ECN CAPITAL

Consolidated Financial Statements

DECEMBER 31, 2017

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, 2017 and 2016, 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 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, 2017 and 2016, 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,
February 28, 2018

ECN Capital Corp.

Consolidated statements of financial position

[in thousands of Canadian dollars]

	As at December 31 2017 $	As at December 31, 2016 $
Assets		
Cash	**21,742**	45,849
Restricted funds *[note 12]*	**74,685**	136,871
Finance receivables *[note 5]*	**490,131**	3,387,979
Equipment under operating leases *[note 6]*	**1,136,062**	2,618,612
Inventories *[note 7]*	**117,924**	140,019
Accounts receivable and other assets	**149,247**	38,212
Retained reserve interest *[note 10]*	**22,627**	—
Notes receivable *[note 19]*	**58,343**	40,668
Derivative financial instruments *[note 21]*	**3,369**	11,385
Leasehold improvements and other equipment *[note 8]*	**20,223**	3,812
Intangible assets *[note 9]*	**170,640**	640
Deferred tax assets *[note 17]*	**37,507**	7,747
Goodwill *[note 11]*	**351,488**	4,560
Total assets excluding assets held-for-sale	**2,653,988**	6,436,354
Assets held-for-sale *[note 4]*	**857,240**	—
Total assets	**3,511,228**	6,436,354
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	**170,680**	84,252
Derivative financial instruments *[note 21]*	**2,222**	2,980
Secured borrowings *[note 12]*	**1,436,078**	4,504,591
Deferred tax liabilities *[note 17]*	**18,619**	17,360
Total liabilities	**1,627,599**	4,609,183
Shareholders' equity	**1,883,629**	1,827,171
	3,511,228	6,436,354

See accompanying notes

Director Director

Consolidated statements of operations

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

	Year ended December 31 2017 $	Year ended December 31 2016 $
Net financial income		
Interest income	**29,326**	51,280
Rental revenue, net[1] *[note 6]*	**117,744**	163,913
	147,070	215,193
Interest expense	**76,264**	99,908
Net interest income before provision for credit losses	**70,806**	115,285
Provision for credit losses *[note 5]*	**2,061**	601
Net interest income	**68,745**	114,684
Other revenue *[note 15]*	**38,409**	22,222
	107,154	136,906
Operating expenses and other costs		
Salaries, wages and benefits	**22,796**	12,273
General and administrative expenses	**29,305**	20,392
Share-based compensation *[note 14]*	**12,809**	7,136
Amortization of intangible assets from acquisitions *[note 9]*	**3,324**	30,639
Asset valuation reserve *[note 7]*	**25,036**	40,281
Separation and reorganization costs *[note 16]*	**9,075**	12,972
Acquisition costs *[note 4]*	**21,734**	—
Loss on business disposals *[note 4]*	**76,422**	—
	200,501	123,693
(Loss) income from continuing operations before income taxes	**(93,347)**	13,213
Recovery of income taxes *[note 17]*	**(60,076)**	(3,407)
Net (loss) income from continuing operations	**(33,271)**	16,620
Net income from discontinued operations *[note 4]*	**271,585**	16,384
Net income for the period	**238,314**	33,004
Basic		
Continuing operations *[note 20]*	**$ (0.11)**	$ 0.05
Discontinued operations *[note 20]*	**$ 0.70**	$ 0.04
Total basic earnings per share *[note 20]*	**$ 0.59**	$ 0.09
Diluted		
Continuing operations *[note 20]*	**$ (0.11)**	$ 0.04
Discontinued operations *[note 20]*	**$ 0.69**	$ 0.04
Total diluted earnings per share *[note 20]*	**$ 0.58**	$ 0.08

1 - Gross rental revenue of $175,754 [2016 - $230,975] is stated net of amortization of $58,010 [2016 - $67,062].

See accompanying notes

ECN Capital Corp.

Consolidated statements of comprehensive income

[in thousands of Canadian dollars]

	Year ended December 31 2017 $	Year ended December 31 2016 $
Net income for the period	**238,314**	33,004
Other comprehensive income (loss) from continued operations		
Cash flow and foreign exchange hedges *[note 21]*	**16,401**	14,757
Net unrealized foreign exchange (loss) gain	**(75,808)**	12,159
	(59,407)	26,916
Deferred tax expense	**2,062**	4,620
Total other comprehensive (loss) income from continued operations	**(61,469)**	22,296
Other comprehensive income (loss) from discontinued operations		
Realization of accumulated other comprehensive income on the sale of the US C&V Finance business	**(155,812)**	—
Total other comprehensive income (loss) from discontinued operations, net of tax	**607**	—
Total other comprehensive income (loss) from discontinued operations	**(155,205)**	—
Total comprehensive income	**21,640**	55,300

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 (deficit) $	Owners' net investment $	Accumulated other comprehensive income (loss) $	Total shareholders' equity $
Balance, December 31, 2015	—	—	—	—	1,403,325	188,086	1,591,411
Net adjustment to owners' equity	—	—	—	—	101,820	—	101,820
Comprehensive income (loss) for the period	—	—	—	—	51,721	(38,825)	12,896
Employee stock option expense *[note 14]*	—	—	—	—	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	(25,721)	—	—	—	—	—	(25,721)
Preferred shares issued *[note 13]*	—	97,315	—	—	—	—	97,315
Employee stock options exercised *[note 13]*	155	—	—	—	—	—	155
Comprehensive (loss) income for the period	—	—	—	(18,717)	—	61,121	42,404
Employee stock option expense *[note 14]*	—	—	2,545	—	—	—	2,545
Balance December 31, 2016	1,418,882	97,315	119,309	(18,717)	—	210,382	1,827,171
Common share repurchases *[note 13]*	**(43,088)**	**—**	**—**	**—**	**—**	**—**	**(43,088)**
Preferred shares issued *[note 13]*	**—**	**97,081**	**—**	**—**	**—**	**—**	**97,081**
Employee stock options exercised *[note 13]*	**1,208**	**—**	**—**	**—**	**—**	**—**	**1,208**
Comprehensive income (loss) for the period	**—**	**—**	**—**	**238,314**	**—**	**(61,469)**	**176,845**
Accumulated other comprehensive income on sale of businesses	**—**	**—**	**—**	**—**	**—**	**(155,205)**	**(155,205)**
Dividends – Preferred shares *[note 13]*	**—**	**—**	**—**	**(11,043)**	**—**	**—**	**(11,043)**
Dividends – Common shares *[note 13]*	**—**	**—**	**—**	**(19,243)**	**—**	**—**	**(19,243)**
Employee stock option expense *[note 14]*	**—**	**—**	**9,903**	**—**	**—**	**—**	**9,903**
Balance December 31, 2017	**1,377,002**	**194,396**	**129,212**	**189,311**	**—**	**(6,292)**	**1,883,629**

See accompanying notes

ECN Capital Corp.

