Consolidated Financial Statements

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
ECN Capital Corp.

We have audited the accompanying consolidated financial statements of **ECN Capital Corp.,** which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **ECN Capital Corp.** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
March 7, 2017.

ECN Capital Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of Canadian dollars]

	As at December 31, 2016	As at December 31, 2015
	$	$
ASSETS		
Cash	**45,849**	—
Restricted funds *[note 10]*	**136,871**	222,530
Finance receivables *[note 4]*	**3,387,979**	3,129,794
Equipment under operating leases *[note 5]*	**2,618,612**	2,692,731
Inventories *[note 6]*	**140,019**	15,292
Accounts receivable and other assets	**38,212**	29,561
Notes receivable *[note 17]*	**40,668**	27,338
Derivative financial instruments *[note 19]*	**11,385**	4,014
Property, equipment and leasehold improvements *[note 7]*	**3,812**	678
Intangible assets *[note 8]*	**640**	25,565
Deferred tax assets *[note 15]*	**7,747**	16,674
Goodwill *[note 9]*	**4,560**	8,074
	6,436,354	6,172,251
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**84,252**	57,080
Derivative financial instruments *[note 19]*	**2,980**	17,747
Secured borrowings *[note 10]*	**4,504,591**	4,471,392
Deferred tax liabilities *[note 15]*	**17,360**	34,621
Total liabilities	**4,609,183**	4,580,840
Shareholders' equity *[note 11]*	**1,827,171**	1,591,411
	6,436,354	6,172,251

See accompanying notes

Director

Director

ECN Capital Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
NET FINANCIAL INCOME		
Interest income	**190,778**	178,557
Rental revenue, net *[note 5]*	**163,913**	133,833
	354,691	312,390
Interest expense	**163,596**	128,843
Net interest income before provision for credit losses	**191,095**	183,547
Provision for credit losses *[note 4]*	**24,201**	17,730
Net interest income	**166,894**	165,817
Other revenues *[note 13]*	**40,221**	51,851
	207,115	217,668
OPERATING EXPENSES		
Salaries, wages and benefits *[note 17]*	**39,044**	38,966
General and administrative expenses *[note 17]*	**33,160**	26,156
Impairment and amortization of intangible assets from acquisitions *[notes 8 and 9]*	**30,639**	1,719
Asset valuation reserve *[note 6]*	**40,281**	—
Share-based compensation *[notes 12 and 17]*	**9,844**	10,366
Separation and reorganization costs *[note 14]*	**23,458**	—
	176,426	77,207
Income before income taxes	**30,689**	140,461
(Recovery of) provision for income taxes *[note 15]*	**(2,315)**	30,690
Net income for the year	**33,004**	109,771
Basic earnings per share *[note 18]*	**$0.09**	$0.36
Diluted earnings per share *[note 18]*	**$0.08**	$0.35

See accompanying notes

ECN Capital Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in thousands of Canadian dollars]

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Net income	**33,004**	109,771
OTHER COMPREHENSIVE INCOME		
Cash flow and foreign exchange hedges *[note 19]*	**14,757**	(22,470)
Net unrealized foreign exchange gain	**12,159**	156,238
	26,916	133,768
Deferred tax expense (recovery)	**4,620**	(7,463)
Total other comprehensive income	**22,296**	141,231
Comprehensive income	**55,300**	251,002

See accompanying notes

ECN Capital Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[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, 2014	—	—	—	—	938,638	46,855	985,493
Comprehensive income for the year	—	—	—	—	109,771	141,231	251,002
Net adjustments to owners' net investment	—	—	—	—	346,663	—	346,663
Employee stock option expense *[note 12]*	—	—	—	—	8,253	—	8,253
Balance, December 31, 2015	—	—	—	—	1,403,325	188,086	1,591,411
Net adjustment to owners' equity	—	—	—	—	101,820	—	101,820
Comprehensive income for the period	—	—	—	—	51,721	(38,825)	12,896
Employee stock option expense	—	—	—	—	4,346	—	4,346
Issuance of common stock and reclassification of owners' net investment	1,444,448	—	116,764	—	(1,561,212)	—	—
Balance October 3, 2016	1,444,448	—	116,764	—	—	149,261	1,710,473
Separation tax adjustment *[note 15]*	(25,721)	—	—	—	—	—	(25,721)
Preferred shares issued *[note 11]*	—	97,315	—	—	—	—	97,315
Employee stock options exercised	155	—	—	—	—	—	155
Comprehensive income for the period	—	—	—	(18,717)	—	61,121	42,404
Employee stock option expense *[note 12]*	—	—	2,545	—	—	—	2,545
Balance, December 31, 2016	**1,418,882**	**97,315**	**119,309**	**(18,717)**	**—**	**210,382**	**1,827,171**

See accompanying notes

ECN Capital Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars]

	Year ended December 31, 2016 **$**	Year ended December 31, 2015 $
OPERATING ACTIVITIES		
Net income for the year	**33,004**	109,771
Items not affecting cash		
Share-based compensation *[note 12]*	**6,898**	8,253
Depreciation of property, equipment and leasehold improvements *[note 7]*	**499**	283
Amortization of intangible assets *[note 8]*	**320**	223
Amortization of deferred lease costs	**12,464**	9,984
Amortization of deferred financing costs	**14,774**	10,448
Amortization of equipment under operating leases *[note 5]*	**67,062**	48,147
Impairment and amortization of intangible assets *[notes 8 and 9]*	**30,639**	1,719
Increase in asset valuation reserve *[note 6]*	**40,281**	—
Provision for credit losses *[note 4]*	**24,201**	17,730
	230,142	206,558
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(1,645,241)**	(1,940,626)
Repayments of finance receivables	**1,126,933**	1,537,729
Investment in equipment under operating leases *[note 5]*	**(247,026)**	(1,084,076)
Proceeds on disposals of equipment under operating leases	**260,658**	63,614
Syndications of finance receivables	**150,794**	34,799
Other non-cash operating assets and liabilities	**15,467**	(23,235)
Cash used in operating activities	**(108,273)**	(1,205,237)
INVESTING ACTIVITIES		
Decrease (increase) in restricted funds *[note 10]*	**85,408**	(20,667)
Purchase of property, equipment and leasehold improvements *[note 7]*	**(3,731)**	(501)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	**—**	—
Purchase of intangible assets *[note 8]*	**(504)**	(492)
Increase in notes receivable *[note 17]*	**(13,330)**	(3,413)
Increase in deferred financing costs	**(43,706)**	(8,801)
Cash provided by (used in) investing activities	**24,137**	(33,874)
FINANCING ACTIVITIES		
Issue of share capital, net *[note 11]*	**97,470**	—
Net investment from parent	**101,820**	346,663
Issuance of secured borrowings, net	**(69,305)**	892,448
Cash provided by financing activities	**129,985**	1,239,111
Effects of foreign exchange rates on cash	**—**	—
Net increase in cash during the year	**45,849**	—
Cash, beginning of year	**—**	—
Cash, end of year	**45,849**	—
Supplemental cash flow information:		
Cash income taxes paid	—	—
Cash interest paid	**163,596**	128,843

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2016

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 Element 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 Separation of Element into ECN Capital Corp. and Element Fleet Management Corp. ("Element Fleet" or "EFN") has been implemented through a court approved plan of arrangement and was approved at a special meeting of Element shareholders on September 20, 2016 and received final approval from the Ontario Supreme Court of Justice on September 21, 2016. The Separation was effective on October 3, 2016. Upon the Separation, common shareholders of Element were granted one common share of Element Fleet Management Corp. and one common share of ECN Capital Corp. in exchange for each Element share. Detailed information regarding the Separation are included in the Management Information Circular of Element dated July 28, 2016 and available under Element's profile at www.sedar.com.

ECN Capital is an independent financial services company that originates, co-invests in and manages asset based financings 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 161 Bay Street, Suite 3600, Toronto, Ontario, Canada. ECN Capital has approximately 250 employees and operates in Canada and the Unites States. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol “ECN”.

These 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 year ended period ended December 31, 2015 were prepared on a carve-out basis as previously published by the Company on July 28, 2016. The operating results for the current year ended December 31, 2016 were prepared as a combination of carve-out financial results of the Company for the period to October 3, 2016 and actual financial results for the period from October 3, 2016 to December 31, 2016. The financial information 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.

