ECN CAPITAL

Consolidated Financial Statements

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ECN Capital Corp.

Opinion

We have audited the consolidated financial statements of ECN Capital Corp and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations, consolidated statements of comprehensive (loss) income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sean Musselman.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

February 28, 2019

Consolidated statements of financial position

[in thousands of United States dollars]

	December 31, 2018	December 31, 2017 Translated *[note 2]*	January 1, 2017 Translated *[note 2]*
	$	$	$
Assets			
Cash	**51,992**	17,295	34,147
Restricted funds [note 14]	**18,929**	59,411	101,937
Finance receivables [note 6]	**402,418**	389,890	2,523,258
Equipment under operating leases [note 7]	**—**	903,716	1,950,258
Inventories [note 8]	**—**	93,806	104,282
Short-term receivables and other assets [note 9]	**152,366**	118,723	28,459
Retained reserve interest [note 13]	**22,020**	17,999	—
Notes receivable [note 20]	**38,146**	46,411	30,288
Derivative financial instruments [note 22]	**433**	2,680	8,479
Leasehold improvements and other equipment [note 10]	**15,905**	16,087	2,839
Intangible assets [note 11]	**264,727**	135,741	477
Deferred tax assets [note 18]	**35,467**	29,836	5,770
Goodwill [note 12]	**413,067**	279,602	3,396
Total assets excluding assets held-for-sale	**1,415,470**	2,111,197	4,793,590
Assets held for sale [notes 4 and 5]	**333,963**	681,919	—
Total assets	**1,749,433**	2,793,116	4,793,590
Liabilities and shareholders' equity			
Liabilities			
Accounts payable and accrued liabilities [note 9]	**200,782**	103,186	62,748
Derivative financial instruments [note 22]	**6,118**	1,766	2,219
Secured borrowings [note 14]	**335,436**	1,142,374	3,354,875
Deferred tax liabilities [note 18]	**—**	14,811	12,929
Other liabilities [note 23]	**100,120**	32,587	—
Total liabilities	**642,456**	1,294,724	3,432,771
Shareholders' equity	**1,106,977**	1,498,392	1,360,819
	1,749,433	2,793,116	4,793,590

See accompanying notes

Consolidated statements of operations

[in thousands of United States dollars except for per share amounts]

	Year Ended December 31, 2018	Year Ended December 31, 2017 Translated *[note 2]*
	$	$
Revenues		
Portfolio origination services	**79,242**	8,497
Portfolio management services	**70,474**	8,364
Portfolio advisory services	**26,774**	—
Total portfolio revenue	**176,490**	16,861
Interest income	**17,433**	—
Other revenue *[note 17]*	**10,042**	8,004
	203,965	24,865
Operating expenses and other		
Compensation and benefits	**65,407**	12,121
General and administrative expenses	**41,010**	10,711
Interest expense	**31,252**	20,303
Depreciation and amortization	**2,563**	806
Share-based compensation *[note 16]*	**14,338**	8,241
Business acquisitions and other items *[note 17]*	**59,609**	26,965
	214,179	79,147
Loss before income taxes from continuing operations	**(10,214)**	(54,282)
Recovery of income taxes *[note 18]*	**(7,579)**	(47,723)
Net income (loss) from continuing operations	**(2,635)**	(6,559)
Net (loss) income from discontinued operations *[note 5]*	**(154,042)**	66,723
Net (loss) income for the year	**(156,677)**	60,164
(Loss) earnings per common share - Basic		
Continuing operations *[note 21]*	**(0.04)**	(0.04)
Discontinued operations *[note 21]*	**(0.46)**	0.17
Total basic (loss) earnings per share *[note 21]*	**(0.50)**	0.13
(Loss) earnings per common share - Diluted		
Continuing operations [note 21]	**(0.04)**	(0.16)
Discontinued operations [note 21]	**(0.46)**	0.26
Total diluted (loss) earnings per share [note 21]	**(0.50)**	0.10

See accompanying notes

Consolidated statements of comprehensive (loss) income

[in thousands of United States dollars]

	Year Ended December 31, 2018	Year Ended December 31, 2017 Translated *[note 2]*
	$	$
Net (loss) income for the year	**(156,677)**	60,164
Other comprehensive income (loss)		
Cash flow hedges *[note 22]*	**(1,667)**	13,111
Net unrealized foreign exchange (loss)	**(12,368)**	42,863
Realization of accumulated other comprehensive loss on Canada C&V business	**9,937**	—
	(4,098)	55,974
Deferred tax expense	**811**	1,620
Total other comprehensive (loss) income	**(4,909)**	54,354
Comprehensive (loss) income for the year	**(161,586)**	114,518

See accompanying notes

Consolidated statements of changes in shareholders' equity

[in thousands of United States dollars]

	Common share capital	Preferred share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			Translated *[note 2]*			
	$	$	$	$	$	$
Balance, December 31, 2016	1,056,738	72,477	88,858	212,456	(69,710)	1,360,819
Comprehensive income for the year	—	—	—	60,164	54,354	114,518
Employee stock options exercised	917	—	—	—	—	917
Employee stock options expense	—	—	7,579	—	—	7,579
Common share repurchases	(34,176)	—	—	—	—	(34,176)
Preferred shares issued	—	72,441	—	—	—	72,441
Dividends - Preferred shares	—	—	—	(8,811)	—	(8,811)
Dividends - Common shares	—	—	—	(14,895)	—	(14,895)
Balance, December 31, 2017 - Translated *[note 2]*	1,023,479	144,918	96,437	248,914	(15,356)	1,498,392
Adjustment to opening retained earnings - IFRS 9 *[note 2]*	**—**	**—**	**—**	**(6,951)**	**—**	**(6,951)**
Employee stock options exercised *[note 15]*	**299**	**—**	**—**	**—**	**—**	**299**
Employee stock options expense	**—**	**—**	**2,893**	**—**	**—**	**2,893**
Common share repurchases *[note 15]*	**(205,859)**	**—**	**—**	**—**	**—**	**(205,859)**
Comprehensive loss for the year	**—**	**—**	**—**	**(156,677)**	**(4,909)**	**(161,586)**
Dividends – Preferred shares *[note 15]*	**—**	**—**	**—**	**(10,039)**	**—**	**(10,039)**
Dividends – Common shares *[note 15]*	**—**	**—**	**—**	**(10,172)**	**—**	**(10,172)**
Balance, December 31, 2018	**817,919**	**144,918**	**99,330**	**65,075**	**(20,265)**	**1,106,977**