Consolidated statements of cash flows

[in thousands of Canadian dollars]

	Year Ended December 31 2017 $	Year Ended December 31, 2016 $
Operating activities		
Net (loss) income for the period from continuing operations	**(33,271)**	16,620
Items not affecting cash		
Share-based compensation *[note 14]*	**12,809**	6,898
Depreciation of property, equipment, leasehold improvements and intangibles	**2,362**	819
Amortization of equipment under operating leases, deferred lease and finance costs	**84,453**	94,300
Amortization of intangible assets	**3,324**	30,639
Provision for credit losses	**2,061**	24,201
Loss on sale of businesses	**36,398**	—
Valuation reserve *[note 7]*	**25,036**	40,281
	133,172	213,758
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(438,865)**	(1,645,241)
Repayments of finance receivables	**646,611**	1,126,933
Investment in equipment under operating leases	**(372,999)**	(247,026)
Proceeds on disposal of equipment under operating leases	**282,068**	260,658
Syndications of finance receivables	**8,336**	150,794
Other non-cash operating assets and liabilities	**(141,728)**	15,467
Cash provided by (used in) operating activities	**116,595**	(124,657)
Investing activities		
Decrease in restricted funds *[note 12]*	**62,186**	85,408
Proceeds on disposal of U.S. C&V Finance business	**2,024,532**	—
Proceeds on disposal of rail assets	**1,385,500**	—
Acquisition of Service Finance and Triad Financial	**(535,078)**	—
Purchase of leasehold improvements, equipment and other *[note 8]*	**(17,964)**	(3,731)
Purchase of intangible assets	**—**	(504)
Increase in notes receivable *[note 19]*	**(17,675)**	(13,330)
Cash provided by investing activities	**2,901,501**	67,843
Financing activities		
Option exercises	**1,208**	—
Issuance of preferred shares, net *[note 13]*	**97,081**	97,470
Net investment from parent	**—**	101,820
Common share repurchases	**(43,088)**	—
Repayment of secured borrowings, net of deferred financing costs	**(3,068,513)**	(113,011)
Dividends paid	**(26,502)**	—
Cash (used in) provided by financing activities	**(3,039,814)**	86,279
Cash (utilized) provided by discontinued operations	**(2,389)**	16,384
Net (decrease) increase in cash during the period	**(24,107)**	45,849
Cash, beginning of period	**45,849**	—
Cash, end of period from continuing operations	**21,742**	45,849
Supplemental cash flow information		
Cash taxes paid	**27,903**	—
Cash interest paid	**75,414**	163,596

See accompanying notes

Notes to consolidated financial statements

1. Corporate information and basis of presentation

ECN Capital Corp. ["ECN Capital" or the "Company"] is an independent financial services company that originates, co-invests in and manages asset-based financing and related service programs. The Company originates a broad range of equipment and capital assets by way of secured loans, financial leases, conditional sales contracts, retail installment contracts, and operating leases. Headquartered in Toronto, the registered office is located at 181 Bay Street, Suite 2830, Toronto, Ontario, Canada. ECN Capital has approximately 445 employees and operates in Canada and the United States. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol "ECN".

On February 16, 2016, the Board of Directors of Element Financial Corporation ["Element"] approved a plan to separate into two publicly traded companies [the "Separation"]. The Separation of Element into ECN Capital and Element Fleet Management Corp. ["Element Fleet"] was implemented through a court approved plan of arrangement and was approved at a special meeting of the Element shareholders on September 20, 2016, and received final approval from the Ontario Supreme Court of Justice on September 21, 2016. Upon the Separation on October 3, 2016, common shareholders of Element were granted one common share of Element Fleet and one common share of ECN Capital in exchange for each Element share.

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 operating results for the 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 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.

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.

As a result of the completion of the sale of the Company's Canada C&V Finance business in the first quarter of 2018 and the business acquisitions completed in 2017 (refer to note 4), the Company's business operations will be conducted primarily in U.S. dollars. Consequently, effective in the first quarter of 2018, the Company changes its functional and presentation currency to U.S. dollars.

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 February 28, 2018.

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 for 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.

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.

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. 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 is 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.

Notes to consolidated financial statements

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 that 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
Inventories include assets purchased or recovered by the Company that are currently held to be leased or held for sale. Inventories held to be leased, which include railcar assets and certain aviation assets, 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.

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.

Notes to consolidated financial statements

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.

Derecognition of financial assets
The Company derecognizes a financial asset when the contractual rights to that asset have expired. If substantially all of the risks and rewards of ownership have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights or obligations created or retained in the transfer. If the Company has neither transferred or retained substantially all of the risks and rewards of ownership, then the Company recognizes a retained reserve interest in the financial assets to the extent of its continuing involvement.

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.

Leasehold improvements and other equipment
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
Other	4 - 20 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.

Notes to consolidated financial statements

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 assets acquired as a result of business combinations which are initially measured at fair value on the date of the business combination, namely: customer relationships, including the value of dealer and bank funding relationships; trade name; information technology; and retained servicing rights with respect to loans sold by our Home Improvement Finance segment. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for indicators of 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 remeasured 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 reporting date. 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.

Subsequent to December 31, 2017, the Company has changed its functional and presentation currency to U.S. dollars effective January 1, 2018.

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.

Discontinued operations

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

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

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

Business combinations

The Company uses the acquisition method of accounting for business combinations which requires the allocation of the purchase consideration to identifiable assets and liabilities acquired on a fair value basis at the date of acquisition. Any contingent consideration is also measured at fair value at the date of acquisition. Provisional fair values are finalized as the relevant information becomes available, for a period of up to twelve months from the acquisition date. Incremental costs related to acquisitions are expensed as incurred. When the cost of the acquisition exceeds the fair values of the identifiable net assets acquired, the difference is recorded as goodwill.

Future accounting changes

The following new IFRS pronouncements have been issued but are not yet effective:

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 continues to evaluate the impact of the adoption of IFRS 9 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. As a result, Management has concluded that the adoption of IFRS 15 will not have a material impact 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 continues to evaluate the impact of the adoption of IFRS 9 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

Judgment is required in determining whether it is necessary to recognize 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. 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. Estimating the recoverable amount of any asset is subject to measurement uncertainty and changes to key assumptions and judgments could result in a change in recognized impairment losses.

In April 2016, an Airbus Helicopters H225 model helicopter (also known as an EC225LP) operated by a customer was involved in an accident in Norway resulting in thirteen fatalities. The Accident Investigation Board Norway ("AIBN") published preliminary reports that contained findings from the investigation into the accident in May and June 2016. Pursuant to a safety recommendation published by the AIBN, a number of regulatory authorities issued safety directives suspending operations, with limited exceptions, of all Airbus H225 and AS332 L2 model helicopters registered in their jurisdictions, and a number of customers and operators voluntarily suspended operations of those two helicopter models. On October 7, 2016, the European Aviation Safety Agency ("EASA") issued an Airworthiness Directive which provides for additional maintenance and inspection requirements to allow these helicopters to return to service. On December 9, 2016, the Federal Aviation Administration in the United States issued an Alternative Means of Compliance ("AMOC") that also provides for additional maintenance and inspection requirements to allow these helicopters to return to service in the United States. In July 2017, the civil aviation authorities in each of Norway and the United Kingdom, the major European markets for H225 helicopters, announced plans to remove the restrictions on the operations of Airbus H225 and AS332 L2 model helicopters subject to the implementation of modifications and enhanced safety measures developed by Airbus and the execution of a plan of checks, modifications and inspections. In addition, prior to a return to service, an operator must develop a return to service plan for the applicable helicopter model that must be approved by the relevant regulatory authority. Such a plan would need to include a detailed safety case, outlining specific maintenance processes, tooling and training requirements and compliance with all applicable EASA directives. Despite these positive developments, as at December 31, 2017, there are no significant operators that have placed the H225 and AS332 L2 helicopters back into service.

The Company currently has one H225 helicopter and four AS332 L2 helicopters in inventory. The above events, combined with the related bankruptcy filing of the Company's major customer for these helicopters, led the Company to conclude that the carrying value of these helicopters exceeded their fair value. Consequently, the Company recorded asset valuation reserves of $25.0 million and $40.3 million in the years ended December 31, 2017 and December 31, 2016, respectively. The aggregate book value of these helicopters as at December 31, 2017 is $34.1 million. Significant judgment is required in measuring the impairment loss on these helicopters.

