

Iterim Condensed Consolidated Financial Statements

MARCH 31, 2017

ECN Capital Corp.

Interim condensed consolidated statements of financial position

[unaudited, in thousands of Canadian dollars]

	As at March 31, 2017 \$	As at December 31, 2016 \$
Assets		
Cash	16,001	45,849
Restricted funds <i>[note 6]</i>	134,727	136,871
Finance receivables <i>[note 3]</i>	1,595,957	3,387,979
Equipment under operating leases <i>[note 4]</i>	2,549,073	2,618,612
Inventories <i>[note 5]</i>	196,433	140,019
Accounts receivable and other assets	45,444	38,212
Amount receivable from sale of business <i>[note 17]</i>	1,759,370	—
Notes receivable <i>[note 11]</i>	38,176	40,668
Derivative financial instruments <i>[note 13]</i>	7,532	11,385
Property, equipment and leasehold improvements	4,235	3,812
Intangible assets	68	640
Deferred tax assets	19,129	7,747
Goodwill	4,560	4,560
	6,370,705	6,436,354
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	124,554	84,252
Derivative financial instruments <i>[note 13]</i>	1,988	2,980
Secured borrowings <i>[note 6]</i>	4,207,892	4,504,591
Deferred tax liabilities	96,889	17,360
Total liabilities	4,431,323	4,609,183
Shareholders' equity <i>[note 7]</i>	1,939,382	1,827,171
	6,370,705	6,436,354

See accompanying notes

On behalf of the Board:

Director

Director

ECN Capital Corp.

Interim condensed consolidated statements of operations

[unaudited, in thousands of Canadian dollars except for per share amounts]

	Three-month period ended March 31, 2017 \$	Three-month period ended March 31, 2016 \$
Net financial income		
Interest income	24,291	29,821
Rental revenue, net <i>[note 4]</i>	38,997	44,541
	63,288	74,362
Interest expense	31,445	32,114
Net interest income before provision for credit losses	31,843	42,248
Provision for credit losses <i>[note 3]</i>	117	10,540
Net interest income	31,726	31,708
Other revenues <i>[note 9]</i>	5,615	3,898
	37,341	35,606
Operating expenses		
Salaries, wages and benefits	8,603	5,692
General and administrative expenses	8,320	6,147
Impairment and amortization of intangible assets from acquisitions	—	650
Share-based compensation <i>[note 8]</i>	2,838	1,744
Separation and reorganization costs <i>[note 10]</i>	3,300	—
	23,061	14,233
Income before income taxes from continuing operations	14,280	21,373
Provision for income taxes	2,797	5,022
Net income for the period from continuing operations	11,483	16,351
Net income from discontinued operations <i>[note 17]</i>	272,352	10,212
Net income for the period	283,835	26,563
Basic		
Continuing operations <i>[note 12]</i>	\$0.03	\$0.05
Discontinued operations <i>[note 12]</i>	\$0.70	\$0.03
Total basic earnings per share <i>[note 12]</i>	\$0.73	\$0.08
Diluted		
Continuing operations <i>[note 12]</i>	\$0.02	\$0.04
Discontinued operations <i>[note 12]</i>	\$0.69	\$0.03
Total diluted earnings per share <i>[note 12]</i>	\$0.71	\$0.07

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of comprehensive income

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2017 \$	Three-month period ended March 31, 2016 \$
Net income for the period	283,835	26,563
Other comprehensive income (loss)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	4,821	652
Net unrealized foreign exchange gain (loss)	(17,905)	23,597
	(13,084)	24,249
Deferred tax expense (recovery)	1,481	214
Total other comprehensive income from continuing operations	(14,565)	24,035
Other comprehensive income from discontinued operations		
Realization of accumulated other comprehensive income on the sale of the US C&V Finance business	(155,812)	—
Total other comprehensive income from discontinued operations, net of tax (loss)	607	(48,417)
Total other comprehensive income from discontinued operations	(155,205)	(48,417)
Total other comprehensive income	(169,770)	(24,382)
Comprehensive income for the period	114,065	2,181

See accompanying notes

ECN Capital Corp.