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 December 31, 2015 financial statement position. Additionally, certain corporate assets of Element that related to ECN Capital have been included in the December 31, 2015 financial statement position of the Company.

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, remuneration of directors and key management personnel of Element and support associated with information technology, enterprise risk 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 7, 2017.

Basis of consolidation

Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the dates of their acquisition. Transactions and balances amongst these entities have been eliminated upon consolidation.

Subsidiaries, which include certain private partnerships and structured entities, are entities over which the Company has control. The Company controls an entity when [1] it has the power over the entity; [2] it has exposure, or rights, to variable returns from its involvement with the entity, and [3] it has the ability to use its power over the entity to affect the amount of its returns.

Associates

Associates are entities which the Company has significant influence, but not control, over the operating and financial management policy decisions of the entity. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Investments in associates are accounted for using the equity method and initially recorded at cost. Subsequently, the investment in an associate is adjusted for changes in the Company's share of net assets of the associate and such changes are reflected in the consolidated statements of operations.

Significant accounting policies

Finance receivables

The Company provides financing to customers through direct financing leases and loans.

Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Unearned finance income includes origination fees earned.

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. Unearned finance income includes loan origination fees earned.

Initial direct costs that relate to the origination of the finance receivables are deferred and recognized as yield adjustments using the effective interest method over the term of the related financial asset. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

Direct financing leases and loans are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a direct financing lease or a loan is deemed to be impaired at the earlier of the date it has been individually provided for when timely collection is not assured or when it has been in arrears for 120 days. When amounts receivable are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for credit losses.

Equipment under operating leases

The Company determines the classification of a lease at its lease inception date.

An operating lease is one that does not transfer substantially all of the risks and rewards of ownership to the lessee.

Equipment related to operating leases entered into by the Company are reported as "Equipment under operating leases" and are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term or estimated useful life of the asset as follows:

Aviation assets	- up to 30 years from the date of manufacture to an approximate 30% salvage value
Railcar assets	- up to 50 years from the date of manufacture to an approximate 10% salvage value

Rental revenue on operating leases is recognized on a straight-line basis over the lease term and is being reported net of depreciation as "Rental revenue, net".

Equipment under operating leases is reviewed for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use.

Revenue recognition

Interest income relating to finance receivables is recognized on an accrual basis using the effective interest rate method for leases and loans that are not considered impaired.

Syndication fees represent commissions and/or fees/gains received when the Company facilitates a lease arrangement between a lessee and a third party lessor and/or sells an existing lease arrangement to a third party. Syndication fees are recognized as income when the lease syndication has been completed.

Other revenue is recorded on an accrual basis as earned.

Allowance for credit losses

The Company reviews its individually significant finance leases and loans at each consolidated statement of financial position date to assess the adequacy of the allowance for credit losses and to determine whether an impairment loss should be recorded in the consolidated statements of operations. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the allowance. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. Leases and loans that have been assessed individually and found not to be impaired and all individually insignificant leases are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the lease and loan portfolio, such as levels of arrears and credit utilization, and judgments to the effect of concentrations of risks.

Restricted funds

Restricted funds represent cash reserve accounts which are held in trust as security for secured borrowings and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts.

Restricted funds also include amounts posted as collateral for derivative contracts.

Inventories

Inventory includes assets purchased or recovered by the Company that are currently held to be leased or held for sale. Inventory held to be leased, are initially measured at cost and are evaluated for impairment when events or charges in circumstances indicate that the carrying amount of those assets will not be recoverable. Assets held for sale, are measured at the lower of cost and net realizable value. For other recovered assets, an asset valuation reserve expense is recognized for the amount by which the asset's carrying amount exceeds the asset's net expected realization value.

Derivative financial instruments and hedge accounting

The Company utilizes derivatives to manage interest rate risk and foreign currency exposure, as well as equity price risk exposure related to stock compensation plans that are accounted for as liabilities. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

The Company applies hedge accounting to derivatives that meet the criteria for hedge accounting in IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"].

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

The effective portion of the change in fair value of the derivative instrument is recognized in other comprehensive income (loss) until the forecasted cash flows being hedged are recognized in income in future accounting periods. When forecasted cash flows are recognized in income, an appropriate amount of the fair value changes of the derivative instrument in accumulated other comprehensive income ["AOCI"] is reclassified to net income. Any hedge ineffectiveness is immediately recognized in income. If a forecast issuance of fixed rate debt or a forecast acquisition of fixed rate assets is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in income.

The Company uses interest rate swaps and foreign exchange forward agreements to hedge its exposure to changes in future cash flows due to interest rate risk and foreign currency risk in forecasted highly probable transactions.

Fair value hedges

The effective portion of the change in fair value of derivative instruments is recognized in net income and is offset against any gains or losses on changes in fair value of the hedged item. The ineffective portion of the change in fair value is recorded in other income.

Hedges of a net investment

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on a hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of operations. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statements of operations.

The Company may use foreign currency forward agreements or foreign currency denominated debt as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

Secured borrowings

The Company periodically transfers pools of finance receivables to third parties, including structured entities. Transfers of pools of finance receivables under certain arrangements, including transfers where a security interest or legal ownership is transferred, do not result in de-recognition of the finance receivables from the Company's consolidated statements of financial position and continue to be recognized on the Company's consolidated statements of financial position and accounted for as finance receivables, as described above. As such, these transactions result in the recognition of secured borrowings when cash is received from the third party or structured entity.

The secured borrowings are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs are applied to the carrying amount of the liability.

Deferred financing costs are presented as a reduction of secured borrowings and relate to costs incurred to obtain funding agreements that result in these arrangements. These amounts are accreted to income over a period matching the repayment terms of the secured borrowing obtained during the initial commitment period.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation using the declining balance method for equipment at annual rates designed to depreciate the cost of the equipment over their estimated useful lives. Leasehold improvements are depreciated on a straight-line basis over the underlying lease terms. Buildings, vehicles and computer servers are depreciated using the straight-line method over their estimated useful lives. Land is not depreciated. The rates of depreciation are as follows:

Office equipment	30% per annum
Computer equipment	55% per annum for general equipment, 5 years for servers
Leasehold improvements	Lease term
Vehicles	4 years
Buildings	25 years

Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ["CGU"] to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss

is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Separation costs

The Company defines separation costs as expenses that were incurred as a result of the Separation of Element into the Company and Element Fleet.

The Company presents separation costs separately on the consolidated statements of operations because these costs differ from other expenses in their frequency and predictability, and presenting them separately provides useful information to financial statement users.

Intangible assets

The Company's intangible assets include computer software and customer relationships and are measured at cost. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for impairment at each reporting period. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. Impairment and amortization of intangible assets from acquisitions expense is recognized in the consolidated statements of operations.

Share-based payments

Stock options

The Company has established a share option plan for employees and directors whereby the Company's Board of Directors [the "Board"] may award options to certain employees and directors. The Plan is intended to promote an alignment of long term interests between employees, directors and the shareholders of the Company. The Board determines the amount, timing and vesting conditions associated with each award of share options. Each share option has a value that depends on the fair market value of one common share of the Company at the time of the grant determined using the Black-Scholes option valuation model. The cost of these share option grants is recognized on a proportional basis consistent with the vesting of the underlying share options.

Deferred share unit plan

The Company has established a Deferred Share Unit ["DSU"] plan for executives and directors whereby the Company's Board of Directors may award DSUs as compensation for services rendered. The plan is intended to promote an alignment of long-term interests between executives and directors and the shareholders of the Company. The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Additionally, directors may elect to receive up to 100% of their annual remuneration in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant.

Each DSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a common share. DSUs mature upon termination of employment or directorship, whereupon the holder is entitled to receive a cash payment which reflects the fair market value of the equivalent number of common shares of the Company.

DSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of DSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed.

Performance and restricted share unit plans

The Company has established Performance Share Unit [“PSU”] and Restricted Share Unit ["RSU"] plans for employees and directors of the Company and its subsidiaries, whereby the Board may award PSUs and RSUs as compensation for services rendered. The plans are intended to promote an alignment of long term interests between employees and directors and the shareholders of the Company. The Board determines the amount, timing, and vesting conditions associated with each award of PSUs and RSUs.