The Company utilized a discounted cash flow model in measuring the recoverable amount of these helicopters, which includes significant assumptions regarding the timing of the return to service, future lease rates, costs incurred to return the helicopters to service and comply with future maintenance standards, future lease rates, and discount rate. The model reflected an estimated return to service within the next 18 to 24 months. Costs to return to service have been estimated to reflect both (a) the implementation of the modifications and enhanced safety measures addressed above and (b) modifications required to convert these aircraft from offshore to onshore service which may include, but not be limited to, heavy-lift utility or search and rescue markets. Certain return to service costs have been reflected in the reduced lease rates, which is consistent the historic lease arrangements whereby certain operational and maintenance costs are born by the lessee. Future estimated lease rates have been reduced by an average of 60% when compared to the lease rates earned by these helicopters prior to the April 2016 accident described above. The estimated lease rates reflect the shift in operation from offshore to onshore service. The model reflects a discount rate of 6%. All of the key inputs used in the Company's fair value estimate were from Level 3 of the fair value hierarchy discussed in Note 25 - Fair Value Measurements as there is currently no observable current market data for these helicopters. The Company believes that the discounted cash model and related significant assumptions reflect a reasonable estimate of the recoverable amount of these aircraft. However, if these assumptions are inaccurate, the Company may be exposed to further impairment losses that could be material.

The Company continues to pursue its litigation claims against the manufacturer of these helicopters as well as its insurance claims under both our own aviation policy as well as under the policy of our former customer for these helicopters.

Accounting for income taxes

The Company is subject to income tax laws in the various jurisdictions that it operates in and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes. A deferred tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect in the period that the asset is realized or the liability is settled.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. However, the legislation makes broad and complex changes to the U.S. tax code and accordingly it will take time to assess and interpret the changes. Consequently, this provisional recovery may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

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.

Notes to consolidated financial statements

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, estimated replacement cost 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.

Derecognition of financial assets

Management has exercised judgment in the application of its accounting policy with respect to the derecognition of loans and retail installment contracts, primarily the retail installment contracts that are originated and sold by its Home Improvement Finance segment and loans to purchase manufactured homes that are originated and sold by its Manufactured Housing Finance segment.

The Company’s Home Improvement Finance segment originates retail installment contracts ("finance assets") and subsequently pools and syndicates those financial assets to a network of third party financial institutions without recourse. The Company retains the exclusive right to service these financial assets. Consequently, the Company has transferred substantially all the risk and rewards, and the Company derecognizes the related financial asset upon completion of the sale to the third party financial institution and separately recognizes a servicing rights asset. In calculating the gain on sale on these transactions, the carrying amount of the financial asset is allocated between the part that is sold and servicing asset retained based on their relative fair values. Judgment is applied in determining these fair values.

The Company’s Manufactured Housing Finance segment originates consumer loans for the purchase of manufactured homes throughout the U.S. and subsequently syndicates and sells these loans to a network of third party financial institutions. The Company recognizes a retained reserve interest in these loans with respect to its continuing involvement, as management has determined that it has not transferred nor retained substantially all the risks and rewards of ownership and has retained control. The fair value of the retained interest is estimated using a discounted cash flow methodology and is based on the Company’s expectations with respect to potential loan loss and prepayment rates. Judgment is applied in determining the estimated fair value of the retained interest. See note 10 for further details on these transactions.

Notes to consolidated financial statements

4. Business Acquisitions and Disposals

[a] Assets held-for-sale - Canada C&V Finance business

On October 30, 2017, the Company announced that it had entered into a definitive agreement with CWB Financial Group ["CWB"] to sell the Company's Canada C&V Finance assets, with the closing being subject to customary regulatory approvals. Accordingly, as at December 31, 2017, $857.2 million of finance receivables were classified as assets held-for-sale. The Company received cash proceeds of $849.8 million and recorded a pre-tax loss of $14.6 million in 2017 as a result of the transaction, primarily due to the write-off of associated goodwill, break fees on financing arrangements and employee severance costs. The transaction closed on January 31, 2018.

[b] Acquisition of Triad Financial Services, Inc.

On December 29, 2017, the Company completed the acquisition of Triad Financial Services, Inc. ["Triad"]. Under the terms of the agreement, the Company paid cash consideration of $126.1 million [US$100 million] in cash for Triad. In addition, the Company has entered into an incentive compensation plan with senior management that will be based on the achievement of a prescribed rate of return on average equity over the next five years.

The table below presents the preliminary allocation of fair values to the net assets acquired as at December 29, 2017. The Company will finalize the purchase price allocation in 2018.

	$
Consideration paid:	
Cash	**126,113**
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	**7,253**
Restricted cash	**15,029**
Accounts receivable and other	**18,401**
Retained reserve interest	**22,627**
Fixed assets	**1,224**
Intangible assets	**23,382**
Goodwill	**55,532**
Accounts payable and other liabilities	**(17,335)**
Net assets acquired	**126,113**

Acquisition-related costs expensed in the period were $2.8 million, including legal, accounting, due diligence and other transaction-related expenses. The preliminary allocation to goodwill of $55.5 million is primarily attributable to senior management's ability to maintain and grow both its dealer and funding relationships in support of the continued growth of the business. Triad did not contribute any earnings in 2017 as the transaction closed on December 29, 2017.

Notes to consolidated financial statements

[c] Acquisition of Service Finance

On September 7, 2017, the Company completed the acquisition of Service Finance Holdings, LLC ["Service Finance"] for cash consideration of $409 million (US$309 million).

The table below presents the final allocation of fair values to the net assets acquired as at December 31, 2017.

Consideration paid:	
Cash	**408,965**
Fair value of contingent consideration	**40,370**
Total consideration	**449,335**
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	**6,453**
Accounts receivable and other	**22,895**
Fixed assets	**1,060**
Intangible assets	**142,288**
Goodwill	**296,432**
Accounts payable and other liabilities	**(19,793)**
Net assets acquired	**449,335**

The Company has agreed to a deferred purchase price earn-out plan with the vendors that is based on the achievement of a prescribed return on average equity targets. The estimated fair value of the contingent purchase consideration of $40.4 million has been recorded as a liability. Subsequent changes in the estimated fair value of the liability will be recorded in the consolidated statements of operations.

Acquisition-related costs expensed in the period were $18.9 million, including investment banking fees of $10.9 million, and legal, accounting, due diligence and other transaction-related expenses of $8.0 million. The allocation to goodwill of $296.4 million is primarily attributable to Service Finance's senior management team's ability to bring new customers on to its core platform and establish new business platforms. Service Finance contributed $13.7 million in pre-tax operating income in 2017.

[d] Sale of railcar assets

Consistent with the Company's strategic plan to redeploy capital into higher yield businesses, on August 4, 2017 ECN Capital closed a transaction to sell approximately 1,550 railcar assets to ITE Management L.P. for cash proceeds of approximately US$173 million. On September 26, 2017, the Company closed a separate transaction to sell approximately 8,400 railcars (in its Element Rail Leasing II Portfolio) to Napier Park Global Capital US LP for cash proceeds of approximately US$935 million (collectively, the "Railcar Dispositions"). The total book value of the railcar assets sold was approximately US$1.15 billion and represent approximately 65% of the Company's railcar portfolio. The Railcar Dispositions resulted in a total loss on sale of $78.7 million, and an after-tax loss of $49.6

million comprised of a 2% or $26.7 million after tax loss on the book value of finance assets, deferred financing write-offs, swap and foreign exchange losses of $17.4 million (of which $11.1 million of these costs were previously recorded in AOCI and therefore did not affect overall book value in the third quarter); and transaction-related costs of $5.5 million.

