	—	5	5
Stage transfers	35	(2)	(33)	—
<b>Balance as at March 31, 2021</b>	<b>779</b>	<b>25</b>	<b>90</b>	<b>894</b>
<b>Balance as at December 31, 2021</b>	<b>527</b>	<b>—</b>	<b>—</b>	<b>527</b>
Provision for credit losses	<b>68</b>	<b>—</b>	<b>—</b>	<b>68</b>
<b>Balance as at March 31, 2022</b>	<b>595</b>	<b>—</b>	<b>—</b>	<b>595</b>

**5. Borrowings**

**Term senior credit facility**

The Company is party to a \$700,000 term senior credit facility, amended December 6, 2021, which is syndicated to a group of eight Canadian, U.S. and international banks with a maturity date of December 6, 2025. The facility bears interest at the prime rate plus 1.0% or one-month bankers' acceptance rate plus 2.0% per annum on outstanding Canadian denominated balances and U.S. base rate plus 1.0% per annum or one-month LIBOR rate plus 2.0% per annum on outstanding U.S. denominated balances. The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property. The following table summarizes the Company's outstanding balance on its term senior credit facility:

	March 31, 2022		December 31, 2021	
	Balance outstanding	Weighted average interest rate <sup>[1]</sup>	Balance outstanding	Weighted average interest rate <sup>[1]</sup>
	\$	%	\$	%
Term senior credit facility	182,000	2.46	122,000	2.10
Deferred financing costs	(13,440)		(14,336)	
<b>Total secured borrowings</b>	<b>168,560</b>		<b>107,664</b>	

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

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

As at March 31, 2022, the unutilized balance of the facility was \$518,000 (December 31, 2021 - \$578,000).

**Senior unsecured debentures**

**(a) Senior unsecured debentures due 2025**

On September 4, 2020, the Company issued C\$75 million (US\$57.1 million) aggregate principal amount of listed senior unsecured debentures due December 31, 2025 (the "2025 Debentures") at a price of C\$1,000 per debenture. The 2025 Debentures bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 of each year.

The 2025 Debentures will not be redeemable by the Company prior to December 31, 2023. On and after December 31, 2023 and prior to December 31, 2024, the 2025 Debentures will be redeemable, in whole or in part, at the Company's option at a redemption price equal to 103.0% of the principal amount of the 2025 Debentures redeemed plus accrued and unpaid interest. On and after December 31, 2024 and prior to the maturity date of December 31, 2025, the 2025 Debentures will be redeemable, in whole or in part, at the Company's option at par plus accrued and unpaid interest. The Company has the option to satisfy its obligations to repay the principal and accrued interest of the 2025 Debentures due 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 indenture.

**(b) Senior unsecured debentures due 2026**

On October 28, 2021, the Company issued C\$75 million (US\$61.1 million) aggregate principal amount of listed senior unsecured debentures due December 31, 2026 (the "2026 Debentures") at a price of C\$1,000 per debenture. The 2026 Debentures bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 of each year. The Company also granted the syndicate of underwriters an option to purchase up to an additional C\$11.25 million (US\$8.7 million) aggregate principal amount of 2026 Debentures, on the same terms and conditions for a period of 30 days following the closing of the debenture offering, which was exercised in full on November 5, 2021, resulting in total proceeds of C\$86.25 million (US\$69.9 million).

The 2026 Debentures will not be redeemable by the Company prior to December 31, 2024. On and after December 31, 2024 and prior to December 31, 2025, the 2026 Debentures will be redeemable, in whole or in part, at the Company's option at a redemption price equal to 103.0% of the principal amount of the 2026 Debentures redeemed plus accrued and unpaid interest. On and after December 31, 2025 and prior to the maturity date of December 31, 2026, the 2026 Debentures will be redeemable, in whole or in part, at the Company's option at par plus accrued and unpaid interest. The Company has the option to satisfy its obligations to repay the principal and accrued interest of the 2026 Debentures due 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 indenture.

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

**(c) Senior unsecured debentures due 2027**

On December 23, 2021, the Company issued C\$60 million (US\$46.9 million) aggregate principal amount of listed senior unsecured debentures due December 31, 2027 (the "2027 Debentures") at a price of C\$1,000 per debenture. The 2027 Debentures bear interest at a rate of 6.25% per annum, payable semi-annually in arrears on June 30 and December 31, commencing June 30, 2022.