Each PSU and RSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's commons shares, accrues dividend equivalents in the form of additional PSUs and RSUs based on the amount of the dividend paid on a common share. PSUs and RSUs vest no later than three years from the grant date and PSUs are subject to performance conditions. On the vesting date, the Board has the discretion to settle PSUs or RSUs either through cash payment, issuance of Company common shares or some combination of cash and common shares.

PSUs and RSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of PSUs and RSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed as well as expectations with respect to performance criteria. Until the PSUs and RSUs are settled, the liability is re-measured with a change in the fair value recorded in the consolidated statement of operations as an expense in the relevant financial reporting period.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the year attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options and warrants are exercised will be used to purchase common shares at the average market price during the reported period.

Other financial instruments

Other financial instruments held or issued by the Company include cash, restricted funds, finance receivables, accounts receivable, notes receivable, accounts payable and accrued liabilities, and secured borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Translation of foreign currencies

The consolidated financial statements of the Company are presented in Canadian dollars, which is the Company's functional and presentation currency. Foreign currency denominated monetary assets and liabilities of the Company and its subsidiaries that have the same functional currency are translated using the closing rate and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenue and expense items are measured at average exchange rates during the year. Realized and unrealized gains and losses arising from translation into the functional currency are included in the consolidated statements of operations. Foreign currency denominated non-monetary assets and liabilities, measured at historical cost, are translated at the rate of exchange in effect at the transaction date.

Assets and liabilities of foreign operations with a functional currency other than the Canadian dollar, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates prevailing at the year end, while revenue and expenses of these foreign operations are translated into Canadian dollars at the average exchange rates for the year. Exchange gains and losses arising from the translation of these foreign operations and from the results of hedging the net investment in these foreign operations, net of applicable taxes, are included in net foreign currency translation adjustments, which is included in accumulated other comprehensive income. A deferred tax asset or liability is not recognized in respect of a translation gain or loss arising from the Company's investment in its foreign operations as it is not expected that such a gain or loss would be realized for tax purposes in the foreseeable future.
Upon disposition of a foreign operation any cumulative translation adjustment gain or loss, including the impact of hedging, will be reclassified from other comprehensive income to the consolidated statements of operations.

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Future accounting changes

The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements.

IFRS 9, *Financial Instruments* ["IFRS 9"], was issued in November 2009 and amended in October 2010, November 2013, and July 2014, and is effective for fiscal years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged. The new standard replaces the existing

incurred loss model used for measuring the allowance for credit losses with an expected loss model. The standard introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"] was issued in May 2014 and is effective for fiscal years beginning on or after January 1, 2018, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

IFRS 16, *Leases* ["IFRS 16"], will replace IAS 17, *Leases* ["IAS 17"]. IFRS 16 substantially carries forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS16 will have on the Company's consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the 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 consolidated financial statements are issued. Accordingly, actual results may differ from those recorded amounts. Areas of financial reporting that require management's estimates and judgments are discussed below.

Allowance for credit losses
Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of the underlying leased assets and past experience.

Inventories
Judgement is required in determining whether it is necessary to recognise impairment losses and/or an asset valuation reserve on assets held within inventory. The Company determines the recoverable amount of these assets by estimating the value in use and/or the fair value less cost to sell and/or the net realizable value. To estimate the value in use, the Company makes assumptions and judgments regarding the expected future cash flows associated with the asset and also chooses a suitable discount rate in order to calculate the present value of those cash flows. To estimate fair value less cost to sell, the Company uses independent appraisers' valuations, which were derived based on certain assumptions or recent sale transactions. To estimate net realizable value, the Company uses judgement in assessing the value of the asset. Estimating the recoverable amount of any asset is subject to measurement uncertainty and changes to key assumptions and judgements could result in a change in recognized impairment losses.

Deferred tax assets
Deferred tax assets are recognized for unused income tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax-planning strategies.

Stock option expense
Compensation expense relating to stock option awards granted by the Company to employees and non-employees in exchange for services rendered is based on the fair value of the option. The stock option fair value is determined using the Black-Scholes option valuation model which requires the use of assumptions and is, by its nature, subject to measurement uncertainty.

Useful lives and residual values of equipment under operating leases

The Company's equipment under operating leases are recorded at cost and depreciated over their estimated useful lives to an estimated residual value using the straight-line method. The Company determines the economic useful life based on management's estimate of the period which the asset will generate revenue. The residual values are based on historical experience and economic factors. Management will periodically review the appropriateness of the estimated useful lives and residual values based on changes in economic circumstances and other factors. Changes in these estimates could result in a change in future depreciation expense.

Intangible assets valuation - customer relationships

The Company's customer relationship valuation requires management to use judgment in estimating the fair value of this intangible asset acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating customer attrition rates to determine the appropriate amortization period for the customer relationship intangible asset.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable values of the Company's cash generating units and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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December 31, 2016

4. FINANCE RECEIVABLES

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

	2016		
	Leases	**Loans**	**Total**
	$	**$**	**$**
Minimum lease payments	**1,214,713**	**2,511,773**	**3,726,486**
Non-guaranteed residual values	**189,430**	**—**	**189,430**
Gross investment	**1,404,143**	**2,511,773**	**3,915,916**
Unearned income	**(230,646)**	**(298,845)**	**(529,491)**
Net investment	**1,173,497**	**2,212,928**	**3,386,425**
Net realizable value of impaired receivables	**1,316**	**1,669**	**2,985**
Unamortized deferred costs and subsidies	**10,908**	**15,749**	**26,657**
Security deposits	**(21,477)**	**(1,878)**	**(23,355)**
Other receivables	**2,127**	**7,229**	**9,356**
Allowance for credit losses	**(12,859)**	**(1,230)**	**(14,089)**
Total	**1,153,512**	**2,234,467**	**3,387,979**

	2015		
	Leases	**Loans**	**Total**
	$	**$**	**$**
Minimum lease payments	1,466,475	2,029,985	3,496,460
Non-guaranteed residual values	215,879	—	215,879
Gross investment	1,682,354	2,029,985	3,712,339
Unearned income	(298,886)	(255,374)	(554,260)
Net investment	1,383,468	1,774,611	3,158,079
Net realizable value of impaired receivables	3,581	448	4,029
Unamortized deferred costs and subsidies	10,700	9,022	19,722
Security deposits	(32,228)	(1,357)	(33,585)
Other receivables	1,105	838	1,943
Allowance for credit losses	(8,332)	(12,062)	(20,394)
Total	1,358,294	1,771,500	3,129,794

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

	2016		2015	
	$	%	$	%
31-60 days past due	**14,071**	**0.42**	8,952	0.28
61-90 days past due	**6,106**	**0.18**	2,612	0.08
Greater than 90 days past due	**3,832**	**0.11**	3,030	0.10
Total past due	**24,009**	**0.71**	14,594	0.46
Current	**3,362,416**	**99.29**	3,143,485	99.54
	3,386,425	**100.00**	3,158,079	100.00

The following table presents selected characteristics of the finance receivables:

	2016		2015	
	Leases	Loans	Leases	Loans
Net investment	**$1,173,497**	**$2,212,928**	$1,383,468	$1,774,611
Weighted average fixed interest rate	**6.73%**	**6.25%**	7.46%	6.35%
Weighted average floating interest rate	**n/a**	**5.05%**	n/a	5.10%
Percentage of portfolio with fixed interest rate	**100.00%**	**89.09%**	100.00%	76.08%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Allowance for credit losses

An analysis of the Company's allowance for credit losses for the years ended December 31, 2016 and December 31, 2015 is as follows:

	2016	2015
	$	$
Allowance for credit losses, beginning of year	**20,394**	14,120
Provision for credit losses	**24,201**	17,730
Charge-offs, net of recoveries	**(31,014)**	(13,559)
Impact of foreign exchange	**508**	2,103
Allowance for credit losses, end of year	**14,089**	20,394
Allowance as a % of finance receivables	**0.41%**	0.65%
Finance receivables in arrears [90 days and over]	**3,832**	3,030
Arrears [90 days and over] as % of net investment in finance receivables	**0.11%**	0.10%
Impaired receivables at estimated net realizable value	**2,985**	4,029

Contractual maturities

The contractual maturity of the portfolio outstanding as at December 31, excluding impaired receivables and assuming no prepayments, is as follows:

	2016			2015		
	Gross Investment	Unearned Income	Net Investment	Gross Investment	Unearned Income	Net Investment
	$	$	$	$	$	$
Maturity						
Within 1 year	**1,108,807**	**(152,380)**	**956,427**	1,007,134	(144,404)	862,730
In 1 to 3 years	**1,587,088**	**(261,550)**	**1,325,538**	1,528,168	(225,231)	1,302,937
In 3 to 5 years	**833,288**	**(89,894)**	**743,394**	769,467	(116,553)	652,914
After 5 years	**386,733**	**(25,667)**	**361,066**	407,570	(68,072)	339,498
	3,915,916	**(529,491)**	**3,386,425**	3,712,339	(554,260)	3,158,079

5. EQUIPMENT UNDER OPERATING LEASES

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

	2016		
	Railcar $	Aviation $	Total $
COST			
At December 31, 2015	**2,390,989**	**376,283**	**2,767,272**
Additions	**231,466**	**15,560**	**247,026**
Transfers	**(22,356)**	**(861)**	**(23,217)**
Disposals	**(195,127)**	**(77,177)**	**(272,304)**
Foreign exchange rate adjustments	**34,168**	**(4,260)**	**29,908**
At December 31, 2016	**2,439,140**	**309,545**	**2,748,685**
ACCUMULATED DEPRECIATION			
At December 31, 2015	**48,931**	**25,610**	**74,541**
Depreciation charge for the year	**46,849**	**20,213**	**67,062**
Disposals	**(1,638)**	**(10,008)**	**(11,646)**
Foreign exchange rate adjustments	**(1,244)**	**1,360**	**116**
At December 31, 2016	**92,898**	**37,175**	**130,073**
Net carrying amount	**2,346,242**	**272,370**	**2,618,612**

	2015		
	Railcar $	Aviation $	Total $
COST			
At December 31, 2014	1,168,265	132,483	1,300,748
Additions	992,354	91,722	1,084,076
Transfers	—	108,622	108,622
Disposals	(59,074)	(6,887)	(65,961)
Foreign exchange rate adjustments	289,444	50,343	339,787
At December 31, 2015	2,390,989	376,283	2,767,272
ACCUMULATED DEPRECIATION			
At December 31, 2014	14,593	6,485	21,078
Depreciation charge for the year	31,470	16,677	48,147
Disposals	(2,347)	—	(2,347)
Foreign exchange rate adjustments	5,215	2,448	7,663
At December 31, 2015	48,931	25,610	74,541
Net carrying amount	2,342,058	350,673	2,692,731

The future minimum lease payments arising from non-cancellable operating leases as at December 31, are shown in the following table:

	2016	2015
	$	$
Within 1 year	**255,079**	262,785
In 1 to 3 years	**390,294**	450,556
In 3 to 5 years	**227,614**	289,946
After 5 years	**144,656**	198,681
	1,017,643	1,201,968

Rental revenue, net, consists of the following for the years ended December 31:

	2016	2015
	$	$
Rental revenue	**230,975**	179,774
Amortization of equipment under operating leases	**(67,062)**	(45,941)
	163,913	133,833

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6. INVENTORIES

The table below presents the assets currently held in inventory for realization and or awaiting new lease arrangement and presented at their net estimated realizable value.

Aviation assets added to inventory during 2016 primarily include helicopters recovered from lessees.

Railcar assets added to inventory during 2016 primarily include recent railcar purchases. The Company is currently negotiating new lease arrangements for these railcars.

	2016				
	Railcar	Aviation	C&V Canada	C&V US	Total
	$	$	$	$	$
At December 31, 2014	—	—	2,283	1,661	3,944
Net additions during the year	—	—	557	10,791	11,348
Valuation reserve	—	—	—	—	—
At December 31, 2015	—	—	2,840	12,452	15,292
Net additions during the year	56,574	99,938	4,255	4,241	165,008
Asset valuation reserve	—	(40,281)	—	—	(40,281)
At December 31, 2016	**56,574**	**59,657**	**7,095**	**16,693**	**140,019**

In connection with the recovery of helicopters during the year, the Company recorded a precautionary asset valuation reserve of $40,281 ($85,704 carrying value) against the five helicopters held in inventory that have shown manufacturer's defects and that have been grounded and/or subject to voluntarily suspension by operators within certain jurisdictions.

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7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2016			
	Leasehold improvements	Computer equipment	Office equipment and other	Total
	$	$	$	$
COST				
At December 31, 2015	**42**	**333**	**1,121**	**1,496**
Additions	**698**	**157**	**2,876**	**3,731**
Foreign exchange rate adjustments	**24**	**(4)**	**(32)**	**(12)**
At December 31, 2016	**764**	**486**	**3,965**	**5,215**
ACCUMULATED DEPRECIATION				
At December 31, 2015	**2**	**148**	**668**	**818**
Depreciation charge for the year	**49**	**128**	**322**	**499**
Foreign exchange rate adjustments	**8**	**46**	**32**	**86**
At December 31, 2016	**59**	**322**	**1,022**	**1,403**
Net carrying amount	**705**	**164**	**2,943**	**3,812**

	2015			
	Leasehold improvements	Computer equipment	Office equipment and other	Total
	$	$	$	$
COST				
At December 31, 2014	27	119	688	834
Additions	37	189	275	501
Disposals	(26)	—	—	(26)
Foreign exchange rate adjustments	4	25	158	187
At December 31, 2015	42	333	1,121	1,496
ACCUMULATED DEPRECIATION				
At December 31, 2014	23	53	383	459
Disposals	(25)	—	—	(25)
Depreciation charge for the year	2	86	195	283
Foreign exchange rate adjustments	2	9	90	101
At December 31, 2015	2	148	668	818
Net carrying amount	40	185	453	678

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. INTANGIBLE ASSETS

	Computer software			Customer relationships			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$	$	$
Balance, as at December 31, 2014	338	(195)	143	17,444	3,937	21,381	21,524
Additions	492	—	492	—	—	—	492
Amortization	—	(223)	(223)	—	(1,719)	(1,719)	(1,942)
Foreign exchange rate adjustments	114	(52)	62	3,367	2,062	5,429	5,491
December 31, 2015	944	(470)	474	20,811	4,280	25,091	25,565
Additions	504	—	504	—	—	—	504
Amortization	—	(320)	(320)	—	(650)	(650)	(970)
Disposals/impairment	—	—	—	(19,722)	(3,444)	(23,166)	(23,166)
Foreign exchange rate adjustments	(27)	9	(18)	(1,089)	(186)	(1,275)	(1,293)
December 31, 2016	**1,421**	**(781)**	**640**	**—**	**—**	**—**	**640**

During the third quarter of 2016, the Company wrote down the totality of its non-cash customer list related to the 2013 acquisition of the GE helicopter business and book of assets. The impairment reflects the decision to no longer originate assets in the corporate aviation business.

9. GOODWILL

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of the acquired net identifiable assets and liabilities. Goodwill impairment testing was performed during the year with the Aviation and C&V Finance components compared to the vertical's assets and liabilities. The recoverable amount of the vertical's assets and liabilities is determined based on the greater of the estimated fair value less cost to sell or value in use. Based on the Company's decision to no longer originate assets in the corporate aviation business, the goodwill for Aviation was written down to nil. The Company determined that the estimated recoverable amount of the assets and liabilities for C&V Finance was in excess of its carrying value. As a result, no impairment charge was recognized for the C&V Finance goodwill.

	2016 **$**	**2015** **$**
Balance, beginning of year	**8,074**	5,720
Additions from new acquisitions	**—**	1,890
Impairment	**(3,384)**	—
Foreign exchange rate adjustments	**(130)**	464
Balance, end of year	**4,560**	8,074

Goodwill outstanding as at December 31 has been allocated to the cash-generating units as follows:

	2016 **$**	**2015** **$**
Aviation	**—**	3,514
C&V Finance	**4,560**	4,560
	4,560	8,074

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10. SECURED BORROWINGS

Secured borrowings outstanding as at December 31 were as follows:

	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)**			
	4,504,591			

	2015			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Life insurance company term funding facilities	444,128	3.21	426,699	45,921
Securitization programs	1,038,048	2.30	1,325,814	41,621
Asset-backed securities	980,503	3.41	1,185,449	25,140
Term senior credit facility (2)	2,029,816	2.60	—	—
	4,492,495	2.79	2,937,962	112,682
Deferred financing costs	(21,103)			
	4,471,392			

(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 favor 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 2016.