[e] Sale of advisory business

On May 31, 2017, the Company closed a transaction with Stellwagon Group, the commercial aviation finance advisory and asset management business of Acasta Enterprises Inc. [“Acasta”], to sell the Company’s Commercial Aviation Advisory Business. As part of the transaction, certain key employees of the ECN Commercial Aviation Advisory and the office in Stamford, CT transitioned to Acasta. In connection with the transaction, the Company received 3,037,500 shares of Acasta and recorded a gain of $2.3 million which is stated net of a reserve of $8.0 million to reflect the impact of a twelve-month hold period on the Acasta shares, transaction-related costs of $7.2 million, and transaction-related compensation expenses of $4.8 million for employees retained by Acasta.

[f] Sale of U.S. C&V Finance business

In the first quarter of 2017, the Company entered into two separate transactions resulting in the sale of its U.S. C&V Finance business. The transactions were structured as asset sales and cover the exclusivity of the Company’s C&V Finance business in the United States. The total sale price of US $1,531 million for the U.S. C&V Finance business include cash proceeds of US$1,522 million and a performance-based contingent amount of US$9.2 million that has been included in other assets. The fair value of the performance-based contingent amount is re-evaluated on a quarterly basis.

The gain on sale of business of $343,926 includes the realization of $155,205 in AOCI related to the US C&V Finance business and foreign exchange gains of $7,091 relating to hedges entered into to reduce foreign exchange risk on the sale proceeds. Gain on sale of business is stated net of transaction costs of $24,471 and transaction-related compensation expenses of $6,522 for employees retained by the purchasers of the U.S. C&V Finance business.

[g] Discontinued operations

Discontinued operations include the results of the Company's U.S. and Canada C&V Finance business units and were as follows:

Notes to consolidated financial statements

	Year-Ended December 31 2017 $	Year-Ended December 31 2016 $
Net financial income		
Interest income	**79,089**	139,498
Interest expense	**30,753**	63,688
Net interest income before provision for credit losses	**48,336**	75,810
Provision for credit losses	**10,244**	23,600
Net interest income	**38,092**	52,210
Other revenue	**13,928**	17,998
	52,020	70,208
Operating expenses and other costs		
Salaries, wages and benefits	**18,766**	26,772
General and administrative expenses	**11,229**	12,768
Share-based compensation	**4,428**	2,705
Separation and reorganization costs	**2,097**	10,487
Business transaction costs	**14,669**	—
Gain on business disposals	**(342,208)**	—
	(291,019)	52,732
Income from discontinued operations before income taxes	**343,039**	17,476
Provision for income taxes	**71,454**	1,092
Net income from discontinued operations	**271,585**	16,384

Notes to consolidated financial statements

5. Finance Receivables

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

	December 31, 2017		
	Leases	Loans	Total
	$	$	$
Minimum lease payments	**124,253**	**399,208**	**523,461**
Non-guaranteed residual values	**53,042**	**—**	**53,042**
Gross investment	**177,295**	**399,208**	**576,503**
Unearned income	**(46,209)**	**(38,326)**	**(84,535)**
Net investment	**131,086**	**360,882**	**491,968**
Unamortized deferred costs and subsidies	**1,378**	**910**	**2,288**
Security deposits	**(2,628)**	**(823)**	**(3,451)**
Other receivables	**883**	**1,158**	**2,041**
Allowance for credit losses	**(2,501)**	**(214)**	**(2,715)**
Total finance receivables - continuing operations	**128,218**	**361,913**	**490,131**

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

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

Notes to consolidated financial statements

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

	December 31, 2017		December 31, 2016 [1]	
	$	%	$	%
31 - 60 days past due	**893**	**0.18**	2,589	0.16
61 - 90 days past due	**383**	**0.08**	582	0.04
Greater than 90 days past due	**—**	**—**	284	0.02
Total past due	**1,276**	**0.26**	3,455	0.22
Current	**490,692**	**99.74**	1,633,887	99.78
Total net investment, continuing operations	**491,968**	**100.00**	1,637,342	100.00

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

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

	December 31, 2017		December 31, 2016 [1]	
	Leases	Loans	Leases	Loans
Net investment, continuing operations	**131,086**	**360,882**	794,227	843,115
Weighted average fixed interest rate	**6.12%**	**5.42%**	6.65%	6.37%
Weighted average floating interest rate	**n/a**	**4.26%**	n/a	5.05%
Percentage of portfolio with fixed interest rate	**100.00%**	**64.68%**	100.00%	71.69%

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

Notes to consolidated financial statements

Allowance for credit losses

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

	Year Ended December 31 2017	Year ended December 31, 2016 [1]
	$	$
Allowance for credit losses, beginning of period	**4,377**	8,122
Provision for credit losses	**2,061**	4,719
Charge-offs, net of recoveries	**(3,687)**	(8,444)
Impact of foreign exchange rates	**(36)**	(20)
Allowance for credit losses, end of period	**2,715**	4,377
Allowance as a percentage of finance receivables	**0.55%**	0.27%

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

Contractual maturities

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

	2017			2016		
	Gross Investment	**Unearned Income**	**Net Investment**	Gross Investment	Unearned Income	Net Investment
	$	$	$	$	$	$
Maturity						
Within 1 year	**231,780**	**(28,036)**	**203,744**	1,108,807	(152,380)	956,427
In 1 to 3 years	**215,828**	**(45,245)**	**170,583**	1,587,088	(261,550)	1,325,538
In 3 to 5 years	**110,431**	**(10,071)**	**100,360**	833,288	(89,894)	743,394
After 5 years	**18,464**	**(1,183)**	**17,281**	386,733	(25,667)	361,066
	576,503	**(84,535)**	**491,968**	3,915,916	(529,491)	3,386,425

Notes to consolidated financial statements

6. Equipment Under Operating Leases

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

	2017		
	Railcar	Aviation	Total
	$	$	$
Cost			
Cost at December 31, 2016	**2,439,140**	**309,545**	**2,748,685**
Additions	**275,348**	**97,651**	**372,999**
Disposals	**(1,604,274)**	**(63,292)**	**(1,667,566)**
Foreign exchange rate adjustments	**(201,220)**	**(21,085)**	**(222,305)**
At December 31, 2017	**908,994**	**322,819**	**1,231,813**
Accumulated depreciation			
At December 31, 2016	**(92,898)**	**(37,175)**	**(130,073)**
Depreciation change for the year	**(36,596)**	**(21,414)**	**(58,010)**
Disposals	**72,601**	**9,766**	**82,367**
Additions	**(2,260)**	**—**	**(2,260)**
Foreign exchange rate adjustments	**9,158**	**3,067**	**12,225**
At December 31, 2017	**(49,995)**	**(45,756)**	**(95,751)**
Net carrying amount	**858,999**	**277,063**	**1,136,062**

Notes to consolidated financial statements

	2016		
	Railcar	Aviation	Total
	$	$	$
Cost			
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 change 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

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

	2,017	**2,016**
	$	$
Within 1 year	**75,313**	255,079
In 1 to 3 years	**116,214**	390,294
In 3 to 5 years	**62,467**	227,614
After 5 years	**24,175**	144,656
	278,169	1,017,643

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

	2017	2016
	$	$
Rental revenue	**175,754**	230,975
Amortization of equipment under operating leases	**(58,010)**	(67,062)
	117,744	163,913

Notes to consolidated financial statements

7. Inventories

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

	Railcar	Aviation [1]	Continuing operations [2]	Discontinued Operations	Total
	$	$	$	$	$
At December 31, 2015	—	—	—	15,292	15,292
Net additions during the year	56,574	99,938	156,512	8,496	165,008
Valuation reserve	—	(40,281)	(40,281)	—	(40,281)
At December 31, 2016	56,574	59,657	116,231	23,788	140,019
Net additions/removals during the period	**(7,210)**	**38,718**	**31,508**	**(15,788)**	**15,720**
Valuation reserve	**—**	**(25,036)**	**(25,036)**	**—**	**(25,036)**
Foreign exchange rate adjustments	**(5,903)**	**(6,876)**	**(12,779)**	**—**	**(12,779)**
At December 31, 2017	**43,461**	**66,463**	**109,924**	**8,000**	**117,924**

[1] Refer to note 3 for disclosure regarding the impairment of aviation assets recorded during the years ended December 31, 2017 and 2016.