The 2027 Debentures will not be redeemable by the Company prior to December 31, 2024. On and after December 31, 2024 and prior to December 31, 2025, the 2027 Debentures will be redeemable, in whole or in part, at the Company's option at a redemption price equal to 104.7% of the principal amount of the 2027 Debentures redeemed plus accrued and unpaid interest. On and after December 31, 2025 and prior to December 31, 2026, the 2027 Debentures will be redeemable, in whole or in part, at the Company's option at a redemption price equal to 103.1% of the principal amount of the 2027 Debentures redeemed plus accrued and unpaid interest. On and after December 31, 2026 and prior to the maturity date of December 31, 2027, the 2027 Debentures will be redeemable, in whole or in part, at the Company's option at par plus accrued and unpaid interest. The Company has the option to satisfy its obligations to repay the principal and accrued interest of the 2027 Debentures due 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 indenture.

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

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	\$	\$
Senior unsecured debentures due 2025	<b>59,963</b>	59,340
Senior unsecured debentures due 2026	<b>68,957</b>	68,241
Senior unsecured debentures due 2027	<b>47,970</b>	47,472
	<b>176,890</b>	175,053
Deferred financing costs	<b>(7,893)</b>	(8,120)
<b>Total unsecured debentures</b>	<b>168,997</b>	166,933

**Other**

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

**Notes to interim condensed consolidated financial statements**

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

March 31, 2022

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

	<b>March 31, 2022</b>
	\$
Secured promissory note	<b>28,000</b>
Deferred financing costs	<b>(315)</b>
<b>Total promissory note</b>	<b>27,685</b>

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2022.

**Restricted funds**

Restricted cash as at March 31, 2022 of \$2,043 (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.

**6. Share Capital**

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

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

	<b>Common shares</b>	
	<b>Shares</b>	<b>Amount</b>
	#	\$
<b>Balance, December 31, 2020</b>	244,540,489	608,707
Common share repurchases	(1,120,038)	(7,020)
Exercise of options	291,062	225
<b>Balance, March 31, 2021</b>	243,711,513	601,912
<b>Balance, December 31, 2021</b>	246,118,555	590,501
Common share repurchases	<b>(50,200)</b>	<b>(213)</b>
Common share issuance <sup>[1]</sup>	<b>815,927</b>	<b>3,392</b>
<b>Balance, March 31, 2022</b>	<b>246,884,282</b>	<b>593,680</b>

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

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March 31, 2022

The following table summarizes the Company's outstanding preferred share capital as at March 31, 2022:

	Shares	Amount
	#	\$
<b>Series C 6.25% Rate Reset Preferred Shares</b>	<b>3,712,400</b>	<b>67,052</b>

The Series C 6.25% Rate Reset 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, 2022 and on June 30 of every fifth year thereafter.

**Normal Course Issuer Bids**

On September 14, 2021, the TSX approved the renewal of the Company's Normal Course Issuer Bid (the "Common Share Bid") for common shares of the Company and the Company's notice of intention to commence a Normal Course Issuer Bid (the "Preferred Share Bid" and, together with the Common Share Bid, the "NCIBs") for the Company's Series A 6.50% Rate Reset Preferred Shares (the "Series A Preferred Shares") and Series C 6.25% Rate Reset Preferred Shares (the "Series C Preferred Shares") for commencement on September 17, 2021. Pursuant to the NCIBs, the Company may repurchase up to an additional 22,455,925 common shares, 384,210 Series A Preferred Shares and 371,040 Series C Preferred Shares, representing approximately 10% of the public float of each of the common shares, the Series A Preferred Shares and Series C Preferred Shares. The NCIBs will end on the earlier of September 16, 2022 or the completion of purchases under the applicable NCIB. On December 31, 2021, the Company completed the redemption of all of its issued and outstanding Series A Preferred Shares.

During the three-month period ended March 31, 2022, the Company purchased 50,200 common shares for a total of \$0.2 million (C\$0.3 million) or C\$5.30 per common share pursuant to the Common Share Bid. During the three-month period ended March 31, 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-month period ended March 31, 2022, the Company paid \$1,978 or C \$0.01 per common share in dividends (March 31, 2021 - \$5,830 or C\$0.03 per common share). The Company's common share dividends are designated to be eligible dividends for income tax purposes.

**Preferred share dividends**

During the three-month period ended March 31, 2022, the Company paid \$1,146 or C\$0.390625 per Series C share in dividends. During the three-month period ended March 31, 2021, the Company paid \$1,153 or C\$0.390625 per Series C share.

The Company's preferred share dividends are designated to be eligible dividends for income tax purposes.