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

[unaudited, in thousands of Canadian dollars]

	Common share capital	Preferred share capital	Contributed surplus	Retained earnings	Owners' net investment	Accumulated other comprehensive income	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	—	—	—	—	1,403,325	188,086	1,591,411
Net adjustment to owners' equity	—	—	—	—	(93,235)	—	(93,235)
Comprehensive income (loss) for the period	—	—	—	—	26,563	(24,382)	2,181
Employee stock option expense <i>[note 8]</i>	—	—	—	—	1,644	—	1,644
Balance, March 31, 2016	—	—	—	—	1,338,297	163,704	1,502,001
Balance, December 31, 2016	1,418,882	97,315	119,309	(18,717)	—	210,382	1,827,171
Employee stock options exercised <i>[note 8]</i>	573	—	—	—	—	—	573
Comprehensive income (loss) for the period	—	—	—	283,835	—	(14,565)	269,270
Accumulated other comprehensive income on sale of business	—	—	—	—	—	(155,205)	(155,205)
Dividends - Preferred shares	—	—	—	(2,177)	—	—	(2,177)
Dividends - Common shares	—	—	—	(3,871)	—	—	(3,871)
Employee stock option expense <i>[note 8]</i>	—	—	3,621	—	—	—	3,621
Balance March 31, 2017	1,419,455	97,315	122,930	259,070	—	40,612	1,939,382

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2017	Three-month period ended March 31, 2016
	\$	\$
Operating activities		
Net income for the period from continuing operations	11,483	16,351
Items not affecting cash		
Share-based compensation [note 8]	2,838	1,744
Depreciation of property, equipment and leasehold improvements	183	18
Amortization of intangible assets	11	—
Amortization of deferred lease costs	999	1,745
Amortization of deferred financing costs	4,654	2,037
Amortization of equipment under operating leases	17,495	16,822
Impairment and amortization of intangible assets from acquisitions	—	650
Change in asset valuation reserve	(412)	—
Provision for credit losses	117	10,540
	<u>37,368</u>	<u>49,907</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(123,999)	(198,548)
Reduction in finance receivables	1,872,250	218,265
Investment in equipment under operating leases	(61,971)	(51,317)
Proceeds on disposal of equipment under operating leases	50,999	9,608
Syndications of finance receivables	—	(104)
Other non-cash operating assets and liabilities	(1,753,209)	(30,306)
Cash provided by operating activities – continuing operations	<u>21,438</u>	<u>(2,495)</u>
Investing activities		
Decrease (increase) in restricted funds	(24,034)	30,873
Purchase of property, equipment and leasehold improvements	(1,079)	(117)
Proceeds on disposal of property, equipment and leasehold improvements, and intangible assets	149	76
Decrease (increase) in notes receivable	2,493	525
Decrease in deferred financing costs	(269)	(11,758)
Cash (used in) investing activities – continuing operations	<u>(22,740)</u>	<u>19,599</u>
Financing activities		
Issuance of share capital, net [note 7]	573	—
Net investment from parent	—	(97,726)
Issuance of secured borrowings, net	(20,682)	80,622
Dividends paid	(6,048)	—
Cash (used in) financing activities – continuing operations	<u>(26,157)</u>	<u>(17,104)</u>
Effects of foreign exchange rates on cash	<u>—</u>	<u>—</u>
Net changes in cash utilized by discontinued operations [note 17]	<u>(2,389)</u>	<u>—</u>
Net increase (decrease) in cash during the period	<u>(29,848)</u>	<u>—</u>
Cash, beginning of period	45,849	—
Cash, end of period from continuing operations	<u>16,001</u>	<u>—</u>
Supplemental cash flow information:		
Cash taxes paid	650	—
Cash interest paid	41,735	32,114

See accompanying notes

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2017

1. Corporate information and basis of presentation

On February 16, 2016, the Board of Directors of Element Financial Corporation ["Element"] approved a plan to separate into two publicly traded companies [the "Separation"]. The plan involved the separation of the portion of Element and its subsidiaries comprising the Commercial and Vendor ["C&V"] Finance, Rail Finance and Aviation Finance verticals from the existing corporate structure into ECN Capital Corp. ["ECN Capital" or the "Company"], a newly created publicly traded company. The remaining organization was subsequently renamed Element Fleet Management Corp. ["Element Fleet"]

The Separation of Element into ECN Capital and Element Fleet was implemented through a court approved plan of arrangement and was approved at a special meeting of the Element shareholders on September 20, 2016 and received final approval from the Ontario Supreme Court of Justice on September 21, 2016. Upon the Separation on October 3, 2016, common shareholders of Element were granted one common share of Element Management Corp. and one common share of ECN Capital in exchange for each Element share.

ECN Capital is an independent financial services company that originates, co-invests in and manages asset-based financing and related service programs. The Company originates a broad range of equipment and capital assets by way of secured loans, financial leases, conditional sales contracts and operating leases. Headquartered in Toronto, the registered office is located at 181 Bay Street, Suite 2830, Toronto, Ontario, Canada. ECN Capital has approximately 125 employees and operates in Canada and the United States. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol "ECN".