[2] Canada and U.S. C&V Finance inventories represent discontinued operations.

Notes to consolidated financial statements

8. Leasehold Improvements and Other Equipment

	2017		
	Leasehold improvements	Equipment and Other	Total
	$	$	$
Cost			
At December 31, 2016	**764**	**4,451**	**5,215**
Additions	**2,342**	**15,622**	**17,964**
Foreign exchange rate adjustments	**(124)**	**818**	**694**
At December 31, 2017	**2,982**	**20,891**	**23,873**
Accumulated Depreciation			
At December 31, 2016	**59**	**1,344**	**1,403**
Depreciation charge for the year	**390**	**1,972**	**2,362**
Foreign exchange rate adjustments	**(12)**	**(103)**	**(115)**
At December 31, 2017	**437**	**3,213**	**3,650**
Net carrying amount	**2,545**	**17,678**	**20,223**

	2016		
	Leasehold improvements	Equipment and other	Total
	$	$	$
Cost			
At December 31, 2015	42	1,454	1,496
Additions	698	3,033	3,731
Foreign exchange rate adjustments	24	(36)	(12)
At December 31, 2016	764	4,451	5,215
Accumulated Depreciation			
At December 31, 2015	2	816	818
Depreciation charge for the year	49	450	499
Foreign exchange rate adjustments	8	78	86
At December 31, 2016	59	1,344	1,403
Net carrying amount	705	3,107	3,812

Notes to consolidated financial statements

9. Intangible Assets

	Information Technology			Customer relationships & Other			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$	$	$
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
Additions	**4,639**	**—**	**4,639**	**161,295**	**—**	**161,295**	**165,934**
Amortization	**—**	**534**	**534**	**—**	**(2,278)**	**(2,278)**	**(1,744)**
Disposals/ impairment	**(1,076)**	**—**	**(1,076)**	**—**	**—**	**—**	**(1,076)**
Foreign exchange rate adjustments	**(298)**	**198**	**(100)**	**6,986**	**—**	**6,986**	**6,886**
December 31, 2017	**4,686**	**(49)**	**4,637**	**168,281**	**(2,278)**	**166,003**	**170,640**

During the year-ended December 31, 2017, the Company acquired intangible assets as part of its acquisition of Triad Financial and Service Finance. See note 4 for further discussion.

During the year-ended December 31, 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.

Also included in amortization of intangibles from acquisitions is $1,046 of accretion expense related to the contingent consideration liability recorded as part of the Service Finance acquisition described in note 4.

Notes to consolidated financial statements

10. Retained Reserve Interest

The Company's retained reserve interest asset is measured as the sum of the amounts held in reserve accounts and the estimated fair value of the amounts held in reserve that the Company expects to recover. The retained interest - liability is equal to the amount placed on deposit in a reserve account, which is the maximum exposure that the Company has with respect to potential loan losses. Please refer to note 3 for further description of the nature of the retained reserve interest. The following table presents the retained reserve interest - asset and retained reserve interest - liability as at December 31:

	2017 **$**
Retained reserve interest - asset	**253,934**
Retained reserve interest - liability	**(231,307)**
Retained reserve interest	**22,627**

11. 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 Canada C&V Finance component 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 definitive agreement to sell it's Canada C&V Finance business, the goodwill allocated to that business unit was written down to nil. The Company recognized goodwill on two separate business acquisitions completed during the year-ended December 31, 2017. See note 4 for further details.

	2017 $	**2016** $
Balance, beginning of year	**4,560**	8,074
Additions from new acquisitions	**351,964**	—
Impairment	**(4,560)**	(3,384)
Foreign exchange rate adjustments	**(476)**	(130)
Balance, end of year	**351,488**	4,560

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

	2017 **$**	**2016** **$**
Manufactured Housing Finance	**55,532**	—
Home Improvement Finance	**295,956**	—
Canada C&V Finance	**—**	4,560
	351,488	4,560

12. Secured Borrowings

	December 31, 2017			
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Life insurance company term funding facilities	**145,580**	**2.89**	**146,507**	**21,264**
Securitization programs	**382,597**	**2.39**	**410,360**	**4,181**
Asset-backed securities	**368,935**	**3.56**	**501,830**	**9,877**
Term senior credit facility [2]	**559,008**	**3.30**	**—**	**—**
	1,456,120	**3.08**	**1,058,697**	**35,322**
Deferred financing costs	**(20,042)**			
Total secured borrowings	**1,436,078**			

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

[1] Represents the weighted average stated interest rate of outstanding debt at year-end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.
[2] The revolving senior credit facility is secured by a general security agreement in 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 December 31, 2017.

Notes to consolidated financial statements

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 1.80% to 2.00% [December 31, 2016 - 2.00% to 2.50%]. At December 31, 2017, life insurance company term funding facilities had a weighted average fixed interest rate of 2.89%, which ranged from 2.78% to 3.06%, with tranche maturities ranging from 2018 to 2024 [December 31, 2016 - the weighted average interest was 2.96%, which ranged from 2.79% to 3.14%].

As at December 31, 2017, the Company had access to committed lines of funding of $121,956 from three Canadian life insurance companies [December 2016 - $288,620 from four Canadian life insurance companies]. During 2017, the Company reduced the size of its unutilized commitment from the Canadian life insurance companies by approximately $90 million subject to further reset. The lower committed lines reflect higher funding from securitization programs. As at December 31, 2017, the Company had access to $50,000 [December 31, 2016 - $127,543] of available financing under its life insurance company term funding facilities.

As at January 31, 2018, in connection with the sale of the Canada C&V business, these committed lines were repaid and terminated.

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 traditionally consist of both variable funding notes and term facilities, in amortizing periods.

At December 31, 2017, there were $382,597 of variable-funding notes outstanding at a weighted average floating interest rate of 2.39% with expected final maturities in 2022 [December 31, 2016 - $1,087,792 and a weighted average interest rate of 2.22%, which ranged from 1.89% to 3.19%].

During 2017, the Company paid in full and terminated two of its three securitization facilities. In connection with the sale of the U.S. C&V Finance business, the Company repaid the outstanding balance of US$420,705 and terminated its securitization program related to the business sold. The Company paid $54,339, paying in full and terminating a securitization program funded by a Canadian bank.

As at December 31, 2017, the Company had access to $18,032 [December 31, 2016 - $283,377] of available financing from its remaining securitization program.

On January 31, 2018, in connection with the sale of the Company's Canada C&V Finance business, the remaining securitization program funded by a Canadian bank was paid in full and terminated with the payment of $371,994.

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, 2017, there were $368,935 of term notes in amortization period outstanding at a weighted average fixed interest rate of 3.56%, with an expected final maturity in 2035 [December 31, 2016 - $1,457,569, at a weighted average interest rate of 3.95%].

During 2017, in connection with the sale of certain rail assets, the Company transferred the obligation related to the ERL II program to the purchaser.