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### 7. Share-Based Compensation

#### Share-based compensation expense

Share-based compensation expense consists of the following for the three-month periods ended March 31, 2022 and March 31, 2021:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Performance share units and restricted share units	3,871	3,443
Stock options	342	1,018
Deferred share units	955	744
<b>Share-based compensation - continuing operations</b>	<b>5,168</b>	<b>5,205</b>

During the three-month period ended March 31, 2022, the Company granted 3,013,303 Performance Share Units ("PSUs") to senior executives and employees of the Company as long-term employment incentives in conjunction with a significant reduction in cash compensation.

During the three-month period ended March 31, 2022, the Company granted 3,205,584 stock options to employees with a weighted average exercise price of C\$6.34 per share.

During the three-month period ended March 31, 2022, the Company granted 240,169 Deferred Share Units ("DSUs") to members of the Company's Board of Directors.

### 8. Other Revenue and Other Expenses

Other revenue consists of the following for the three-month periods ended March 31, 2022 and March 31, 2021:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
(Loss) gain on corporate investments	(34)	409
Other fees	(18)	370
Loss on sale of equipment	(266)	—
Legacy Businesses revenue	—	1,678
Foreign exchange and other	370	869
<b>Total other revenue - continuing operations</b>	<b>52</b>	<b>3,326</b>

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Other expenses consist of the following for the three-month periods ended March 31, 2022 and March 31, 2021:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Amortization of intangible assets	5,347	4,595
Accretion of deferred purchase consideration	704	962
<b>Total other expenses - continuing operations</b>	<b>6,051</b>	<b>5,557</b>

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

The following table presents the assets reported in other assets:

	March 31, 2022	December 31, 2021
	\$	\$
Corporate investments	17,109	19,715
Prepaid expenses and other assets	24,551	29,328
Taxes receivable	13,208	17,162
<b>Total</b>	<b>54,868</b>	<b>66,205</b>

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

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

	March 31, 2022	December 31, 2021
	\$	\$
Accounts payable and accrued liabilities	65,328	86,617
Accrued payroll and share-based compensation liabilities	81,685	89,416
Unearned revenue <sup>[1]</sup>	41,124	44,107
<b>Total</b>	<b>188,137</b>	<b>220,140</b>

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

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**10. Related Party Transactions**

**Notes receivable**

Notes receivable of \$28,816 as at March 31, 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 three-month periods ended March 31, 2022 and March 31, 2021 were as follows:

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
	\$	\$
<b>Notes receivable, beginning of period</b>	<b>29,656</b>	47,553
Additions	<b>3,492</b>	20
Interest income	<b>157</b>	237
Repayments (interest and principal)	<b>(4,652)</b>	(916)
Foreign exchange	<b>163</b>	353
	<b>28,816</b>	47,247
Defeased amounts	—	(12,179)
<b>Notes receivable, end of period</b>	<b>28,816</b>	35,068

**11. Derivative Financial Instruments**

**Cash flow hedging relationships**

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

**Total return swaps**

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

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The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three-month periods ended March 31, 2022 and March 31, 2021:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Foreign exchange agreements recorded in other revenue	370	869
Fair value gains recorded in other comprehensive income	425	1,840

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

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

	March 31, 2022		December 31, 2021	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Foreign exchange agreements	801	1	283,592	3,479
Total return swaps	43,705	23,438	39,067	9,904
	<b>44,506</b>	<b>23,439</b>	322,659	13,383
Derivative liabilities				
Foreign exchange agreements	299,512	976	—	—
	<b>299,512</b>	<b>976</b>	—	—

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March 31, 2022

**12. Earnings Per Share**

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Net income (loss) from continuing operations	5,470	(1,738)
Cumulative dividends on preferred shares	1,146	2,395
Net income (loss) from continuing operations attributable to common shareholders	4,324	(4,133)
Net income from discontinued operations attributable to common shareholders	—	10,044
<b>Total net income attributable to common shareholders</b>	<b>4,324</b>	<b>5,911</b>
Weighted average number of common shares outstanding - basic	<b>246,626,123</b>	244,502,334
Basic earnings (loss) per share from continuing operations	\$ 0.02	\$ (0.02)
Basic earnings per share from discontinued operations	\$ —	\$ 0.04
<b>Total basic earnings per share</b>	<b>\$ 0.02</b>	<b>\$ 0.02</b>
Weighted average number of common shares outstanding - diluted	<b>248,395,475</b>	251,317,206
Diluted earnings (loss) per share from continuing operations	\$ 0.02	\$ (0.02)
Diluted earnings per share from discontinued operations	\$ —	\$ 0.04
<b>Total diluted earnings per share</b>	<b>\$ 0.02</b>	<b>\$ 0.02</b>