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Life insurance company term funding facilities

Life insurance company term funding facilities are advanced to the Company on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables, with the terms of repayment designed to match the payment terms of the underlying finance receivables. These lenders receive either a security interest and/or legal ownership in direct financing leases. In addition, the Company must maintain certain cash reserves as credit enhancements. Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium ranging from 2.00% to 2.50% [December 31, 2015 - 2.20% to 2.80%]. At December 31, 2016, life insurance company term funding facilities had a weighted average fixed interest rate of 2.96%, which ranged from 2.79% to 3.14%, with tranche maturities ranging from 2017 to 2023 [December 31, 2015 - the weighted average interest was 3.21%, which ranged from 2.99% to 3.92%].

The Company has access to committed lines of funding of $288,620 from three Canadian life insurance companies [December 2015 - $470,091 from four Canadian life insurance companies]. During 2016, the Company reduced the size of its unutilized commitment from the Canadian life insurance companies by approximately $120 million subject to further reset. The lower committed lines reflect higher funding from securitization programs. As at December 31, 2016, the Company had access to $127,543 [December 31, 2015 - $245,855] of available financing under its life insurance company term funding facilities.

Securitization programs

Securitization programs are secured borrowings collateralized by a specific group of financial assets, through a security interest in the financial assets, and are repayable on the basis of the amounts collected from the related securitized finance receivables. These facilities consist of both variable- funding notes and term facilities, in amortizing periods.

At December 31, 2016, there were $1,087,792 of variable-funding notes outstanding at a weighted average floating interest rate of 2.22%, which ranged from 1.89% to 3.19% with expected final maturities in 2023 [December 31, 2015 - $878,322 and a weighted average interest rate of 2.07%, which ranged from 1.78% to 3.22% and $159,726 of term facilities in amortization period outstanding at a weighted average interest rate of 3.62%, which ranged from 3.61% to 4.30%].

During 2016, the Company increased its program with a Canadian bank to a committed facility of $400,500, an increase of $250,500. During the third quarter of 2016, a securitization program with borrowings of US$96,000 was paid in full.

As at December 31, 2016, the Company had access to $283,377 [December 31, 2015 - $336,986] of available financing from these securitization programs.

Asset-backed securities

Asset-backed securities are secured borrowings that are collateralized by a specific group of financial assets, through a security interest in the financial assets, and are repayable on the basis of the amounts collected from the related securitized finance receivables. Asset-backed securities debt consists of term notes in a revolving period and term notes in an amortization period.

For term notes in amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. At December 31, 2016, there were $1,457,569 of term notes in amortization period outstanding at a weighted average fixed interest rate of 3.95%, with an expected final maturity in 2035 [December 31, 2015 - $980,503, at a weighted average interest rate of 3.41%].

During the first quarter of 2016, the Company entered into a secured borrowing agreement for US$422,841 to fund eligible pools of assets in the Rail Finance vertical. These asset-backed securities were issued in three tranches at a weighted average fixed interest rate of 4.76% and a weighted average life of 5.9 years. Of the total notes issued, US$23,273 are held by Element Fleet as at December 31, 2016. As at December 31, 2016, the Company had access to nil [December 31, 2015 – nil] of available financing from asset-backed securities debt.

Term senior credit facility

Concurrent with the Separation, the Company entered into a new term senior credit facility. The facility is syndicated to a group of 20 Canadian, US and international banks with a maturity date of September 30, 2019. The facility bears interest at the prime rate plus 0.70% or one-month bankers' acceptance rate plus 1.70% per annum on outstanding Canadian denominated balances and US base rate plus 0.70% per annum or one-month LIBOR rate plus 1.70% per annum on outstanding US 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.

As at December 31, 2016, the amount drawn on the term senior credit facility was $1,744,988 [$2,029,816 at December 31, 2015] of the $3,356,750 available.

For periods prior to October 3, 2016, the Company's senior revolving facility amounts represented an allocation of Element's senior credit facility based on the Company's unencumbered assets that constituted its average borrowing base during the respective periods to the overall Element's average borrowing base. The allocated facility amounts bore interest at the prime rate plus 0.45% or one-month bankers' acceptance rate plus 1.45% per annum on outstanding Canadian denominated balances and US base rate plus 0.45% per annum or 1-month LIBOR rate plus 1.45% per annum on outstanding US denominated balances.

Restricted funds

Restricted funds of $136,871 include [i] cash reserves of $93,323 at December 31, 2016 [December 31, 2015 – $112,682], which represents collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of $43,548 as at December 31, 2016 [December 31, 2015 – $109,848], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

Contractual maturity of secured borrowings

The contractual maturity of the secured borrowings outstanding as at December 31 compared to the maturity of the finance receivables and future minimum payments to be received on equipment under operating leases is as follows:

	2016			2015		
	Secured borrowings gross of interest costs	Receivables and equipment under operating leases		Secured borrowings gross of interest costs	Receivables and equipment under operating leases	
	$	$	%	$	$	%
Maturity						
Within 1 year	**593,253**	**1,363,886**	**43.5%**	581,009	1,269,919	45.8%
In 1 to 3 years	**889,553**	**1,977,382**	**45.0%**	929,246	1,978,724	47.0%
In 3 to 5 years	**815,325**	**1,060,902**	**76.9%**	384,001	1,059,413	36.2%
After 5 years	**849,774**	**531,389**	**159.9%**	973,169	606,251	160.5%
	3,147,905	**4,933,559**	**63.8%**	2,867,425	4,914,307	58.3%
Interest costs	**(340,181)**			(404,746)		
	2,807,724			2,462,679		
Revolving senior credit facility	**1,744,988**			2,029,816		
	4,552,712			4,492,495		

11. SHARE CAPITAL

Common shares

The Company is authorized to issue an unlimited number of common shares. The common shares carry a voting right and a right to a dividend. No dividends were declared in 2016.

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

	Common Shares	
	Shares #	**Amount** $
Issued pursuant to the Separation transaction	**386,755,808**	**1,418,727**
Exercise of options	**356,681**	**302**
Balance, December 31, 2016	**387,112,489**	**1,418,882**

As part of the Separation, Element's shareholders received one share of ECN for each share of Element owned. To determine ECN's share capital amount, ECN's stated capital immediately prior to the Separation was determined based on the relative fair market value of the property transferred from Element to ECN at the time of the Separation.

Preferred Shares

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].

The holders of the Series A Shares will be entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Company's Board of Directors payable quarterly on the last day of March, June, September and December in each year at an annual rate of $1.625 per Series A Share. The initial dividend will be payable on March 31, 2017 and will be $0.52979 per Series A Share. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 5.44% and the annual fixed dividend rate shall not be less than 6.50%. The Company will have the right to redeem the Series A Shares on December 31, 2021 and on December 31 every five years thereafter for $25 per Series A share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series A Shares, the holders of the Series A Shares will have the right on December 31, 2021 and on December 31 every five years thereafter, to convert any or all of their Series A Shares to Cumulative Floating Rate Preferred Shares, Series B ["Series B Shares"] on the basis of one Series B Share for each Series A Share converted. Holders of the Series B Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Company's Board of Directors payable quarterly on the last day of March, June, September and December in each year. The annualized floating quarterly

dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 5.44%.

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

	Preferred Shares Series A	
	Shares	**Amount**
	#	**$**
Issued during the year	**4,000,000**	**97,315**
Balance, December 31, 2016	**4,000,000**	**97,315**

12. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the year ended December 31:

	2016	**2015**
	$	**$**
[a] Stock options	**6,898**	8,253
[b] Deferred share units	**319**	—
[c] Performance share units	**2,627**	2,113
	9,844	10,366

ECN granted stock options and deferred share units to employees and directors of the Company. Prior to the Separation, Element granted stock options, deferred share units and performance share units to employees of the Company. The share based compensation expense recognized on the consolidated statements of operations of the Company represents grants to a direct employee of the Company for services provided, and excludes grants to employees of the Company that relate to services provided to Element. Performance share units are shown net of hedged amounts where applicable.

Below is a summary of the Company's stock options, Deferred Share Unit and Performance Share Unit plans.