These interim condensed consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of the Company as if it had operated on a stand-alone basis throughout the reported periods. Namely, the comparative results as at and for the period ended March 31, 2016 were prepared on a carve-out basis. The operating results for the current period ended March 31, 2017 represent actual financial results for the period. The financial position of the Company as at December 31, 2016 was derived from the assets and liabilities assumed as part of the Separation and actual transactions post the separation date of October 3, 2016.

On March 31, 2017, the Company completed the sale of the US C&V Finance business transactions for total proceeds of US\$1.5 billion.

The majority of the assets and liabilities of ECN Capital prior to October 3, 2016 have been derived from Element's C&V Finance, Rail Finance, and Aviation Finance vertical organization. Element did not specifically distinguish payments due to or due from operations, but rather considered all such amounts, including retained earnings, to be part of a capital pool allocated between Element's net investment and the allocated portion of secured borrowings on the basis of a computed financial leverage ratio. Element also used a centralized approach to cash management under which cash deposits were transferred to Element on a daily basis and pooled with other Element entities. As a result, none of Element's cash was previously allocated to the Company's March 31, 2016 statement of financial position.

Prior to the Separation on October 3, 2016, Element utilized a centralized corporate platform to provide shared services for general and administrative functions to the Company. These shared services, which included, but were not limited to, support associated with directors, senior management, information technology, enterprise risk

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March 31, 2017

management, internal audit, human resources, accounting, communications and other general and administrative expenses were allocated to the Company on a specific identification basis. Where specific identification was not possible, these expenses were allocated based on relative percentages of net average earning assets or some other basis depending on the nature of the allocated cost. The consolidated statements of operations prior to October 3, 2016 also reflect an allocation of interest expense based upon the funding cost attributable to the allocated portion of secured borrowings.

2. 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 have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2016.

As a result of the approval of the Separation, the Company has adopted IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. For the interim condensed consolidated statements of operations, the Company has separated discontinued operations as a single amount from continuing operations and has reclassified and re-presented each period and related note disclosures.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016, which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 11, 2017.

Assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and leasehold improvements and intangible assets are not depreciated or amortized once classified as held for sale.

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Assets and liabilities classified as held for sale are presented separately in the interim condensed consolidated statements of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations; and
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after income taxes from discontinued operations in the interim condensed consolidated statements of operations. Additional disclosures are provided in note 17. All other notes to the interim condensed consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

3. Finance receivables

The following tables present finance receivables based on the type of contract:

	March 31, 2017 ^[1]		
	Leases	Loans	Total
	\$	\$	\$
Minimum lease payments	828,092	965,747	1,793,839
Non-guaranteed residual values	54,366	—	54,366
Gross investment	882,458	965,747	1,848,205
Unearned income	(139,158)	(113,646)	(252,804)
Net investment	743,300	852,101	1,595,401
Net realizable value of impaired receivables	2,380	1,669	4,049
Unamortized deferred costs and subsidies	7,068	3,813	10,881
Security deposits	(15,707)	—	(15,707)
Other receivables	6,821	258	7,079
Allowance for credit losses	(3,455)	(2,291)	(5,746)
Total finance receivables	740,407	855,550	1,595,957

[1] There were no finance receivables outstanding as at March 31, 2017 related to discontinued operations.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2017

	December 31, 2016 ^[1]		
	Leases	Loans	Total
	\$	\$	\$
Minimum lease payments	879,628	961,378	1,841,006
Non-guaranteed residual values	64,962	—	64,962
Gross investment	944,590	961,378	1,905,968
Unearned income	(150,363)	(118,263)	(268,626)
Net investment	794,227	843,115	1,637,342
Net realizable value of impaired receivables	1,316	1,669	2,985
Unamortized deferred costs and subsidies	6,943	3,196	10,139
Security deposits	(19,372)	(1,000)	(20,372)
Other receivables	3,999	2,380	6,379
Allowance for credit losses	(3,147)	(1,230)	(4,377)
Total finance receivables – continuing operations	783,966	848,130	1,632,096
Total finance receivables – discontinued operations	369,546	1,386,337	1,755,883
Total finance receivables	1,153,512	2,234,467	3,387,979

[1] Amounts have been adjusted to show discontinued operations finance receivables as a single line.