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March 31, 2022

### 13. Capital Disclosures

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

The Company's capitalization is as follows:

	March 31, 2022	December 31, 2021
	\$	\$
Borrowings on term senior credit facility and other	196,245	107,664
Accounts payable and accrued liabilities	188,137	220,140
Taxes payable	294,186	293,623
Other liabilities <sup>[1]</sup>	19,152	35,536
	<b>697,720</b>	656,963
Senior unsecured debentures <sup>[2]</sup>	168,997	166,933
Shareholders' equity	230,308	218,627
	<b>1,097,025</b>	1,042,523

[1] Other liabilities primarily include a \$19.0 million (2021 - \$19.6 million) lease liability.

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

### 14. Fair Value Measurements

IFRS 13, *Fair Value Measurement*, requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs used in the valuation of an asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are not based on observable market data.

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**(a) Assets and liabilities measured at fair value on a recurring basis**

The following tables present the level within the fair value hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis:

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	34,538	—	—	34,538
Restricted cash	2,043	—	—	2,043
Held-for-trading financial assets	—	—	62,199	62,199
Retained reserve interest	—	—	34,066	34,066
Derivative financial instruments, net	—	22,463	—	22,463
<b>Total</b>	<b>36,581</b>	<b>22,463</b>	<b>96,265</b>	<b>155,309</b>

  

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

*Retained reserve interest*

The fair value of the retained reserve interest asset represents the present value of the amount the Company expects to recover from the amounts placed on deposit in a reserve account with respect to loans sold by Triad Financial Services. The Company estimates the present values using a discounted cash flow approach using assumptions for loan loss and prepayment rates and discount rates, which are all Level 3 inputs.

*Held-for-trading financial assets*

The fair value of held-for-trading financial assets is estimated to approximate carrying value. These finance receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

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 value 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

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

## **15. Segmented Information**

### **Operating segments**

ECN Capital's operating results of continuing operations are categorized into two core operating segments and a Corporate and Other segment. The Company's core operating segments consist of: (a) Secured Consumer Loans - Triad Financial Services and Source One; and (b) Consumer Credit Card and Related Unsecured Consumer Loans - KG. The Company's Chief Operating Decision Maker, the CEO, reviews the operating results, assesses performance and makes capital allocation decisions at the business segment level. Therefore, each of the Company's business segments is an operating and reporting segment for financial reporting purposes.

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

The interim condensed consolidated statements of operations by segment for the three-month periods ended March 31, 2022 and March 31, 2021 are shown in the following tables:



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

March 31, 2022

	For the three-month period ended March 31, 2022			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total
	\$	\$	\$	\$
<b>Revenues</b>	<b>33,981</b>	<b>25,323</b>	<b>551</b>	<b>59,855</b>
<b>Operating and other expenses</b>				
Compensation and benefits	11,234	7,661	1,546	20,441
General and administrative expenses	5,250	3,829	2,863	11,942
Interest expense	2,062	3	4,164	6,229
Depreciation and amortization	679	268	1,008	1,955
Share-based compensation	2,176	452	2,540	5,168
Other expenses	1,063	4,988	—	6,051
	<b>22,464</b>	<b>17,201</b>	<b>12,121</b>	<b>51,786</b>
<b>Income (loss) before income taxes from continuing operations</b>	<b>11,517</b>	<b>8,122</b>	<b>(11,570)</b>	<b>8,069</b>

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

March 31, 2022

	For the three-month period ended March 31, 2021			
	Secured Consumer Loans	Consumer Credit Card & Related Unsecured Consumer Loans	Corporate	Total continuing operations
	\$	\$	\$	\$
<b>Revenues</b>	18,901	19,741	3,906	42,548
<b>Operating and other expenses</b>				
Compensation and benefits	6,814	6,470	4,338	17,622
General and administrative expenses	3,828	1,350	3,788	8,966
Interest expense	831	339	4,397	5,567
Depreciation and amortization	317	315	1,161	1,793
Share-based compensation	97	1,763	3,345	5,205
Other expenses	310	4,785	462	5,557
	12,197	15,022	17,491	44,710
<b>Income (loss) before income taxes from continuing operations</b>	6,704	4,719	(13,585)	(2,162)