[a] Stock options

Upon the Separation, each outstanding Element option was exchanged for one EFN option and one Company option, both of which will, upon vesting, entitle the holder to acquire respectively one EFN common share and one Company common share. The original exercise price of each outstanding Element option was allocated to the Company option such that an amount equal to the tax neutral transaction proportion of the original exercise price will be payable to the Company for each common share. This amount has been determined to be approximately 20.6% of the original exercise price. As a result, on October 3, 2016, the Company issued 22,556,684 options at an average weighted exercise price of $2.59 per option. The terms for these options are a continuation of the earlier granted Element option. The participating directors, officers, employees and consultants who hold these options are permitted to hold and exercise their EFN and/or Company options received as part of the Separation in accordance with their original terms as long as they remain an employee or director of EFN, the Company or its successors or affiliates.

Subsequent to the Separation, the Company continued with a stock option plan to allow participants to purchase Company shares at a specified exercise price within a specified exercise period of no later than eight years. The exercise price will be established by the Company's Board of Directors at the time of the grant but shall be no less than the closing price of the Company's common shares on the last trading day before the grant date. The maximum number of Company options granted will not exceed 10% of the issued and outstanding Company common shares.

On November 9, 2016, the Company issued 8,895,000 options for an average weighted exercise price of $2.70 per option, vesting 33.3% per annum over three years and exercisable for five years from the vesting date.

	Number of options	Weighted average exercise price
	#	$
Issued on Separation	**22,556,684**	**2.59**
Granted during the year	**8,895,000**	**2.70**
Forfeited	**(97,372)**	**2.95**
Exercised (1)	**(400,720)**	**1.08**
Outstanding December 31, 2016	**30,953,592**	**2.64**

(1) Weighted average share price of options exercised during 2016 was $2.07.

The cost of the options granted for the year ended December 31, 2016 was determined using the Black-Scholes option valuation model with inputs to the model as follows:

	Unit	2016
Weighted average share price	$	**2.70**
Average term to exercise	Years	**7.0**
Share price volatility	%	**33.1**
Weighted average expected annual dividend per share	$	**0.04**
Risk-free interest rate	%	**0.94**
Forfeiture rate	%	**1.02**

As at December 31, 2016, the following employee and director stock options to purchase common shares were outstanding:

		Options outstanding		
Range of exercise prices	**Weighted average remaining life [in years]**	**Vested #**	**Unvested #**	**Total #**
$0.00 to $1.00	**1.75**	**1,853,300**	**—**	**1,853,300**
$1.01 to $2.00	**2.95**	**3,750,677**	**—**	**3,750,677**
$2.01 to $3.00	**5.64**	**5,596,480**	**10,726,491**	**16,322,971**
$3.01 and over	**5.05**	**3,588,808**	**5,437,836**	**9,026,644**
	4.91	**14,789,265**	**16,164,327**	**30,953,592**

[b] Deferred share units and Performance share units and Restricted share units

Element had established a Deferred Share Unit [“DSU”] plan whereby Element’s Board of Directors awarded DSUs as compensation for services rendered. Certain employees and directors of the Company participated in Element’s DSU plan. All DSU obligations for this plan remain with Element Fleet.

Subsequent to the Separation, the Company adopted a DSU plan that will allow the Board of Directors to grant Company DSUs to designated officers, employees or non-employees. The Board of Directors will determine whether the DSU award will be settled in cash, Company common shares or a combination of both. Under the terms of the DSU plan, the number of DSUs received will be calculated by dividing the portion of the eligible compensation by the volume weighted average price of the Company's common shares on the TSX for the 10 preceding days on which they were traded before the grant date. If and when the Company pays cash dividends to common shareholders, participants will be granted additional DSUs equivalent to the dividends that would have been paid had the DSUs been common shares.

As at December 31, 2016, the following DSUs were outstanding:

	Number of deferred share units
	#
Granted during the year	96,678
Outstanding, December 31, 2016	**96,678**

As at December 31, 2016, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $319 [2015 - nil]. There are no hedges on DSUs.

Performance and Restricted Share Unit plans

Element had established a Performance Share Unit ["PSU"] plan whereby Element's Board of Directors awarded PSUs as compensation for services rendered. Certain employees and directors of the Company participated in Element's PSU plan. Upon the Separation, Element PSUs were adjusted such that each Element PSU outstanding is now being referenced to an EFN common share and an additional PSU was issued and referenced to an ECN Capital common share, such that the aggregate value immediately following the Separation was equal to the aggregate value of Element PSUs immediately prior to the Separation. All PSU obligations for this plan remain with Element Fleet.

Subsequent to the Separation, the Company's Board of Directors has adopted the ECN Capital Share Unit Plan which will allow the Board of Directors to grant both Company PSUs and Restricted Share Units ["RSUs"]. The Company's PSUs and RSUs will vest no later than three years from the grant date and PSUs will be subject to performance conditions. The PSU performance multiplier may range from 0% to 200% depending on actual performance. On the vesting date, the Board of Directors has the discretion to settle PSUs and RSUs either through cash payment, issuance of Company common shares or some combination of cash and common shares. If and when the Company pays cash dividends to common shareholders, participants will be granted additional PSUs and RSUs equivalent to the dividends that would have been paid had the share units been common shares.

As at December 31, 2016, there were no PSUs or RSUs outstanding.

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December 31, 2016

13. OTHER REVENUES

Other revenues consist of the following for the years ended December 31:

	2016	2015
	$	$
Syndication fees	**15,048**	14,025
Capital advisory fees	**4,756**	16,912
Prepayment charges	**7,656**	10,404
Other	**12,761**	10,510
	40,221	51,851

14. SEPARATION AND REORGANIZATION COSTS

Separation and reorganization costs represent an allocated proportion of those actual costs incurred by Element in connection with the Separation and allocated to the Company on a proportion of those assets received upon the Separation as a proportion of total assets of Element and those additional costs incurred directly by the Company subsequent to October 3, 2016 to complete the Separation and subsequent related reorganization of the business. The separation and reorganization costs are summarized as follows:

	2016	2015
	$	$
Investment advisory fees	**6,518**	—
Accrued termination payments	**5,775**	—
Provision for restructure from separation	**5,500**	—
Legal and professional fees	**2,810**	—
Others	**2,855**	—
	23,458	—

15. INCOME TAXES

Prior to the Separation, the Company's operating results were included in Element's financial statements and in its, or its respective subsidiary's, tax returns. For the purposes of the reporting periods prior to the Separation, income tax expense and deferred tax balances have been recorded as if the Company had filed tax returns on a stand-alone basis separate from the former parent. For the purposes of the December 31, 2016 reporting period, the tax computations reflect each entity's legal results with reconciling adjustments expensed in the owners' net investment account in the amount of $25,721.

[a] The major components of income tax expense (benefit) for the years ended December 31 are as follows:

	2016	**2015**
	$	**$**
Consolidated statements of operations		
Current income tax expense	**23,683**	—
Deferred income tax benefit		
Origination and reversal of temporary differences	**(25,998)**	30,690
Income tax expense (benefit) reported in the consolidated statements of operations	**(2,315)**	30,690
Income tax benefit reported in the consolidated statements of changes in shareholders' equity	**13,058**	1,840

[b] Reconciliation of effective tax rate for the years ended December 31:

	2016	**2015**
	$	**$**
Income before income taxes	**30,689**	140,461
Combined statutory Canadian federal and provincial tax rate	**26.61%**	26.49%
Income tax expense based on statutory rate	**8,166**	37,208
Income tax adjusted for the effect of:		
Non-deductible and non-taxable items	**(12,535)**	(12,586)
Foreign rate differential	**2,054**	5,842
Adjustment of prior year taxes and other	**—**	226
Total income tax expense (recovery)	**(2,315)**	30,690

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Deferred taxes:

[i] Deferred taxes as at December 31 relate to the following:

	2016	2015
	$	$
Deferred tax assets		
Tax loss carry forwards	**6,335**	—
Finance receivables	**9,752**	11,084
Unrealized foreign exchange gains and losses	**4,302**	—
Shares issuance cost	**843**	—
Capital assets, intangible assets, and other	**46**	1,466
Equipment under operating lease	**(10,946)**	—
Deferred financing charges	**(1,480)**	1,042
Unrealized losses (gains) on derivatives	**(1,105)**	3,082
	7,747	16,674
Deferred tax liabilities		
Finance receivables	**137,108**	414,726
Unrealized gains on derivatives	**3,560**	—
Equipment under operating leases	**2,919**	8,542
Tax loss carry forwards	**(124,313)**	(379,368)
Capital assets, intangible assets, and other	**(1,914)**	(9,279)
	17,360	34,621
Net deferred tax asset (liability) position	**(9,613)**	(17,947)

[ii] Reconciliation of net deferred tax asset/(liability) for the years ended December 31 is as follows::

	2016	2015
	$	$
Balance, beginning of year	**(17,947)**	7,120
Tax benefit/(expense) recognized in profit or loss	**25,998**	(30,690)
Tax benefit/(expense) recognized in other comprehensive income	**(4,606)**	7,463
Tax benefit/(expense) charged directly in equity	**(13,058)**	(1,840)
Balance, end of year	**(9,613)**	(17,947)

[iii] There are no unused tax losses or temporary differences that have not been recognized for the year ended December 31, 2016.