See accompanying notes

Consolidated statements of cash flows

[in thousands of United States dollars]

	Year Ended December 31, 2018	Year Ended December 31, 2017 Translated [note 2]
	$	$
Operating activities		
Net loss for the year from continuing operations	**(2,635)**	(6,559)
Items not affecting cash:		
Depreciation and amortization	**2,563**	4,388
Share-based compensation *[note 16]*	**14,338**	9,886
Amortization of intangible assets	**16,982**	—
Amortization of deferred lease and financing costs	**5,314**	13,927
Non-controlling interest	**9,394**	—
Unrealized loss on foreign currency hedge	**4,289**	—
Loss on sale of businesses and assets held for sale	**—**	28,091
	50,245	49,733
Changes in non-cash operating assets and liabilities:		
Change in finance receivables, net	**(402,418)**	160,334
Change in equipment under operating leases, net	**—**	(70,178)
Syndications of finance receivables	**—**	6,434
Other non-cash operating assets and liabilities	**133,717**	(109,383)
Cash provided by operating activities – continuing operations	**(218,456)**	36,940
Investing activities		
Decrease in restricted funds *[note 14]*	**40,482**	47,994
Acquisition of The Kessler Group	**(221,200)**	—
Proceeds on disposal of U.S. C&V Finance business	**—**	1,562,489
Proceeds from sale of rail assets	**280,742**	1,069,298
Acquisition of Service Finance	**—**	(309,000)
Acquisition of Triad	**—**	(100,321)
Purchase of property, equipment and leasehold improvements *[note 10]*	**—**	(13,864)
Increase in notes receivable *[note 20]*	**(5,333)**	(13,641)
Cash proceeds from sale of Canadian C&V Finance	**684,937**	—
Cash provided by investing activities – continuing operations	**779,628**	2,242,955
Financing activities		
Option exercises	**299**	917
Issuance of preferred shares *[note 15]*	**—**	72,441
Common share repurchases	**(205,859)**	(34,176)
Repayment of secured borrowings, net of deferred financing costs	**(523,005)**	(2,368,210)
Dividends paid or accrued	**(23,248)**	(23,706)
Cash used in financing activities – continuing operations	**(751,813)**	(2,352,734)
Net changes in cash provided by discontinued operations	**225,338**	55,987
Net increase (decrease) in cash during the year	**34,697**	(16,852)
Cash, beginning of year	**17,295**	34,147
Cash, end of year from continuing operations	**51,992**	17,295
Supplemental cash flow information		
Cash taxes paid	**28,528**	22,196
Cash interest paid	**37,648**	59,990

See accompanying notes

Notes to consolidated financial statements

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

December 31, 2018

1. Corporate Information and Basis of Presentation

ECN Capital Corp. ["ECN Capital" or the "Company"] is an asset manager that provides business services to United States ["U.S."] based banks and credit unions [our "Partners"] through its portfolio of companies. The Company originates, manages and advises on prime consumer credit portfolios on behalf of its Partners, specifically unsecured consumer loan portfolios, secured loan portfolios and consumer credit card portfolios. Our customers are banks and credit unions seeking high quality assets to match with their deposits. Headquartered in Toronto and West Palm Beach, the registered office is located at 181 Bay Street, Suite 2830, Toronto, Ontario, Canada. ECN Capital has approximately 570 employees and operates principally in the U.S. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol "ECN".

As a result of the completion of the sale of the Company's Canada Commercial and Vendor ["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 January 1, 2018, the Company changed its functional and presentation currency to U.S. dollars. See note 2 for further details.

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 include all the information and disclosures required in annual financial statements.

These consolidated financial statements are presented in thousands of U.S. dollars, except where otherwise noted.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 28, 2019.

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.

Finance receivables are classified as held-for-trading if the related loans were originated with the intention of selling the instrument in the near term. Held for trading finance receivables are measured on the financial statements at fair value through profit and loss.

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 is 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.

All of the Company's remaining equipment under operating lease related to its Rail and Aviation Finance businesses have been reclassified as assets held-for-sale.

Revenue recognition

Portfolio origination services represents the gain on sale recognized on the disposition of consumer loans originated by the Company. See policy on on de-recognition of financial assets for further information.

Portfolio management services represents the fees earned by the Company from providing loan servicing activities to strategic partners. See discussion on the adoption of IFRS 15 policy for further information

Portfolio advisory services represents the fees earned by the Company from its transactional advisory and debt advisory services provided to its strategic partners.

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.

Other revenue is recorded on an accrual basis as earned.

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 IFRS 9, *Financial Instruments*.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IFRS 9. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

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

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

Fair value hedges

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

Hedges of a net investment

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

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

De-recognition 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 they 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, office equipment, computer equipment, 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:

Leasehold improvements	Lease term
Office equipment	5 years
Computer equipment	5 years
Computer software	3 - 5 years
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.

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.

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 and Assets Held for Sale

The Company accounts for its discontinued operations in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations ["IFRS 5"]*.