Term senior credit facility

The facility is syndicated to a group of 13 Canadian, US and international banks with a maturity date of December 31, 2020. 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, 2017, the amount drawn on the term senior credit facility was $559,008 [$1,744,988 at December 31, 2016] of the $2,765,620 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 average borrowing base of Element. 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 $74,685 include [i] cash reserves of $35,322 at December 31, 2017 [December 31, 2016 - $93,323], which represents collateral for secured borrowing arrangements; and [ii] cash accumulated in collection accounts of $39,363 as at December 31, 2017 [December 31, 2016 - $43,548], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates. The following table represents restricted funds as at December 31:

	2017 $	2016 $
Continuing operations		
Restricted - cash in collection accounts	**39,363**	26,797
Restricted - cash reserves	**35,322**	83,896
	74,685	110,693
Discontinued operations		
Restricted - cash in collection accounts	**—**	16,751
Restricted - cash reserves	**—**	9,427
	—	26,178

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:

	2017			2016		
	Secured borrowings gross of interest costs	**Finance receivables and equipment under operating leases [1]**		Secured borrowings gross of interest costs	Finance receivables and equipment under operating leases	
	$	$	%	$	$	%
Maturity						
Within 1 year	**207,353**	**574,040**	**36.1%**	593,253	1,363,886	43.5%
In 1 to 3 years	**325,068**	**560,877**	**58.0%**	889,553	1,977,382	45.0%
In 3 to 5 years	**429,067**	**327,974**	**130.8%**	815,325	1,060,902	76.9%
After 5 years	**464**	**161,937**	**0.3%**	849,774	531,389	159.9%
	961,952	**1,624,828**	**59.2%**	3,147,905	4,933,559	63.8%
Interest costs	**(64,840)**			(340,181)		
Net of interest costs	**897,112**			2,807,724		
Revolving senior credit facility	**559,008**			1,744,988		
	1,456,120			**4,552,712**		

[1] Represents a total of the contractual maturity of the finance receivables portfolio [note 5] and future minimum lease payments arising from non-cancellable operating leases [note 6].

Notes to consolidated financial statements

13. Share Capital

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

	Common shares	
	Shares	**Amount**
	#	$
Issued pursuant to the Separation transaction	386,755,808	1,418,727
Exercise of options	356,681	155
Balance, December 31, 2016	387,112,489	1,418,882
Exercise of options	**1,667,174**	**1,208**
Common share repurchases	**(11,151,076)**	**(43,088)**
Balance, December 31, 2017	**377,628,587**	**1,377,002**

Normal Course Issuer Bid

On June 30, 2017, the Toronto Stock Exchange approved the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may repurchase up to 36,999,219 common shares, representing approximately 10% of the "public float" as at June 29, 2017. The NCIB period commenced on July 5, 2017 and will end on the earlier of July 4, 2018, and the completion of purchases under the NCIB. During the year-ended December 31, 2017, the Company purchased 11,151,076 common shares for a total of $43.1 million or $3.86 per common share. On December 22, 2018 the Company entered into an automatic share repurchase plan (“ASPP”) with a designated broker to facilitate ongoing repurchases through self imposed blackout periods. Subsequent to year end, the Company has repurchased an additional 15,543,538 common shares under the NCIB for a total of $58.6 million or $3.77 per common share. In total, the Company has repurchased 26,694,614 common shares under the NCIB for a total of $101.7 million or $3.81 per common share.

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

	Preferred shares	
	Shares	**Amount**
	#	$
Issued during the year	4,000,000	97,315
Balance, December 31, 2016	4,000,000	97,315
Issuance of shares, net of costs	**4,000,000**	**97,081**
Balance, December 31, 2017	**8,000,000**	**194,396**

Notes to consolidated financial statements

Preferred share dividends

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

On May 25, 2017, the Company issued through a public offering, 4,000,000 6.25% Cumulative 5-year Minimum Rate Reset Preferred Shares, Series C ["Series C shares"], at a price of $25.00 per preferred share for gross proceeds of $100,000. The issuance included pre-tax transaction costs of $3,537 [or after-tax transaction costs of $2,919].

During the year ended December 31, 2017, the Company paid $6,994 [after tax cost of $7,186] or $1.625 per Series A share in preferred share dividends.

During the year ended December 31, 2017, the Company paid $3,754 [after tax cost of $3,857 and $2,253] or $0.9386 per Series C share in preferred share dividends.

Common share dividends

During the year ended December 31, 2017, the Company paid and accrued $19,243 or $0.05 per common share[December 31, 2016 - nil].

Notes to consolidated financial statements

14. Share-Based Compensation

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

	Year Ended	
	December 31, 2017	December 31, 2016
	$	$
[a] Stock options	**5,634**	5,001
[b] Deferred share units	**2,950**	231
[c] Performance share units and restricted share units	**4,225**	1,904
Share-based compensation - continuing operations	**12,809**	7,136

[a] Stock options

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.

The changes in the number of stock options as at December 31 were as follows:

	Number of options	Weighted average exercise price
	#	$
Issued on Separation	22,556,684	2.59
Granted	8,895,000	2.70
Forfeited	(97,372)	2.95
Exercised	(400,720)	1.08
Outstanding, December 31, 2016	30,953,592	2.64
Granted	**5,315,000**	**3.57**
Forfeited	**(1,042,054)**	**3.24**
Exercised	**(3,616,423)**	**2.21**
Outstanding, December 31, 2017	**31,610,115**	**2.83**

Notes to consolidated financial statements

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

	Unit	2017	2016
Weighted-average share price	$	**3.57**	2.70
Weighted-average term to exercise	Years	**6.5**	7.0
Weighted-average share price volatility	%	**30.8**	33.1
Weighted average expected annual dividend	$	**0.04**	0.04
Risk-free interest rate	%	**1.44**	0.94
Forfeiture rate	%	**1.02**	1.02

As at December 31, 2017, the following employee and director stock options to purchase common shares were outstanding:

		Options outstanding		
Range of exercise prices	**Weighted average remaining life**	**Vested**	**Unvested**	**Total**
	[in years]	#	#	#
$0.00 to $1.00	1.04	1,201,661	—	1,201,661
$1.01 to $2.00	1.94	2,979,528	—	2,979,528
$2.01 to $3.00	4.16	9,411,190	5,147,711	14,558,901
$3.01 and over	4.84	5,642,389	7,227,636	12,870,025
	4.11	19,234,768	12,375,347	31,610,115

[b] Deferred Share Units ["DSU"] and Performance share units and Restricted share units

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, 2017, the following DSUs were outstanding:

	Deferred share units
	#
Outstanding, December 31, 2016	96,678
Granted	676,302
Outstanding, December 31, 2017	**772,980**

As at December 31, 2017, the fair value of DSUs recorded as accounts payable and accrued liabilities was $3,269 [December 31, 2016 - $319]. There are no hedges on DSU share units.

Performance and Restricted Share Unit plans
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 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, 2017, there were 813,611 PSUs outstanding (2016 - nil) and no RSUs outstanding (December 31, 2016 - nil). The fair value of PSUs recorded as accounts payable and accrued liabilities was $4,225 (December 31, 2016 - nil).

Notes to consolidated financial statements

15. Other Revenue

Other revenue consists of the following for the years ended December 31:

	Year Ended	
	December 31, 2017	**December 31, 2016**
	$	$
Origination fees	**10,773**	—
Servicing fees	**10,605**	—
Syndication fees	**4,921**	7,048
Capital advisory fees	**—**	4,756
Prepayment charges	**7,752**	5,656
Other revenue	**4,358**	4,762
Total other revenue, continuing operations	**38,409**	22,222

16. Separation and Reorganization Costs

Separation and reorganization costs for the year ended December 31, 2017 were $9.1 million, $6.5 million of which was attributable to severance payments resulting from the decision to reduce the size of the Company's corporate office as part of the ongoing transitioning of the Company's businesses. The $2.6 million in accrued termination payments is attributable to corporate office space commitments.