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

	March 31, 2017		December 31, 2016 ^[1]	
	\$	%	\$	%
31-60 days past due	1,459	0.09	2,589	0.16
61-90 days past due	214	0.01	582	0.04
Greater than 90 days past due	190	0.01	284	0.02
Total past due	1,863	0.11	3,455	0.22
Current	1,593,538	99.89	1,633,887	99.78
Total net investment, continuing operations	1,595,401	100.00	1,637,342	100.00

[1] There were no finance receivables outstanding as at March 31, 2017 related to discontinued operations. For December 31, 2016, amounts have been adjusted to exclude discontinued operations.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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March 31, 2017

Selected characteristics of the finance receivables of continuing operations

	March 31, 2017		December 31, 2016 ^[1]	
	Leases	Loans	Leases	Loans
Net investment, continuing operations	\$743,300	\$852,101	\$794,227	\$843,115
Weighted average fixed interest rate	6.66%	6.40%	6.65%	6.37%
Weighted average floating interest rate	n/a	4.92%	n/a	5.05%
Percentage of portfolio with fixed interest rate	100.00%	72.63%	100.00%	71.69%

[1] There were no finance receivables outstanding as at March 31, 2017 related to discontinued operations. For December 31, 2016, amounts have been adjusted to exclude discontinued operations.

Allowance for credit losses

An analysis of the Company's allowance for credit losses for continuing operations is as follows:

	Three-month period ended March 31, 2017 \$	Year ended December 31, 2016 ^[1] \$
Allowance for credit losses, beginning of period	4,377	8,122
Provision for credit losses	117	4,719
Charge-offs, net of recoveries	1,255	(8,444)
Impact of foreign exchange rates	(3)	(20)
Allowance for credit losses, end of period	5,746	4,377
Allowance as a percentage of finance receivables	0.36%	0.27%
Finance receivables in arrears [90 days and over]	190	751
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.01%	0.05%
Impaired receivables, at estimated net realizable value	4,049	2,985

[1] There was no allowance for discontinued operations as at March 31, 2017. For December 31, 2016, amounts have been adjusted to exclude discontinued operations [note 17].

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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March 31, 2017

4. Equipment under operating leases

The Company acts as a lessor in connection with equipment under operating leases and continues to recognize the leased assets in its interim condensed consolidated statements of financial position. The lease payments received, net of depreciation, are recognized in income as rental revenue, net.

	March 31, 2017	December 31, 2016
	\$	\$
Cost	2,693,254	2,748,685
Accumulated amortization	144,181	130,073
Net carrying amount of equipment under operating leases	2,549,073	2,618,612

Rental revenue, net, from continuing operations consists of the following:

	For the three-month periods ended	
	March 31, 2017	March 31, 2016
	\$	\$
Rental revenue	56,492	61,363
Amortization of equipment under operating leases	(17,495)	(16,822)
	38,997	44,541

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2017

5. Inventories

The following table presents the assets currently held in inventory for realization or awaiting new lease arrangements and presented at their net estimated realizable value. The majority of railcar inventory items represent current purchases where the Company is negotiating new lease arrangements.

	Railcar \$	Aviation \$	Canada C&V Finance \$	Continuing operations \$	US C&V Finance [1] \$	Total \$
At December 31, 2015	—	—	2,840	2,840	12,452	15,292
Net additions during the year	56,574	99,938	4,255	160,767	4,241	165,008
Valuation reserve	—	(40,281)	—	(40,281)	—	(40,281)
At December 31, 2016	56,574	59,657	7,095	123,326	16,693	140,019
Net additions during the quarter	69,452	5,609	59	75,120	(16,693)	58,427
Change in Valuation reserve	—	(411)	—	(411)	—	(411)
Foreign exchange rate adjustments	(999)	(603)	—	(1,602)	—	(1,602)
At March 31, 2017	125,027	64,252	7,154	196,433	—	196,433

[1] U.S. C&V Finance inventories represent discontinued operations.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2017

6. Secured borrowings

March 31, 2017				
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Life insurance company term funding facilities	247,862	2.96	243,319	28,121
Securitization programs	899,160	2.25	1,092,988	12,846
Asset-backed securities	1,427,292	3.96	1,839,508	42,517
Term senior credit facility [2]	1,676,614	2.73	—	—
	4,250,928	3.05	3,175,815	83,484
Deferred financing costs	(43,036)			
Total secured borrowings	4,207,892			

December 31, 2016				
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Life insurance company term funding facilities	262,363	2.96	257,841	30,428
Securitization programs	1,087,792	2.22	1,337,498	19,583
Asset-backed securities	1,457,569	3.95	1,816,193	43,312
Term senior credit facility [2]	1,744,988	2.56	—	—
	4,552,712	2.95	3,411,532	93,323
Deferred financing costs	(48,121)			
Total secured borrowings	4,504,591			

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

[2] The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2017.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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March 31, 2017

Life insurance company term funding facilities

At March 31, 2017, the Company had committed lines of funding of \$358,370, of which \$247,862 was utilized providing the Company access to \$110,508.