The Company classifies assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. For assets and disposal groups to be classified as held for sale, their sale must be highly probable to occur within one year, they must be available for immediate sale in their present condition, and management must be committed to a sales plan to actively market the sale of the assets or disposal group. Assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, and are presented separately from other assets on the Consolidated Statements of Financial Position.

The Company determines whether 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.

Accounting policy and presentation changes

a) Change in functional and presentation currency

Effective January 1, 2018, the Company changed its presentation and functional currency to U.S. dollars from Canadian dollars. The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company reconsiders the functional currency of its entities if there is a change in events and conditions that determines the primary economic environment. Prior to January 1, 2018, the Company's consolidated financial statements were presented in Canadian dollars, which was also the Company's functional currency. The functional currency of the Company’s material subsidiaries was either Canadian or U.S. dollars, depending upon the primary economic environment in which each subsidiary operated.

The functional currencies of the Company’s material subsidiaries continue to be either Canadian or U.S. dollars. These currency changes relate principally to the business acquisitions and disposals discussed in note 3, including the sale of the Company’s Canadian C&V Finance business in January 2018 and the acquisition of two U.S. based businesses in the latter portion of 2017.

Notes to consolidated financial statements

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

December 31, 2018

The consolidated financial statements for all years presented have been translated into U.S. dollars in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates,* which requires prospective treatment of functional currency changes and retrospective application of changes in presentation currency. The consolidated statements of operations and comprehensive (loss) income have been translated into the presentation currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the year end closing exchange rates. All resulting exchange differences have been recognized in accumulated other comprehensive income. The consolidated statement of financial position amounts previously reported in Canadian dollars have been translated into U.S. dollars as at January 1, 2017 and December 31, 2017 using the year-end closing rates of 1.3427 CAD/USD and 1.2571 CAD/USD, respectively. In addition, shareholders' equity balances have been translated using historical rates based on rates in effect on the date of material transactions.

Consolidated statements of financial position

	As at December 31, 2017		As at January 1, 2017	
	As reported	As translated	As reported	As translated
	C$	$	C$	$
Assets				
Cash and restricted funds	96,427	76,706	182,720	136,084
Other current assets	2,557,561	2,034,491	6,253,634	4,657,506
Assets held for sale	857,240	681,919	—	—
Total assets	3,511,228	2,793,116	6,436,354	4,793,590
Liabilities and shareholders' equity				
Liabilities				
Accounts payable and accrued liabilities and other liabilities	170,680	135,773	84,252	62,748
Derivative financial instruments	2,222	1,766	2,980	2,219
Secured borrowings	1,436,078	1,142,374	4,504,591	3,354,875
Deferred tax liabilities	18,619	14,811	17,360	12,929
Total liabilities	1,627,599	1,294,724	4,609,183	3,432,771
Shareholders' equity	1,883,629	1,498,392	1,827,171	1,360,819
	3,511,228	2,793,116	6,436,354	4,793,590

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

Consolidated statements of operations

	Year Ended December 31, 2017	
		As translated
	C$	$
Revenues	32,218	24,865
Operating expenses and other costs	102,552	79,147
Loss from continuing operations before income taxes	(70,334)	(54,282)
Recovery of income taxes	(61,835)	(47,723)
Net loss from continuing operations	(8,499)	(6,559)
Net income from discontinued operations	86,454	66,723
Net income for the year	77,955	60,164

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 U.S. dollar, including goodwill and fair value adjustments arising on acquisition, are translated into U.S. dollars at the exchange rates prevailing at the year-end, while revenue and expenses of these foreign operations are translated into U.S. 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 are included in AOCI. 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.

b) Presentation of consolidated statements of operations

Consistent with the Company's transition from an on-balance sheet asset manager to an asset manager that owns a portfolio of business services providers, the Company has reorganized the presentation of its consolidated statements of operations ["Statement of Operations"]. Previously, the Company's Statement of Operations reflected its net interest margin ["NIM"] operating model. Beginning in the second quarter of 2018, the Statement of Operations was changed to reflect its current operating model and, as a result, the Company has added three new revenue line items: (1) Portfolio Origination Services; (2) Portfolio Management Services; and (3) Portfolio Advisory Services.

Portfolio origination services represents the gain on sale recognized on the disposition of consumer loans originated by the Company's Service Finance Company, LLC ("Service Finance") and Triad Financial Services, Inc. ["Triad"] subsidiaries to a network of Partners and the net revenue earned from risk-based marketing programs originated by Kessler Financial Services LLC ["Kessler"].

Portfolio management services represents the fees earned by Service Finance and Triad from providing loan servicing activities to Partners and annuity and retainer fees earned by Kessler through its long-term advisory contracts with its strategic partners.

Portfolio advisory services represents the fees earned by Kessler from its transactional advisory and debt advisory services provided to its strategic partners.

All prior period comparative amounts have been restated to conform to the current presentation.

c) Adoption of IFRS 9, Financial Instruments ["IFRS 9"]

The Company adopted IFRS 9 effective January 1, 2018 in place of IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"], as required by the International Accounting Standards Board. As permitted under IFRS 9, the Company did not restate its prior period comparative consolidated financial statements. Any changes to carrying amounts as a result of adopting IFRS 9 have been recognized in the Company's opening January 1, 2018 retained earnings.

Allowance for credit losses

The new standard replaces the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Expected Credit Loss ["ECL"] allowances are measured at either: i) 12-month ECL when a loan is performing (Stage 1); or ii) lifetime ECL, when finance receivables have experienced a significant increase in credit risk since inception (Stage 2) or when the asset is not performing (Stage 3). This differs from an incurred loss model where lifetime credit losses were only recognized when there was objective evidence of impairment. Under IFRS 9, credit losses are generally recognized earlier. Significant judgments are made in order to incorporate forward-looking information into the estimation of ECL allowances, which were not required under the previous standard.