For December 31, 2016, 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:

	2017	**2016**
	$	$
Investment advisory fees	**—**	3,604
Accrued termination payments	**2,575**	3,194
Provision for restructure from separation	**—**	3,042
Legal and professional fees	**—**	1,554
Severance and others	**6,500**	1,578
	9,075	**12,972**

Notes to consolidated financial statements

17. Income Taxes

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

	2017	2016
	$	$
Consolidated statements of operations		
Current income tax expense	**17,859**	2,132
Deferred income tax benefit		
Origination and reversal of temporary differences	**(77,935)**	(5,539)
Income tax expense (benefit) reported in the consolidated statements of operations	**(60,076)**	(3,407)
Income tax benefit reported in the consolidated statements of changes in shareholders' equity	**(323)**	13,058

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

	2017	2016
	$	$
(Loss) income before income taxes	**(93,347)**	13,213
Combined statutory Canadian federal and provincial tax rate	**26.61%**	26.61%
Income tax (recovery) expense based on statutory rate	**(24,840)**	3,516
Income tax adjusted for the effect of:		
Non-deductible and non-taxable items	**(11,306)**	(8,760)
Impact of foreign rate differential and changes to legislation	**(23,930)**	1,837
Total income tax recovery	**(60,076)**	(3,407)

The impact of foreign rate differential and changes in legislation includes the revaluation of the Company’s U.S. deferred tax position resulting from the recently enacted U.S. tax legislation reducing the U.S. federal corporate income tax rate from 35% to 21%.

Notes to consolidated financial statements

Deferred taxes

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

	2017	2016
	$	$
Deferred tax assets		
Tax loss carry forwards	**4,446**	6,335
Finance receivables	**26,063**	9,752
Unrealized foreign exchange gains and losses	**—**	4,302
Shares issuance cost	**1,461**	843
Capital assets, intangible assets, and other	**7,976**	46
Equipment under operating lease	**(1,025)**	(10,946)
Deferred financing charges	**49**	(1,480)
Unrealized losses (gains) on derivatives	**(1,463)**	(1,105)
	37,507	7,747
Deferred tax liabilities		
Finance receivables	**115,795**	137,108
Unrealized gains on derivatives	**(473)**	3,560
Equipment under operating leases	**—**	2,919
Tax loss carry forwards	**(94,441)**	(124,313)
Capital assets, intangible assets, and other	**(2,262)**	(1,914)
	18,619	17,360
Net deferred tax asset (liability) position	**18,888**	(9,613)

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

	2017	2016
	$	$
Balance, beginning of year	**(9,613)**	(17,947)
Tax benefit/(expense) recognized in profit or loss	**29,289**	25,998
Tax benefit/(expense) recognized in other comprehensive income	**(1,406)**	(4,606)
Tax benefit/(expense) charged directly in equity	**618**	(13,058)
Balance, end of year	**18,888**	**(9,613)**

[iii] There are no unused tax losses or temporary differences that have not been recognized for the year ended December 31, 2017.

Notes to consolidated financial statements

18. 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
Service Finance Company, LLC	US
Triad Financial Services, Inc.	US
Element Rail Leasing I LLC	US
ECN (US) Holdings Corp.	US
ECN Platinum LLC	US
ECN Rail LLC	US
ECN Aviation Inc.	Canada

[b] Subsidiaries with restrictions

The Company has restrictions on its ability to access or use its assets and settle its liabilities in Element Rail Leasing I LLC 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.

19. Related Party Transactions

Notes receivable

Notes receivable of $58,343 as at December 31, 2017 [December 31, 2016 - $40,668] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of Element's shares acquired prior to the Separation and to finance the purchase of the Company's shares post-separation. The loans bear interest at a rate of Canadian prime less 50 basis points with interest payable monthly or annually. The principal is payable on demand in the event of non-payment of interest, and the notes receivable are secured by the Element Fleet and ECN Capital shares purchased with full recourse to the employee/officer.

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

	Year Ended December 31 2017	Year ended December 31, 2016
	$	$
Notes receivable, beginning of period	**40,668**	27,338
Additions	**21,846**	13,051
Interest income	**1,057**	802
Repayments (interest and principal)	**(5,744)**	(523)
Foreign exchange	**516**	—
Notes receivable, end of period	**58,343**	40,668

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:

	2017	2016
	$	$
Salaries, bonuses and benefits	**9,671**	6,449
Share-based compensation	**10,312**	9,653
	19,983	16,102

The above amounts 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 PSUs 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-Scholes valuation attributed to the ECN employee stock options granted post the separation date.

Notes to consolidated financial statements

20. Earnings (Loss) 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 Separation date.

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

	Year Ended	
	2017	**2016**
	$	$
Net (loss) income from continuing operations attributable to shareholders	**(33,271)**	16,620
Cumulative dividends on preferred shares	**10,748**	—
Net (loss) income from continuing operations available to common shareholders	**(44,019)**	16,620
Net income (loss) from discontinued operations attributable to common shareholders	**271,585**	16,384
Total net (loss) income attributable to common shareholders	**227,566**	33,004
Weighted average number of common shares outstanding - basic	**385,794,538**	386,523,263
Basic earnings per share from continuing operations	**$ (0.11)**	$ 0.05
Basic earnings per share from discontinued operations	**$ 0.70**	$ 0.04
Total earnings per share	**$ 0.59**	$ 0.09
Weighted average number of common shares outstanding - diluted	**394,642,153**	390,580,768
Diluted earnings per share from continuing operations	**$ (0.11)**	$ 0.04
Diluted earnings per share from discontinued operations	**$ 0.69**	$ 0.04
Total diluted earnings per share	**0.58**	$ 0.08

Instruments outstanding as at December 31, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 8,847,615 stock options for the year-ended December 31, 2017, [year-ended December 31, 2016 - 18,802,262].

Notes to consolidated financial statements

21. 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:

	2017	2016
	$	$
Foreign exchange agreements recorded in other revenues	**(2,256)**	(5,737)
Fair value gains (losses) recorded in other comprehensive income (loss)	**16,401**	14,757

Notional amounts and fair values of derivative instruments

The following table summarizes the notional principal and fair values of the derivative financial instruments outstanding as at December 31.

Notes to consolidated financial statements

As at December 31, 2017						
	Remaining term to maturity					
	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total Notional Principal	Fair Value
	$	$	$	$	$	$
Derivative assets						
Interest rate contracts	131,203	224,095	98,893	85	**454,276**	2,704
Foreign exchange agreements	424,000	—	—	—	**424,000**	665
	555,203	**224,095**	**98,893**	**85**	**878,276**	**3,369**
Derivative liabilities						
Interest rate contracts	168,849	249,905	91,432	—	**510,186**	2,194
Foreign exchange agreements	12,644	1,677	2,935	—	**17,256**	28
	181,493	**251,582**	**94,367**	**—**	**527,442**	**2,222**

As at December 31, 2016						
	Remaining term to maturity					
	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total notional principal	Fair value
	$	$	$	$	$	$
Derivative assets						
Interest rate contracts	415,494	903,692	489,788	125,607	**1,934,581**	10,950
Foreign exchange agreements	537,153	1,604	3,723	—	**542,480**	435
	952,647	**905,296**	**493,511**	**125,607**	**2,477,061**	**11,385**
Derivative liabilities						
Interest rate contracts	48,149	77,436	83,674	17,629	**226,888**	2,200
Foreign exchange agreements	168,240	—	—	—	**168,240**	780
	216,389	**77,436**	**83,674**	**17,629**	**395,128**	**2,980**