At December 31, 2016 the Company had committed lines of funding in the amount of \$389,906, of which \$262,363 was utilized providing the Company with access to \$127,543.

Securitization programs

As at March 31, 2017, the Company had available capacity of \$399,190 [December 31, 2016 - \$283,377].

Subsequent to March 31, 2017, in connection with the sale of the US C&V Finance business, the Company repaid the outstanding balance of US\$420,705 and terminated its securitization program related to the business sold.

Asset-backed securities

As at March 31, 2017, the Company has the following asset-backed securitizations outstanding:

Issuance date	At issuance	Outstanding as at March 31, 2017	
	US\$	US\$	C\$
April 11, 2014	340,347	302,769	402,652
February 26, 2015	405,000	366,690	487,661
March 18, 2016	422,841	403,773	536,979
	1,168,188	1,073,232	1,427,292

Term senior credit facility

The Company's US\$2,500,000 term senior credit facility is syndicated to a group of 20 Canadian, U.S. and international banks with a maturity date of September 30, 2019.

At March 31, 2017, the Company has available capacity of US\$1,239,292 [December 31, 2016 - US\$1,200,391].

Subsequent to March 31, 2017, in connection with the sale of the US C&V Finance business, the Company repaid US\$902,595 of the term senior credit facility.

ECN Capital Corp.

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Restricted funds

	March 31, 2017 \$	December 31, 2016 \$
Continuing operations		
Restricted - cash in collection accounts	38,334	26,797
Restricted - cash reserves	74,350	83,896
	112,684	110,693
Discontinued operations		
Restricted - cash in collection accounts	12,909	16,751
Restricted - cash reserves	9,134	9,427
	22,043	26,178

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.

	Common shares	
	Shares #	Amount \$
Issued pursuant to the Separation transaction	386,755,808	1,418,727
Exercise of options	356,681	155
Balance, December 31, 2016	387,112,489	1,418,882
Exercise of options	1,009,293	573
Balance, March 31, 2017	388,121,782	1,419,455

The following table summarizes the Company's outstanding preferred share capital:

	Preferred shares	
	Shares #	Amount \$
Issued during the year	4,000,000	97,315
Balance, December 31, 2016	4,000,000	97,315
Issuance of shares, net of costs	—	—
Balance, March 31, 2017	4,000,000	97,315

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Preferred share dividends

On December 2, 2016, the Company issued through a public offering, 4,000,000 6.50% Cumulative 5-year Minimum Rate Reset Preferred Shares, Series A ["Series A shares"], at a price of \$25.00 per preferred share for gross proceeds of \$100,000. The issuance included pre-tax transaction costs of \$3,659 [or after-tax transaction costs of \$2,685].

During the three-month period ended March 31, 2017, the Company paid \$2,119 [after tax cost of \$2,177] or \$0.52979 per Series A share in preferred share dividends [three-month period ended March 31, 2016 - \$0]. As at March 31, 2017, the accrued cumulative preferred share dividends were \$0 [December 31, 2016 - \$0].

Common share dividends

During the three-month period ended March 31, 2017, the Company paid \$3,871 or \$0.01 per common share outstanding at the record date of December 30, 2016 [three-month period ended March 31, 2016 - \$0].

8. Share-based compensation

Share-based compensation expense consists of the following for the periods ended:

	Three-month period ended	
	March 31, 2017	March 31, 2016
	\$	\$
[a] Stock options	2,719	1,344
[b] Deferred Share Units	119	—
[c] Performance Share Units and Restricted Share Units	—	400
Share-based compensation continuing operations	2,838	1,744
Share-based compensation discontinued operations	971	326
	3,809	2,070

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[a] Stock options

The changes in the number of stock options during the periods were as follows:

	Number of options #	Weighted average exercise price \$
Issued on Separation	22,556,684	2.59
Granted	8,895,000	2.70
Forfeited	(97,372)	2.95
Exercised	(400,720)	1.08
Outstanding, December 31, 2016	30,953,592	2.64
Granted	4,200,000	3.50
Forfeited	(109,505)	3.11
Exercised	(2,046,470)	2.02
Outstanding, March 31, 2017	32,997,617	2.79

The fair value of the options granted during the periods was determined using the Black-Scholes option valuation model with inputs to the model as follows:

Unit	Three-month period ended March 31, 2017	Year ended December 31, 2016
Weighted average share price	\$ 3.50	2.70
Average term to exercise	Years 7.0	7.0
Share price volatility	% 33.1	33.1
Weighted average expected annual dividend	\$ 0.04	0.04
Risk-free interest rate	% 1.42	0.94
Forfeiture rate	% 1.02	1.02

[b] Deferred Share Units ["DSU"]

	Number of deferred share units #
Granted	96,678
Outstanding, December 31, 2016	96,678
Granted	419,700
Outstanding, March 31, 2017	516,378

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As at March 31, 2017, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$438 [December 31, 2016 – \$319]. There are no hedges on DSU share units.