The Company utilizes internal risk rating changes, delinquency and other identifiable risk factors to determine when there has been a significant increase in the credit risk of a finance receivable. The key inputs in the Company's measurement of ECL allowances are: i) probability of default, which estimates the likelihood of default over a given time horizon; ii) loss given default, which estimates the loss arising where a default occurs at a given time; and iii) exposure at default, which estimates the exposure at a future default date. Forward-looking information is considered when measuring expected credit losses including macroeconomic factors such as gross domestic product.

Upon origination of finance receivables, the Company recognizes a 12-month ECL allowance, which represents the portion of lifetime ECL from default events that are considered possible within the next 12 months (Stage 1). If there has been a significant increase in credit risk, the Company recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the finance receivable (Stage 2). A significant increase in credit risk is determined through changes in the lifetime probability of default since the initial origination of the finance receivable, using a combination of borrower-specific and account-specific attributes, and relevant and supportable forward-looking information. The Company uses the rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. Criteria for assessing significant changes in credit risk are defined at the individual finance receivable (i.e., contract) level.

Finance receivables with objective evidence of impairment are considered to be impaired requiring the recognition of lifetime ECL allowances, with interest revenue recognized based on the carrying amount of the asset, net of the allowances, rather than its gross carrying amount (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment, and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. All finance receivables are considered impaired when they are contractually overdue 120 days or immediately if the account is the subject of a bankruptcy, insolvency, re-organization or repossession (voluntary or involuntary). In order to be classified as a satisfactory account after being delinquent, an account must remain current for a period of 90 days.

Finance receivables are charged off (i.e., written off), either partially or in full, against the related allowance for credit losses when the Company believes there are no reasonable or expected recoveries.

The Company has recorded a $7.0 million increase to its allowance for credit losses with the offset charged to opening retained earnings as at January 1, 2018. See note 6 for further details.

Classification and measurement

Under IFRS 9, all financial assets must be classified at initial recognition at either: i) fair value through profit or loss ["FVTPL"], ii) amortized cost, iii) in the case of debt financial instruments, measured at fair value through other comprehensive income [“FVOCI”], iv) in the case of equity financial instruments, designated at FVOCI, or v) in the case of financial instruments designated at FVTPL. The classification of debt instruments is based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed. All financial assets and derivatives are required to be measured at fair value, with the exception of financial assets measured at amortized cost. Financial assets are required to be reclassified when and only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a “solely payment of principal and interest” (“SPPI”) test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis are classified as FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis are classified as FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis are classified as amortized cost.

Consistent with IAS 39, all financial assets held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost with the exception of derivative financial instruments and debt instrument financial assets that are managed on a "held-for-trading" basis. Derivatives continue to be measured at FVTPL under IFRS 9. Held-for-trading financial assets include the home improvement loans originated by our Service Finance subsidiary and are measured at FVTPL.

There were no material changes to the carrying values of financial instruments as a result of the transition to the classification and measurement requirements of IFRS 9. The classification and measurement provisions of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

d) Adoption of IFRS 15, Revenue from Contracts with Customers ["IFRS 15"]

On January 1, 2018, the Company adopted IFRS 15, which 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, and consequently there was no impact on the Company's legacy direct lending businesses. There was also no impact on the portfolio origination services and portfolio management services revenues earned by the Company's Service Finance and Triad subsidiaries.

IFRS 15 did have an impact on the revenue recognition policy for the net revenues earned from the risk-based marketing programs originated by Kessler. Under the risk-based marketing programs, Kessler provides capital to fund marketing initiatives on behalf of its clients. The fees earned by Kessler from these campaigns are variable, tied to the success of the programs, and are typically earned over a short duration (contract terms are generally three to six months per campaign). Under IFRS 15, the Company has determined that the sole performance obligation related to these contracts occurs upon the delivery of the marketing campaign to the client. At that time the Company recognizes the estimated amount of revenues it expects to realize from the campaign, subject to the constraint that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company accounts for the funding it provides to its clients as a reduction of revenue, and therefore the amount of revenue recognized from these risk-based marketing campaigns is a net amount.

e) Segment reporting

Effective January 1, 2018, the Company introduced a Corporate segment to reflect the operating results for the corporate office. The corporate office, which was previously integrated into the legacy businesses, is now focused on: (i) driving additional growth of new loans by leveraging the Company's commercial finance heritage; (ii) sourcing new bank and institutional partners with a successful ECN relationship; (iii) cross-selling portfolio solutions to existing Partners; and (iv) ensuring appropriate controls, risk management, expense management and capital structures for all of the Company's portfolio investments. This structure reflects the transition of the Company away from its legacy on-balance sheet asset management business to its new operating model. Consequently, corporate office costs are not allocated to any of the business segments. In addition, only interest expense on debt used directly in the business is reflected in the business segment results. Interest expense attributable to outstanding balances on the senior credit facility that has been used to fund acquisitions and other corporate development activity, as well as all standby charges on the facility, is reflected in the Corporate segment.

Future accounting changes

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

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 16 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.

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.

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 CGUs 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 13 for further details on these transactions.

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

4. Business Acquisitions and Disposals

Investment in Kessler

On May 31, 2018, the Company completed its investment in Kessler. Under the terms of the agreement, the Company paid cash consideration of $221.2 million for an 80% equity interest in Kessler. Subsequent to the acquisition, the Company sold a 4% interest in Kessler to a member of senior management at the same valuation. 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 May 31, 2018. The Company will finalize the purchase price allocation, including finalizing the allocation to the identifiable intangible assets and goodwill, the impact on deferred taxes and the impact of final purchase price adjustments, in 2019.