Offsetting of derivative assets and liabilities

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

	December 31, 2017	December 31, 2016
	$	$
Derivative assets		
Gross amounts of financial instruments recognized on the consolidated statements of financial position	**3,369**	11,385
Amounts subject to an enforceable master netting agreement	**(2,476)**	2,980
	5,845	8,405
Derivative liabilities		
Gross amounts of financial instruments recognized on the consolidated statements of financial position	**2,222**	2,980
Amounts subject to an enforceable master netting agreement	**(2,476)**	2,980
	4,698	—

22. Capital Disclosures

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

The Company's capitalization is as follows:

	December 31, 2017	December 31, 2016
	$	$
Secured borrowings	**1,436,078**	4,504,591
Accounts payable and accrued liabilities	**170,680**	84,252
	1,606,758	4,588,843
Shareholders' equity	**1,883,629**	1,827,171
	3,490,387	6,416,014

Notes to consolidated financial statements

23. Segmented Information

The Company has organized its operations around four separate business segments: [a] Home Improvement Finance; [b] Manufactured Housing Finance; [c] Rail Finance and [d] Aviation Finance. The Company's Chief Operating Decision Maker ("CODM"), the CEO, reviews the operating results, assesses performance and makes capital allocation decisions at the business segment level. Therefore, each of the Company's business segments is an operating segment for financial reporting purposes. Home Improvement Finance originates, sells and services primarily prime and super-prime retail installment contracts to finance home improvement projects in the U.S. The Manufactured Home Finance was formed following the acquisition of Triad. It originates, sells, and manages primarily prime and super-prime loans to consumers for the purchase of manufactured homes throughout the U.S. The acquisition of Triad was completed on December 29, 2017 and, accordingly, its results are not included in the Company's consolidated results of operations for the year-ended December 31, 2017. 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.

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

	For the year ended December 31, 2017					
	Home Improvement	Rail Finance	Aviation Finance	Total continuing operations	Discontinued Operations	Total
		$	$	$	$	$
Interest income and rental revenue, net	—	106,963	40,107	147,070	79,089	226,159
Interest expense	—	60,626	15,638	76,264	30,753	107,017
	—	46,337	24,469	70,806	48,336	119,142
Provision for credit losses	—	—	2,061	2,061	10,244	12,305
Other revenues	21,671	12,287	4,451	38,409	13,928	52,337
Net financial income	21,671	58,624	26,859	107,154	52,020	159,174
Operating expenses	7,993	29,262	14,846	52,101	29,995	82,096
Operating income before taxes	13,678	29,362	12,013	55,053	22,025	77,078
Share-based compensation				12,809	4,428	17,237
Separation and reorganization costs				9,075	2,097	11,172
Acquisition costs				21,734	—	21,734
Intangible amortization				3,324	—	3,324
Asset valuation reserve				25,036	14,669	39,705
Loss (gain) on sale of businesses				76,422	(342,208)	(265,786)
Net (loss) income before income taxes				(93,347)	343,039	249,692
Provision for income taxes				(60,076)	71,454	11,378
Net (loss) income for the period				(33,271)	271,585	238,314

Notes to consolidated financial statements

	For the year ended December 31, 2016				
	Rail Finance	Aviation Finance	Total continuing operations	Discontinued operations	Total
	$	$	$	$	$
Interest income and rental revenue, net	149,302	65,891	215,193	139,498	354,691
Interest expense	74,240	25,668	99,908	63,688	163,596
	75,062	40,223	115,285	75,810	191,095
Provision for credit losses	—	601	601	23,600	24,201
Other revenue	10,928	11,294	22,222	17,998	40,221
Net financial income	85,990	50,916	136,906	70,208	207,115
Operating expenses	21,593	11,072	32,665	39,540	72,204
Operating income before income taxes	64,397	39,844	104,241	30,668	134,911
Impairment and amortization of intangible assets from acquisitions			30,639	—	30,639
Share-based compensation			7,136	2,705	9,844
Asset valuation reserve			40,281	—	40,281
Separation and reorganization costs			12,972	10,487	23,458
Net income before taxes			13,213	17,476	30,689
(Recovery) provision for income taxes			(3,407)	1,092	(2,315)
Net income for the period			16,620	16,384	33,004

Notes to consolidated financial statements

24. 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:

	2017	2016
	$	$
Within one year	**2,303**	1,962
After one year but not more than five years	**7,362**	2,315
More than five years	**—**	965
	9,665	5,242

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, 2017, the Company had $17,977 of commitments outstanding to provide financing or purchase equipment (December 31, 2016 - $129,887).

25. Financial Instruments

[a] 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 a 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 manages its counterparty credit risk in respect of cash and cash equivalents by dealing with large chartered Canadian and global banks.

The Company limits its exposure to counterparty credit risk in respect of the use of financial derivatives by transacting only with highly-rated financial institutions. The Company's financial derivatives portfolio is spread across financial institutions that are at least dual-rated and have a credit rating in the "A" category or better.

The Company's maximum exposure to credit risk with respect to its consolidated statements of financial position as at December 31, 2017 and 2016 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 12]*. 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.

Notes to consolidated financial statements

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 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, 2017, 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 typically 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, 2017, 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 or other hedging instruments 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 2017, 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 $1,095 [2016 - $600] in the absence of hedging transactions.

This foreign currency risk management framework will continue to be applied when the Company transitions to United States dollar as it's functional and reporting currency in fiscal year starting on January 1, 2018 [see note 2].

[b] Valuation of Financial Instruments

Finance receivables and secured borrowings on finance receivables

The carrying value of finance receivables and secured borrowings approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables and secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model, which is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Notes receivable

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

26. Fair Value Measurements

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

[a] Assets measured at fair value on a recurring basis

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

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	**21,742**	**—**	**—**	**21,742**
Restricted cash	**74,685**	**—**	**—**	**74,685**
Retained reserve interest	**—**	**—**	**22,627**	**22,627**
Derivative financial instruments, net	**—**	**1,147**	**—**	**1,147**
Total	**96,427**	**1,147**	**22,627**	**120,201**

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	45,849	—	—	45,849
Restricted cash	136,871	—	—	136,871
Derivative financial instruments, net	—	8,405	—	8,405
Total	182,720	8,405	—	191,125

Retained Reserve Interest

The fair value of the retained reserve interest asset represents the present value of the amount the Company expects to recover from the amounts placed on deposit in a reserve account with respect to loans sold by our Manufactured Housing Finance segment. We estimate the present values using a discounted cash flow approach using assumptions for loan loss and prepayment rates and discount rates which are all level 3 inputs.

[b] Assets Measured at Fair Value on a non-recurring basis

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

Notes to consolidated financial statements

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Inventory	**—**	**—**	**71,433**	**71,433**
Assets-held-for sale	**—**	**857,240**	**—**	**857,240**
Total	**—**	**857,240**	**71,433**	**928,673**

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Inventory	—	—	59,657	59,657
Assets-held-for sale	—	—	—	—
Total	—	—	59,657	59,657

Inventory

In determining the fair value, the Company utilized both a cost approach, which begins with the replacement cost of a new asset and adjusts for age and functional and economic obsolescence, and a value in use approach to estimate fair value. The inputs used in the Company's fair value estimate were level 3 inputs as there is no observable market data for these helicopters.

Assets held-for-sale

Assets held-for-sale represent the finance receivables that we held-for-sale, including the amounts sold to CWB, on January 31, 2018 as disclosed in note 4. The fair value of the held-for-sale assets was primarily determined based on the offer price received from CWB on the finance receivables.

27. Comparative Figures

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

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