9. Other revenues

Other revenues consist of the following for the three-month period ended March 31:

	Three-month period ended	
	March 31, 2017	March 31, 2016
	\$	\$
Syndication fees	2,413	1,448
Capital advisory fees	1,036	1,316
Prepayment charges	1,159	738
Other revenue	1,007	396
Total other revenue, continuing operations	5,615	3,898
Discontinued operations	4,592	2,277
Total other revenue	10,207	6,175

10. Separation and reorganization costs

Separation and reorganization costs of \$4,672 in the quarter were incurred for the termination of corporate office space commitments of which \$3,300 was allocated to continuing operations. There were no separation and reorganization costs incurred by the Company in the three-month period ended March 31, 2016.

11. Related party transactions

Notes receivable

Notes receivable of \$38,176 as at March 31, 2017 [December 31, 2016 - \$40,668] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of Element's shares acquired prior to the Separation and to finance the purchase of the Company's shares post-separation. The loans bear interest at a rate of Canadian prime less 50 basis points with interest payable monthly or annually. The principal is payable on demand in the event of non-payment of interest and the notes receivable are secured by the Element Fleet and ECN Capital shares purchased with full recourse to the employee.

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The changes in the notes receivable during the periods were as follows:

	Three-month period ended March 31, 2017 \$	Year ended December 31, 2016 \$
Notes receivable, beginning of period	40,668	27,338
Additions	1,000	13,051
Interest income	129	802
Repayments (interest and principal)	(3,621)	(523)
Notes receivable, end of period	38,176	40,668

Corporate allocations

Element utilized a centralized corporate platform to provide shared services for general and administrative functions to the Company prior to the Separation. Corporate overhead allocations and allocated expenses recorded within salaries, wages and benefits for the three-month period ended March 31, 2016 were \$1,322. Corporate overhead allocations and allocated expenses recorded within general and administrative expense for the three-month period ended March 31, 2016 were \$1,046.

C&V Finance and Aviation Finance allocations

There were certain assets that were historically managed within the C&V Finance and Aviation Finance verticals but were retained by Element as part of the Separation. There were certain direct and indirect operating costs associated with these assets, which were excluded from the carve-out figures comprising the three-month period ended March 31, 2016 statement of operations, including both direct costs identified by management and an allocation of certain indirect costs based on net average earning assets. The operating costs excluded from the carve-out statement of operations include salaries, wages and benefits of \$344 and general and administration expenses of \$103.

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12. Earnings per share

	Three-month period ended	
	March 31, 2017	March 31, 2016
	\$	\$
Net income from continuing operations attributable to shareholders	11,483	16,351
Cumulative dividends on preferred shares	2,119	—
Net income from continuing operations available to common shareholders	9,364	16,351
Net income from discontinued operations attributable to common shareholders	272,352	10,212
Total net income attributable to common shareholders	281,716	26,563
Weighted average number of common shares outstanding – basic	387,302,206	386,134,550
Basic earnings per share from continuing operations	\$0.03	\$0.05
Basic earnings per share from discontinued operations	\$0.70	\$0.03
Total earnings per share	\$0.73	\$0.08
Weighted average number of common shares outstanding – diluted	394,787,661	390,552,940
Diluted earnings per share from continuing operations	\$0.02	\$0.04
Diluted earnings per share from discontinued operations	\$0.69	\$0.03
Total diluted earnings per share	\$0.71	\$0.07

Instruments outstanding as at March 31, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 1,750,194 stock options for the three-month period ended March 31, 2017 [three-month period ended March 31, 2016 - 10,601,541].

13. Derivative financial instruments

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.