	$
Consideration paid:	
Cash	**221,200**
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	**30,190**
Accounts receivable and other	**33,485**
Fixed assets	**2,626**
Goodwill	**128,036**
Intangible assets	**128,000**
Accounts payable and other liabilities	**(34,777)**
Redemption liability related to non-controlling interest	**(66,360)**
Net assets acquired	**221,200**

Costs related to this transaction were $13.1 million, including banking, legal, accounting, due diligence and other transaction-related expenses. As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of Kessler. As a result, the non-controlling interest in Kessler does not qualify for equity treatment under IAS 32, *Financial Instruments: Presentation*. Under the put/call arrangement, the non-controlling interest is redeemable by either party to the agreement after December 31, 2020 at a contractually-defined estimate of fair value. Early redemption by either party is permitted, but subject to a 20% discount or 20% premium on the estimated fair value, respectively, dependent on which party exercises the option. Consequently, the Company has classified the non-controlling interest as a liability on the consolidated statements of financial position. The initial 20% non-controlling interest liability was recorded at a fair value of $55.3 million and the additional 4% non-controlling interest was recorded at a fair value of $11.1 million. Any fair value adjustments to the liability are recorded in the consolidated statements of operations. No profit or loss with respect to Kessler operations is allocated to the non-controlling interest.

Any dividend distributions made to the non-controlling shareholders are recognized as an expense in the reporting period in which the distributions are declared. During the year ended December 31, 2018, distributions of $9,395 were declared and paid to non-controlling interests.

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

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 $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 final allocation of fair values to the net assets acquired at December 29, 2017:

	$
Consideration paid:	
Cash	**100,321**
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	**5,770**
Restricted cash	**11,955**
Accounts receivable and other	**14,638**
Retained reserve interest	**17,999**
Fixed assets	**974**
Intangible assets	**18,600**
Goodwill	**48,475**
Accounts payable and other liabilities	**(18,090)**
Net assets acquired	**100,321**

Acquisition-related costs related to this transaction were $2.2 million, including legal, accounting, due diligence and other transaction-related expenses. The allocation to goodwill of $48.5 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.

Acquisition of Service Finance

On September 7, 2017, the Company completed the acquisition of Service Finance Holdings, LLC ["Service Finance"] for cash consideration of $309 million. The table below presents the final allocation of fair values to the net assets acquired as at September 7, 2017.

Consideration paid:	$
Cash	**309,416**
Fair value of contingent consideration	**33,273**
Total consideration	**342,689**
Fair value of identifiable assets and liabilities:	
Cash and cash equivalents	**5,318**
Accounts receivable and other	**18,870**
Fixed assets	**874**
Intangible assets	**117,274**
Goodwill	**220,411**
Accounts payable and other liabilities	**(20,058)**
Net assets acquired	**342,689**

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 $33.3 million has been recorded as a liability at the time of acquisition. Subsequent changes in the estimated fair value of the liability will be recorded in the consolidated statements of operations.

Acquisition-related costs related to the transaction were $15.2 million, including investment banking fees of $8.9 million, and legal, accounting, due diligence and other transaction-related expenses of $6.3 million. The allocation to goodwill of $220.4 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.

Rail finance portfolio sales

On November 12, 2018, the Company announced that it had entered into a definitive agreement to sell existing unencumbered railcar assets to GATX for proceeds of approximately $229 million. The Company has recorded a total loss of $52.1 million (after-tax loss of $38.5 million) in the in the year-ended December 31, 2018, including transaction costs of approximately $3.0 million and the write-off of related prepaid expenses of $6.5 million. The transaction was substantially closed in the fourth quarter of 2018.

On October 17, 2018, the Company closed a transaction to sell railcar assets to affiliates of Trinity Industries Leasing Company. The Company recorded a total loss of $38.8 million ($28.7 million after-tax) in the year ended December 31, 2018, including transaction costs of approximately $1.0 million, the write-off of deferred financing costs of $2.3 million and employee severance costs of $1.2 million.

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 $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 $1.15 billion and represented approximately 65% of the Company's railcar portfolio. The Railcar Dispositions resulted in a total loss on sale of $62.8 million, and an after-tax loss of $39.6 million composed of a 2%, or $21.3 million after tax loss on the book value of finance assets, deferred financing write-offs, swap and foreign exchange losses of $13.9 million (of which $8.6 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 $4.4 million.

Aviation finance business

On May 31, 2017, the Company closed a transaction with Stellwagen 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, Connecticut transitioned to Acasta. In connection with the transaction, the Company received 3,037,500 shares of Acasta and recorded a gain of C$2.3 million, which was stated net of a reserve of C$8.0 million to reflect the impact of a twelve-month hold period on the Acasta shares, transaction-related costs of C$7.2 million, and transaction-related compensation expenses of C$4.8 million for employees retained by Acasta.

On March 27, 2018, Acasta closed its previously announced sale of Stellwagen Group. As part of this transaction, the Company transferred its 3,037,500 shares of Acasta in exchange for 9,643 units (9.6% equity ownership) of Stellwagen Holdings LLC ["Stellwagen"]. The Company measures its investment in Stellwagen at fair value, whereby the initial fair value was measured principally based on the Acasta share value as at the date the transaction was originally announced ($14.4 million). No gain or loss was recorded during the year as a result of the transaction. Stellwagen is in the process of raising additional equity from new investors through a private placement. Based on the indicative value from the proposed equity raise as well as the projected earnings and cash flow for the Stellwagen business, it is management's best estimate that the current carrying value approximates fair value.

Canada and U.S. C&V finance businesses

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, $681.9 million of finance receivables were classified as assets held for sale and the Company recorded a pre-tax loss of $11.7 million 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 and the Company received cash proceeds of $684.9 million, resulting in no further impact to net income during the year ended December 31, 2018.