16. SUBSIDIARIES

[a] List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly-owned:

	Principal place of business
ECN Financial LLC	US
Element Rail Leasing I LLC	US
Element Rail Leasing II LLC	US
ECN (US) Holdings Corp.	US
ECN Platinum LLC	US
ECN Rail LLC	US
ECN Aviation Inc.	Canada
ECN Commercial Finance LP	Canada
ECN Financial Inc.	Canada

[b] Subsidiaries with restrictions

The Company has restrictions on its ability to access or use its assets and settle its liabilities in ECN Funding U.S. LLC, Element Rail Leasing I LLC, Element Rail Leasing II LLC, ECN Commercial Finance LP, and ECN Rail Leasing Canada LP. These subsidiaries facilitate the transfer of certain financial assets and related property or interests, in connection with funding facilities, and the activities of these entities are governed by their constituting agreements and debt agreements. Assets held as collateral by these subsidiaries for such funding facilities are not available to satisfy the claims of creditors of the Company. The carrying amounts of assets and liabilities in subsidiaries with significant restrictions as at December 31, 2016 was $1,673,018 and $1,400,097, respectively [December 31, 2015 - $1,676,424 and $1,256,785, respectively].

17. RELATED PARTY TRANSACTIONS

Notes receivable

Notes receivable of $40,668 as at December 31, 2016 [December 31, 2015 – $27,338] 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 EFN and ECN shares purchased with full recourse to the employee.

	2016	2015
	$	$
Note receivable, beginning of year	**27,338**	23,925
Additions	**13,051**	5,614
Interest income	**802**	718
Repayments [interest and principal]	**(523)**	(2,919)
Notes receivable, end of year	**40,668**	27,338

Compensation of directors and key management

The remuneration of directors and key management personnel of the Company was as follows for the years ended December 31:

	2016	2015
	$	$
Salaries, bonuses and benefits	**6,449**	4,668
Share-based compensation	**9,653**	7,412
	16,102	12,080

The above numbers represent an [i] allocation of the remuneration of those directors and key management personnel for services provided to Element prior to the Separation effective date of October 3, 2016 except for those Performance Share units issued during the period that were tied directly to the performance of the Element Fleet operation and, [ii] the actual costs incurred by the Company for those directors and key management personnel for compensation earned at and incurred by the Company post October 3, 2016. The share-based compensation expense represents the Black-Schole valuation attributed to the ECN employees and directors stock options granted post the separation date.

18. EARNINGS PER SHARE

The weighted average number of common shares outstanding used in the calculation of both basic and diluted earnings per share was derived from the average number of shares outstanding of Element for periods prior to the Separation date of October 3, 2016 adjusted for transactions that occurred post the same Separation date.

Basic earnings per share is as follows for the years ended December 31:

	2016	2015
Net income attributable and available to shareholders	**$33,004**	$109,771
Weighted average number of common shares outstanding - basic	**386,523,263**	305,230,121
Basic earnings per share	**$0.09**	$0.36

Diluted earnings per share is as follows for the years ended December 31:

	2016	2015
Net income attributable to shareholders adjusted for the effects of dilution	**$33,004**	$109,771
Weighted average number of common shares outstanding - basic	**386,523,263**	305,230,121
Dilutive stock options and warrants	**4,057,505**	6,151,209
Weighted average number of common shares outstanding - diluted	**390,580,768**	311,381,330
Diluted earnings per share	**$0.08**	$0.35

Instruments outstanding at December 31, 2016 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 18,802,262 stock options for the year ended December 31, 2016 [December 31, 2015 – nil].

19. 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.

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 years ended December 31:

	2016 $	2015 $
Foreign exchange agreements recorded in other revenues	**(5,737)**	(21,939)
Fair value changes recorded in other comprehensive income (loss)	**14,757**	(22,470)

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Notional amounts and fair values of derivative instruments

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

	Remaining term to maturity					
	Within 1 year $	1 to 3 years $	3 to 5 years $	Greater than 5 years $	December 31, 2016 $	December 31, 2015 $
Notional principal						
Derivative assets						
Interest rate contracts	**415,494**	**903,692**	**489,788**	**125,607**	**1,934,581**	1,097,076
Foreign exchange agreements	**537,153**	**1,604**	**3,723**	**—**	**542,480**	6,755
	952,647	**905,296**	**493,511**	**125,607**	**2,477,061**	1,103,831
Derivative liabilities						
Interest rate contracts	**48,149**	**77,436**	**83,674**	**17,629**	**226,888**	1,291,669
Foreign exchange agreements	**168,240**	**—**	**—**	**—**	**168,240**	488,000
	216,389	**77,436**	**83,674**	**17,629**	**395,128**	1,779,669
Fair values						
Restricted funds - collateral posted					**—**	16,072
Derivative assets						
Interest rate contracts	**1,387**	**4,659**	**3,821**	**1,083**	**10,950**	3,939
Foreign exchange agreements	**89**	**104**	**242**	**—**	**435**	75
	1,476	**4,763**	**4,063**	**1,083**	**11,385**	4,014
Derivative liabilities						
Interest rate contracts	**264**	**582**	**1,233**	**121**	**2,200**	11,291
Foreign exchange agreements	**780**	**—**	**—**	**—**	**780**	6,456
	1,044	**582**	**1,233**	**121**	**2,980**	17,747

Fair values of derivatives designated in hedging relationships

The following table summarizes the fair values of the derivative financial instruments designated in an accounting hedging relationships as at December 31:

	2016	2015
	$	$
Interest rate derivative contracts	**8,750**	(7,352)
Foreign exchange forward agreements	**(345)**	(6,381)
	8,405	(13,733)

Offsetting of derivative assets and liabilities

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

				Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the statements of financial position		
	Gross amounts of recognized financial instruments before netting on the consolidated statements of financial position	Gross amounts of recognized financial instruments set-off in the consolidated statements of financial position	Net amount of financial instruments presented in the consolidated statements of financial position	Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	$	$	$	$	$	$
12/31/2016						
Derivative financial instrument assets	**11,385**	**—**	**11,385**	**2,980**	**—**	**8,405**
Derivative financial instrument liabilities	**2,980**	**—**	**2,980**	**2,980**	—	—
As at 2015						
Derivative financial instrument assets	4,014	—	4,014	1,042	—	2,972
Derivative financial instrument liabilities	17,747	—	17,747	1,052	16,072	623

20. 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 capital structure is as follows:

	December 31, 2016	December 31, 2015
	$	$
Secured borrowings	**4,504,591**	4,471,392
Accounts payable and accrued liabilities	**84,252**	57,080
Total debt	**4,588,843**	4,528,472
Shareholders' equity	**1,827,171**	1,591,411
	6,416,014	6,119,883

21. SEGMENTED INFORMATION

Geographical Segmentation

Geographic information for the years ended December 31, is as follows:

	2016				2015			
	Canada	**US**	**Other**	**Total**	**Canada**	**US**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial revenue	**140,967**	**226,172**	**3,572**	**370,711**	150,387	186,767	9,357	346,511
Interest expense				**163,596**				128,843
Net financial income				**207,115**				217,668

As at December 31	2016				2015			
	Canada	**US**	**Other**	**Total**	Canada	US	Other	Total
	$	**$**	**$**	**$**	$	$	$	$
Select assets								
Finance receivables	**1,089,854**	**2,301,247**	**(3,122)**	**3,387,979**	1,299,361	1,834,886	(4,453)	3,129,794
Equipment under operating leases	**373,309**	**2,186,910**	**58,393**	**2,618,612**	422,284	2,202,352	68,095	2,692,731
Goodwill	**4,560**	**—**	**—**	**4,560**	4,560	3,514	—	8,074
Property, equipment and leasehold improvements, and intangible assets	**2,593**	**1,859**	**—**	**4,452**	40	26,203	—	26,243
	1,470,316	**4,490,016**	**55,271**	**6,015,603**	1,726,245	4,066,955	63,642	5,856,842

Geographic net financial income, excluding interest expenses is based on the location of customers and non-current assets are based on the location of the assets.