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Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the periods ended:

	Three-month period ended	
	March 31, 2017	March 31, 2016
	\$	\$
Foreign exchange agreements recorded in other revenues	(5,947)	15,025
Fair value changes recorded in other comprehensive income (loss)	4,821	(3,729)

Notional amounts and fair values of derivative instruments

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

	As at March 31, 2017		As at December 31, 2016	
	Notional principal \$	Fair value \$	Notional principal \$	Fair value \$
Derivative assets				
Interest rate contracts	1,528,887	3,278	1,934,581	10,950
Foreign exchange agreements	749,966	4,254	542,480	435
	2,278,853	7,532	2,477,061	11,385
Derivative liabilities				
Interest rate contracts	292,482	1,988	226,888	2,200
Foreign exchange agreements	—	—	168,240	780
	292,482	1,988	395,128	2,980

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Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the interim condensed consolidated statements of financial position; the net amounts presented in the interim condensed consolidated statements of financial position; the amounts subject to an enforceable master netting agreement or similar agreement that were not included in the offset amount above; and the amount of cash collateral received or pledged.

	March 31, 2017 \$	December 31, 2016 \$
Derivative assets		
Gross amounts of financial instruments recognized on the interim condensed consolidated statements of financial position	7,532	11,385
Amounts subject to an enforceable master netting agreement	1,988	2,980
	<u>5,544</u>	<u>8,405</u>
Derivative liabilities		
Gross amounts of financial instruments recognized on the interim condensed consolidated statements of financial position	1,988	2,980
Amounts subject to an enforceable master netting agreement	1,988	2,980
	<u>—</u>	<u>—</u>

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:

	March 31, 2017 \$	December 31, 2016 \$
Secured borrowings	4,207,892	4,504,591
Accounts payable and accrued liabilities	124,554	84,252
	<u>4,332,446</u>	<u>4,588,843</u>
Shareholders' equity	1,939,382	1,827,171
	<u>6,271,828</u>	<u>6,416,014</u>

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15. Segmented information

[a] Operating segments

ECN Capital's operating results are categorized into three operating and reporting segments consisting of [a] the Rail Finance vertical; [b] the Aviation Finance vertical; and [c] the C&V Finance vertical. Rail Finance, with a focus on vendor relationships with rail manufacturers, provides leases and other secured financing for railcars for the North American rail industry. Aviation Finance provides leases and other secured financing for corporate airplanes and helicopters. C&V Finance, in conjunction with manufacturers and distributors, delivers financing and leasing solutions to customers in the transportation, construction, commercial, industrial, healthcare, golf, technology, and office products sectors. C&V Finance consists of the Canada C&V continuing operations and the US C&V discontinued operations whose earning assets were sold at the end of the quarter.

The business segments are based upon the types of assets leased and serviced and the types of clients served. The financial reporting of ECN Capital's three 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 period ended March 31 are shown in the table below:

	For the three-month period ended March 31, 2017					
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	US C&V Finance	Total
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	36,551	12,327	14,410	63,288	26,328	89,616
Interest expense	19,783	5,179	6,483	31,445	10,289	41,734
	16,768	7,148	7,927	31,843	16,039	47,882
Provision for credit losses	—	117	—	117	5,949	6,066
Other revenues	2,947	1,354	1,314	5,615	4,592	10,207
Net financial income	19,715	8,385	9,241	37,341	14,682	52,023
Adjusted operating expenses	8,284	4,160	4,479	16,923	8,975	25,898
Impairment and amortization of intangible assets from acquisitions				—	—	—
Share-based compensation				2,838	971	3,809
Separation and reorganization costs				3,300	1,372	4,672
Gain on sale of business				—	(341,817)	(341,817)
Net operating income [before income taxes]	11,431	4,225	4,762	14,280	345,181	359,461
Provision for income taxes				2,797	72,829	75,626
Net income for the period				11,483	272,352	283,835

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March 31, 2017

	For the three month period ended March 31, 2016					
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	US C&V Finance	Total
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	40,265	19,816	14,281	74,362	19,651	94,013
Interest expense	17,201	7,651	7,262	32,114	8,289	40,403
	23,064	12,165	7,019	42,248	11,362	53,610
Provision for credit losses	—	171	10,369	10,540	(6,679)	3,861
Other revenues	(109)	2,868	1,139	3,898	2,277	6,175
Net financial income	22,955	14,862	(2,211)	35,606	20,318	55,924
Adjusted operating expenses	5,395	3,216	3,228	11,839	6,642	18,481
Impairment and amortization of intangible assets from acquisitions	—	650	—	650	—	650
Share-based compensation				1,744	326	2,070
Separation and reorganization costs				—	—	—
Gain on sale of business				—	—	—
Net operating income [before income taxes]	17,560	10,996	(5,439)	21,373	13,350	34,723
Provision for income taxes				5,022	3,138	8,160
Net income for the period				16,351	10,212	26,563

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[b] Geographic Segments

The Company primarily operates in Canada, the US and Other.