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 U.S. The total sale price of $1.53 billion for the U.S. C&V Finance business includes cash proceeds of $1.52 billion and a performance-based contingent amount of $9.2 million that had been included in other assets. The fair value of the performance-based contingent amount is re-evaluated on a quarterly basis. During the year-ended December 31, 2018, the Company fully wrote-off the contingent asset based due to the poor performance of the underlying portfolio assets.

The gain on sale of business of $141.1 million includes foreign exchange gains of $5.3 million 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 $18.5 million and transaction-related compensation expenses of $4.9 million for employees retained by the purchasers of the U.S. C&V Finance business.

5. Discontinued Operations and Assets Held-for-Sale

Discontinued Operations

In 2017, the Company announced its strategic plan to redeploy capital into higher yield businesses. Following the transactions outlined in note 4 involving its Canada and U.S. C&V Finance, Rail Finance, and Aviation Finance business segments ["Legacy Businesses"], the Company has largely executed this strategic plan. Furthermore, on November 30, 2018, the Company's Board of Directors approved management's formal proposal to accelerate the wind-down and sale of the remaining Aviation and Rail Finance businesses in 2019.

Accordingly, the Company has classified its Legacy Businesses as discontinued operations for the years ended December 31, 2018 and 2017. All remaining assets relating to the Company's Legacy Businesses have been classified as assets held for sale in the Company's Statements of Financial Position as at December 31, 2018.

The results of operations for the Company's Legacy Businesses are presented as discontinued operations for the years ended December 31 as shown below:

	2018	2017
	$	$
Revenues	**68,062**	233,447
Operating expenses and other costs		
Compensation and benefits	**2,428**	19,930
General and administrative expenses	**9,449**	19,557
Interest expense	**9,807**	61,685
Provision for credit losses	**164**	9,401
Share-based compensation	**268**	5,054
Amortization of operating lease	**20,913**	44,658
Separation and reorganization costs	**—**	1,585
Business transaction costs	**—**	18
Impairment of Aviation assets	**80,000**	19,694
Loss on sale of rail assets	**98,845**	62,515
Loss on C&V assets	**14,086**	(131,243)
Realization of foreign currency loss on wind-down of Canada C&V	**9,937**	—
	245,897	112,854
(Loss) income from discontinued operations before income taxes	**(177,835)**	120,593
(Recovery of) provision for income taxes (1)	**(23,793)**	53,870
Net income from discontinued operations	**(154,042)**	66,723

(1) A valuation reserve of $14.4 million has been recorded against the Company's existing deferred tax assets following the decision to accelerate the sale of its Legacy Businesses.

Assets Held for Sale

The following tables present the Company's assets held for sale as at December 31:

	2018
	$
Rail Finance	64,062
Aviation Finance	248,995
C&V Canada	20,906
	333,963

Aviation Finance

Aviation assets held for sale consist of secured financing and leasing arrangements for corporate airplanes and helicopters in addition to certain off-lease aircraft. These assets have been classified as held for sale following the Board of Directors' approval of management's plan to accelerate the sale of assets in the business in 2019. The Company will accelerate the time frame for return of capital from what would have been over three years to a target of 12 months and, as a result, it has taken a provision of $80 million.

The table below shows the breakdown of aviation assets held for sale as at December 31:

	2018		
	Carrying Value	Valuation Reserve	Fair Value
	$	$	$
Finance receivable	107,408	(34,460)	72,948
Equipment under operating lease	175,057	(34,833)	140,224
Inventory	44,137	(8,314)	35,823
	326,602	(77,607)	248,995

Included in the Company's inventory is one H225 helicopter and four AS332 L2 helicopters. In April 2016, an Airbus 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 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. In May 2018, the Ukrainian Internal Affairs Ministry announced the purchase of 55 Airbus Helicopters, including 21 H225 aircraft. No financial terms for this transaction were revealed. Despite these positive developments, as at December 31, 2018, there are no significant traditional operators (non-government) that have placed the H225 and AS332 L2 helicopters back into service.

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 an asset valuation reserve of $25.0 million in the year ended December 31, 2017. No further valuation reserve has been taken in 2018 and the total reserve established for these helicopters is $65.3 million as at December 31, 2018 and 2017. The aggregate book value of these helicopters as at December 31, 2018 and 2017 is $27.6 million. Significant judgment is required in measuring the fair value of these helicopters.

The Company measures the recoverable amount of these helicopters based on their estimated FVLCS. The Company's estimate of FVLCS reflects our observations with respect to the limited market activity for these helicopters as well as our estimates of what a provider of leasing services could earn when those helicopters return to service, which is indicative of the market price. The Company may be exposed to further impairment losses that could be material upon disposition of the helicopters. The Company continues to pursue its litigation claims against the manufacturer of these helicopters.

All other assets held for sale in the Company's Aviation portfolio have been assessed individually to determine their fair value less costs to sell under current market conditions. Fair value less costs to sell is measured using various valuation techniques including third-party appraisals, comparable market transactions, and future cash flow analysis based on the related loan or lease contract. Key inputs used in the Company's fair value models include assumptions regarding fair market values, lease rates, transaction costs, frictional costs, and market discount rates. The Company believes that the valuation assumptions reflect a reasonable estimate of the recoverable amount of each account or asset.

All of the key inputs used in the Company’s fair value estimates of assets held for sale were from Level 3 of the fair value hierarchy discussed in note 27 as there is currently no observable current market data for these helicopters.