Operational Segmentation

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.

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 financial statement of operations by segment for the years ended December 31 are shown in the table below:

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	2016				2015			
	Rail Finance	**Aviation Finance**	**C&V Finance**	**Total**	**Rail Finance**	**Aviation Finance**	**C&V Finance**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Interest income and rental revenue, net	**149,302**	**65,891**	**139,498**	**354,691**	119,681	72,367	120,342	312,390
Interest expense	**74,240**	**25,668**	**63,688**	**163,596**	48,501	28,026	52,316	128,843
	75,062	**40,223**	**75,810**	**191,095**	71,180	44,341	68,026	183,547
Provision for credit losses	**—**	**601**	**23,600**	**24,201**	—	1,472	16,258	17,730
	75,062	**39,622**	**52,210**	**166,894**	71,180	42,869	51,768	165,817
Other revenues	**10,928**	**11,294**	**17,999**	**40,221**	7,075	25,077	19,699	51,851
Net financial income	**85,990**	**50,916**	**70,209**	**207,115**	78,255	67,946	71,467	217,668
Adjusted operating expenses	**21,593**	**11,071**	**39,540**	**72,204**	15,597	10,125	39,400	65,122
Asset valuation reserve	—	**40,281**	—	**40,281**	—	—		—
Impairment and amortization of intangible assets from acquisitions	—	**30,639**	—	**30,639**	—	1,719	—	1,719
Share-based compensation (1)	—	—	—	**9,844**	—	—	—	10,366
Net segment operating income (loss) (before income tax)	**64,397**	**(31,075)**	**30,669**	**54,147**	62,658	56,102	32,067	140,461
Separation costs				**23,458**				—
Provision for (recovery of) income taxes				**(2,315)**				30,690
Net income for the year				**33,004**				109,771

(1) Share-based compensation expense is are not allocated to segments

The financial statement positions by segment as at December 31 are shown in the table below:

	2016				2016			
As at December 31	**Rail Finance**	**Aviation Finance**	**C&V Finance**	**Total**	**Rail Finance**	**Aviation Finance**	**C&V Finance**	**Total**
	$	**$**	**$**	**$**	$	$	$	$
Segment assets								
Finance receivables	**7,347**	**690,328**	**2,690,304**	**3,387,979**	1,123	1,054,582	2,074,089	3,129,794
Equipment under operating leases	**2,346,242**	**272,370**	**—**	**2,618,612**	2,342,058	350,673	—	2,692,731
Other assets	**188,913**	**88,352**	**147,298**	**424,563**	110,646	40,173	165,268	316,087
Goodwill and intangible assets	**—**	**—**	**5,200**	**5,200**	—	28,605	5,034	33,639
Total assets	**2,542,502**	**1,051,050**	**2,842,802**	**6,436,354**	2,453,827	1,474,033	2,244,391	6,172,251
Segment liabilities								
Debt	**1,793,583**	**534,053**	**2,176,955**	**4,504,591**	1,735,479	929,641	1,806,272	4,471,392
Other liabilities	**43,428**	**14,522**	**46,642**	**104,592**	32,507	19,079	57,862	109,448
Total liabilities	**1,837,011**	**548,575**	**2,223,597**	**4,609,183**	1,767,986	948,720	1,864,134	4,580,840

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2016

22. COMMITMENTS

The Company leases its offices under operating leases expiring on various dates through 2023 and through Element Fleet as part of the real estate services provided in the Transition Services Agreement. As at December 31, the remaining future minimum lease payments are as follows:

	2016	2015
	$	$
Within one year	**1,962**	1,255
After one year but not more than five years	**2,315**	4,417
More than five years	**965**	948
	5,242	6,620

The Company enters into commitments to extend credit and provide lease or loan financing to its customers in the ordinary course of business, or commits to purchase equipment for leases. The funding of these commitments is subject to the customer satisfying various conditions and contractual requirements prior to funding. As a result, the total commitments outstanding do not necessarily reflect actual future cash flow requirements. As at December 31, 2016, the Company had $129,887 of commitments outstanding to provide financing or purchase equipment; $37,108 of these commitments expire or settle on various dates through to December 31, 2017, and $92,779 expire or settle on various dates through to December 31, 2018.

23. FINANCIAL INSTRUMENTS RISK

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans. Counterparty limits are established by the use of both external and internal credit risk classification systems, which assign each counterparty a risk rating. The Company also manages credit risk through the existence of asset collateral held against both direct financing leases and loans. The Company maintains insurance coverage over these assets to further mitigate risk of loss. In situations where the Company takes possession of collateral under the terms of the direct finance lease or loan agreement, the asset is sold and a gain or loss on disposal is recognized.

The Company also monitors the diversification of its lending across asset class, geography and transaction size. As a result of transaction sizes and collateral arrangements, no individual customer represents a significant credit risk to the Company.

The Company's maximum exposure to credit risk with respect to its consolidated statements of financial position as at December 31, 2016 and 2015 is the carrying amounts as disclosed on the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company manages its liquidity risk by monitoring its operating and growth requirements. The Company prepares forecasts to ensure it has sufficient liquidity to fulfill its obligations and operating plans and actively pursues new funding sources to meet future liquidity requirements.

The most significant exposure to liquidity risk relates to the repayment of secured borrowings *[note 9].* This exposure is managed as the cash flows generated by the Company's net investment in leases and loans, and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company structures its secured borrowing arrangements to maintain a fixed interest rate spread between the interests paid on both the term funding facilities and the revolving loan facilities and the interest received on the underlying finance receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances the Company enters into interest rate swaps in order to align the interest rate variability.

The Company does experience short-term interest rate risk on these finance receivables during the period between fixing the contractual rate under the finance contracts with its customers and the locking of the interest rate under its funding facilities.

After considering the fixed interest rate spread on the secured borrowing programs and high exposure to fixed rate finance receivables described above, the Company's interest rate risk is limited to cash and restricted cash, floating-rate finance receivables which are neither hedged nor part of a match-funded secured borrowing arrangement, senior revolving credit facility and floating rate finance receivables. Based on its exposure as at December 31, 2016, the Company estimates that a 50 basis point increase or decrease in interest rates [subject to a floor of 1 basis point] would not have a significant impact on the Company's earnings.

Foreign currency risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk that the exchange rates will be materially different when a loan or finance receivable is re-measured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. As at December 31, 2016, the Company did not have a significant unhedged exposure to this type of foreign currency risk that would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and foreign currency exchange rate used to translate the Company's foreign currency denominated net income into Canadian dollar equivalent during each period. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future net income before business acquisition costs and income taxes is consistent with the results generated in 2016, each one cent increase (decrease) in the average Canadian/foreign currency exchange rates would be expected to increase/decrease net income before business acquisition costs and income taxes for the year by approximately $600 [2015 - $805] in the absence of hedging transactions.

24. 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. 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.

Derivatives

The fair values of derivatives are presented in note 18 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values and/or intrinsic values. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

25. SUBSEQUENT EVENT

Subsequent to the year end, the Company entered into two separate transactions resulting in the sale of its C&V Finance business in the United States.

The transactions, which are expected to close during the first quarter of 2017, are structured as asset purchases and sales and cover the exclusivity of the Company's US C&V Finance business with total assets as at December 31, 2016 of $1,783,000 and are expected to generate net cash to the Company in an approximate amount of $542,000, inclusive of a pre-tax profit on the sales of approximately $234 million ($140 million post-tax).

Funds from the transactions will be used initially to repay amounts due under both the related securitization funding vehicle and the Company's senior revolving credit facility.

The Company determined that the criteria to classify the US C&V business as a disposal group held for sale was not met as at December 31, 2016. The Company expects to account for the disposal group as a discontinued operation in the consolidated financial statements as at March 31, 2017.

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