Geographic information for the three-month periods ended March 31, is as follows:

	As at March 31, 2017				As at December 31, 2016 ^[1]			
	Canada \$	US \$	Other \$	Total \$	Canada \$	US \$	Other \$	Total \$
Select assets								
Finance receivables	1,081,595	517,454	(3,092)	1,595,957	1,089,854	2,301,247	(3,122)	3,387,979
Equipment under operating leases	383,466	2,107,547	58,060	2,549,073	373,309	2,186,910	58,393	2,618,612
Goodwill	4,560	—	—	4,560	4,560	—	—	4,560
Property, equipment and leasehold improvements and intangibles	3,350	953	—	4,303	2,593	1,859	—	4,452
	1,472,971	2,625,954	54,968	4,153,893	1,470,316	4,490,016	55,271	6,015,603

[1] Select assets related to discontinued operations are included in the comparative period end.

	For the three-month period ended March 31, 2017				For the three-month period ended March 31, 2016			
	Canada \$	US \$	Other \$	Total \$	Canada \$	US \$	Other \$	Total \$
For the three-month period ended								
Finance revenue from continuing operations	27,471	40,380	935	68,786	35,578	31,104	1,038	67,720
Interest expense from continuing operations				31,445				32,114
Net financial income from continuing operations				<u>37,341</u>				<u>35,606</u>

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Geographic net financial income, excluding interest expense ["Financial revenue"] is based on the location of customers and non-current assets are based on the location of the assets.

16. Fair value of financial instruments

The Company estimates the fair value of the following financial instruments using the methodology described below.

Valuation methods and assumptions

Finance receivables and secured borrowings on finance receivables

The carrying value of finance receivables and secured borrowings approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables and secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model, which is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, 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.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on these assets are commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Derivatives

The fair values of derivatives are presented in note 13 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

17. Discontinued operations

The Company entered into two separate transactions resulting in the sale during the quarter of its C&V Finance business in the United States. The transactions were structured as asset sales and cover the exclusivity of the Company's US C&V Finance business. As a result of this disposal activity, the remaining assets and associated liabilities of the US C&V Finance business have been classified to a disposal group in the interim condensed consolidated financial statements as at March 31, 2017.

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The results of discontinued operations were as follows:

	Three-month period ended March 31, 2017 \$	Three-month period ended March 31, 2016 \$
Net financial income		
Interest income	26,328	19,651
Rental revenue, net	—	—
	26,328	19,651
Interest expense	10,289	8,289
Net interest income before provision for credit losses	16,039	11,362
Provision for (recovery of) credit losses	5,949	(6,679)
Net interest income	10,090	18,041
Other revenues	4,592	2,277
	14,682	20,318
Operating expenses		
Salaries, wages and benefits	6,041	4,779
General and administrative expenses	2,934	1,863
Share-based compensation	971	326
Separation and reorganization costs	1,372	—
	11,318	6,968
Gain on sale of business, net of transaction costs	341,817	—
Income before income taxes from discontinued operations	345,181	13,350
Provision for income taxes	72,829	3,138
Net income for the period from discontinued operations	272,352	10,212

Included in the total sale price of US\$1,531,095 for the US C&V Finance business are cash proceeds received at March 31, 2017 of US\$198,976, an amount receivable from sale of business of US\$1,322,934, which was subsequently paid in cash on April 3, 2017, and a performance-based contingent amount of US\$9,185 that has been included in other assets. The performance-based contingent amount will be remeasured on a quarterly basis.

Gain on sale of business includes the realization of \$155,205 in accumulated other comprehensive income related to the US C&V Finance business and foreign exchange gains of \$7,091 relating to hedges entered into to reduce foreign exchange risk on the sale proceeds.

Gain on sale of business is stated net of transaction costs of \$24,471 and transaction-related compensation expenses of \$6,522 for employees retained by purchasers of the US C&V Finance business.

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Subsequent to March 31, 2017, the Company fully repaid and terminated the discontinued securitization facility and repaid US\$905,595 of the senior facility with proceeds from the sale.

The net cash flows of the discontinued operations were as follows:

	Three-month period ended	
	March 31, 2017 \$	March 31, 2016 \$
Net cash flows		
Operating	(69,824)	(116,097)
Investing	28,939	(1,343)
Financing	38,496	117,440
Net cash (outflow/inflow)	(2,389)	—
Cash, beginning of period	2,389	—
Cash, end of period	—	—

18. Comparative figures

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



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