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

6. Finance Receivables

The composition of the Company's finance receivables has changed significantly in 2018 with the substantially completed transition to its current asset-light business model. In addition, all remaining finance receivables related to the Company's Legacy Businesses are reported as assets held for sale (see note 5). The following table presents the Company's finance receivables based on the type of contract as at December 31, 2018:

	2018
	$
Floorplan loans	**78,140**
Dealer advances	**17,946**
Other loans	**32,904**
Gross finance receivable at amortized cost	**128,990**
Allowance for credit losses	**(644)**
Net finance receivables at amortized cost	**128,346**
Held-for-trading financial assets	**274,072**
Total finance receivable	**402,418**

The following table presents the Company's finance receivables based on the type of contract as at December 31, 2017:

	December 31, 2017		
	Leases	**Loans**	**Total**
	$	$	$
Minimum payments	98,841	317,563	416,404
Non-guaranteed residual values	42,194	—	42,194
Gross investment	141,035	317,563	458,598
Unearned income	(36,758)	(30,488)	(67,246)
Net investment	104,277	287,075	391,352
Unamortized deferred costs and subsidies	1,096	724	1,820
Security deposits	(2,091)	(655)	(2,746)
Other receivables	702	921	1,623
Allowance for credit losses	(1,990)	(170)	(2,160)
Total finance receivables	101,994	287,895	389,889

Finance receivables at amortized cost

Floorplan loans receivable includes $78.1 million in secured floorplan loans issued by Triad to finance dealer inventory. Other loans include a $32.9 million short-term senior loan to facilitate a Partner's purchase of a prime credit card portfolio through an asset-backed financing vehicle.

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

The following table provides net investments in finance receivables segregated by Stage:

	December 31, 2018			
	Stage 1	**Stage 2**	**Stage 3**	
	(Performing)	**(Under-performing)**	**(Non-performing)**	**Total**
	$	$	$	$
Low risk	**25,970**	**213**	**32**	**26,215**
Medium risk	**100,980**	**1,480**	**—**	**102,460**
High risk	**—**	**—**	**315**	**315**
Gross carrying amount	**126,950**	**1,693**	**347**	**128,990**

	December 31, 2017			
	Stage 1	**Stage 2**	**Stage 3**	
	(Performing)	**(Under-Performing)**	**(Non-Performing)**	**Total**
	$	$	$	$
Low risk	152,859	—	—	152,859
Medium risk	236,682	1,774	—	238,456
High risk	—	37	—	37
Gross carrying amount	389,541	1,811	—	391,352

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

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

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

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

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

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

	December 31, 2018		December 31, 2017	
	$	%	$	%
31 - 60 days past due	**369**	**0.29**	710	0.18
61 - 90 days past due [1]	**147**	**0.11**	305	0.08
Greater than 90 days past due	**108**	**0.08**	—	—
Total past due	**624**	**0.48**	1,015	0.26
Current	**128,366**	**99.52**	390,337	99.74
Total gross carrying amount	**128,990**	**100.00**	391,352	100.00

[1] The receivable in the 61-90 days outstanding category is expected to be recovered by the end of the year, through a court-supervised sales process.

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

	December 31, 2018	December 31, 2017
	$	$
Gross carrying amount	**$128,990**	$391,352
Weighted average fixed interest rate	**5.92%**	6.12%
Weighted average floating interest rate	**n/a**	n/a
Percentage of portfolio with fixed interest rate	**100.00%**	100.00%

Allowance for credit losses

The reconciliation of the Company's closing allowance for credit losses in accordance with IAS 39 as at December 31, 2017 and the January 1, 2018 allowance for credit losses in accordance with IFRS 9 is shown in the table below:

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

	As at December 31, 2018			
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
	$	$	$	$
Balance as at December 31, 2017				**2,160**
IFRS 9 transition adjustment				**6,951**
Balance as at January 1, 2018	**5,220**	**3,891**	**—**	**9,111**
Provision for credit losses	**675**	**89**	**80**	**844**
Charge-offs, net of recoveries	**(1,457)**	**(3,093)**	**—**	**(4,550)**
Impact of foreign exchange	**(108)**	**—**	**—**	**(108)**
Stage transfers	**(1,320)**	**(790)**	**2,110**	**—**
Transfer to available for sale	**(2,535)**	**(8)**	**(2,110)**	**(4,653)**
Balance as at December 31, 2018	**475**	**89**	**80**	**644**

During the year ended December 31, 2018, the allowance for credit losses was reduced by approximately $4.7 million as a result of the designation of the Company's Legacy Businesses as held for sale.

Assets held for trading

The loans balance as at December 31, 2018 includes $274.1 million in home improvement loans, which are classified as held-for-trading, originated by Service Finance. Finance receivables are classified as held for trading if the related loans were originated with the intention of selling the instrument in the near term. Held-for-trading finance receivables are measured on the consolidated financial statements at fair value through profit and loss. These loans are considered Level 3 assets and the Company measures the fair value of these loans based on a valuation model using internal inputs. Upon origination, the Company's internal valuation may determine a fair value that is in excess of the origination or transaction value of the loan. In these circumstances, the Company will not recognize such gains until the fair value estimated by the internal model is substantiated by a market observable event such as an executed sales contract. During the year ended December 31, 2018, $4.9 million in fair value gains was recorded in the consolidated statement of operations.

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

7. Equipment Under Operating Leases

The Company acts as a lessor in connection with equipment under operating leases and recognizes the leased assets in its consolidated statements of financial position. The lease payments received are recognized in income as rental revenue. As at December 31, 2018, all of the Company's equipment under operating leases has been classified as assets held for sale (see note 5). The following table presents the Company's equipment under operating lease as at and for the years ended December 31, 2018 and 2017:

	2018		
	Railcar	**Aviation**	**Total**
	$	$	$
Cost at December 31, 2017	**723,087**	**256,796**	**979,883**
Additions	**8,623**	**59,780**	**68,403**
Transfers	**45,696**	**—**	**45,696**
Disposals	**(697,947)**	**(127,306)**	**(825,253)**
Assets reclassified as assets held for sale	**(79,459)**	**(189,270)**	**(268,729)**
At December 31, 2018	**—**	**—**	**—**
Accumulated depreciation			
At December 31, 2017	**(39,770)**	**(36,397)**	**(76,167)**
Depreciation for the year	**(95,426)**	**(11,024)**	**(106,450)**
Disposals	**117,885**	**33,208**	**151,093**
Additions	**(440)**	**—**	**(440)**
Assets reclassified as assets held for sale	**17,751**	**14,213**	**31,964**
At December 31, 2018	**—**	**—**	**—**
Net carrying amount	**—**	**—**	**—**

Notes to consolidated financial statements

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

December 31, 2018

	2017		
	Railcar	**Aviation**	**Total**
	$	$	$
Cost at December 31, 2016	1,940,291	246,237	2,186,528
Additions	219,034	77,680	296,714
Transfers	—	—	—
Disposals	(1,276,171)	(50,348)	(1,326,519)
Foreign exchange rate adjustments	(160,067)	(16,773)	(176,840)
At December 31, 2017	723,087	256,796	979,883
Accumulated depreciation			
At December 31, 2016	(73,899)	(29,572)	(103,471)
Depreciation for the year	(29,111)	(17,034)	(46,145)
Disposals	57,753	7,769	65,522
Additions	(1,798)	—	(1,798)
Foreign exchange rate adjustments	7,285	2,440	9,725
At December 31, 2017	(39,770)	(36,397)	(76,167)
Net carrying amount	683,317	220,399	903,716

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

8. Inventories

Inventories represent assets currently held in inventory for realization and presented at their net estimated realizable value. As at December 31, 2018, all of the Company's remaining inventories have been classified as assets held for sale (see note 5). The following table presents the Company's inventory as at and for the years ended December 31, 2018 and 2017:

	Railcar	Aviation	C&V Canada	Total
	$	$	$	$
At December 31, 2017	**34,572**	**52,870**	**6,364**	**93,806**
Net additions (disposals) during the year	**11,124**	**(13,070)**	**(95)**	**(2,041)**
Transfers	**(45,696)**	**—**	**—**	**(45,696)**
Valuation reserve	**—**	**4,337**	**—**	**4,337**
Foreign exchange rate adjustments	**—**	**—**	**(492)**	**(492)**
Transfer to assets held for sale	**—**	**(44,137)**	**(5,777)**	**(49,914)**
At December 31, 2018	**—**	**—**	**—**	**—**

	Railcar	Aviation	C&V Canada	Total
	$	$	$	$
At December 31, 2016	42,135	44,431	17,716	104,282
Net additions (disposals) during the year	(3,637)	29,149	(11,857)	13,655
Valuation reserve	—	(19,654)	—	(19,654)
Foreign exchange rate adjustments	(3,926)	(1,056)	505	(4,477)
At December 31, 2017	34,572	52,870	6,364	93,806

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

9. Short-Term Receivables and Other Assets and Accounts Payable and Accrued Liabilities

The following table presents the assets reported in short-term receivables and other assets:

	December 31, 2018	December 31, 2017
	$	$
Accounts receivable	**21,545**	58,641
Short term loans	**15,869**	—
Unbilled accounts receivable	**21,223**	—
Equity investments	**46,085**	29,158
Taxes recoverable	**27,406**	9,460
Prepaid expenses and other assets	**20,238**	21,464
Total	**152,366**	118,723

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

	December 31, 2018	December 31, 2017
	$	$
Dealer liability	**27,435**	4,514
Accrued bonus and payroll liabilities	**26,772**	20,115
Accounts payable and accrued liabilities	**55,623**	49,248
Income tax payable	**8,252**	29,309
Unearned revenue (1)	**82,700**	—
Total	**200,782**	103,186

(1) Represents an up-front payment received by a Partner of the Company for future management and advisory services.

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

10. Leasehold Improvements and Other Equipment

	2018		
	Leasehold improvements	Equipment and other	Total
	$	$	$
Cost			
At December 31, 2017	**2,348**	**16,495**	**18,843**
Additions	**3,814**	**4,928**	**8,742**
Write-offs	**(2,265)**	**(24)**	**(2,289)**
Foreign exchange rate adjustments	**(43)**	**(51)**	**(94)**
At December 31, 2018	**3,854**	**21,348**	**25,202**
Accumulated depreciation			
At December 31, 2017	**333**	**2,423**	**2,756**
Depreciation charge for the year	**2,465**	**5,036**	**7,501**
Write-offs	**(865)**	**(14)**	**(879)**
Foreign exchange rate adjustments	**(38)**	**(43)**	**(81)**
At December 31, 2018	**1,895**	**7,402**	**9,297**
Net carrying amount	**1,959**	**13,946**	**15,905**

	2017		
	Leasehold improvements	Equipment and other	Total
	$	$	$
Cost			
At December 31, 2016	569	3,315	3,884
Additions	1,863	12,427	14,290
Foreign exchange rate adjustments	(84)	753	669
At December 31, 2017	2,348	16,495	18,843
Accumulated depreciation			
At December 31, 2016	44	1,001	1,045
Depreciation charge for the year	300	1,519	1,819
Foreign exchange rate adjustments	(11)	(97)	(108)
At December 31, 2017	333	2,423	2,756
Net carrying amount	2,015	14,072	16,087

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

11. Intangible Assets

	Information technology	Customer relationships and other	Retained servicing rights	Total
	$	$	$	$
Gross carrying value				
Balance, December 31, 2016	1,058	—	—	1,058
Additions	3,500	122,600	20,572	146,672
Disposals /impairment	(788)	—	—	(788)
Balance, December 31, 2017	**3,770**	**122,600**	**20,572**	**146,942**
Additions	**2,634**	**128,000**	**14,982**	**145,616**
Balance, December 31, 2018	**6,404**	**250,600**	**35,554**	**292,558**
Accumulated amortization				
Balance, December 31, 2016	(582)	—	—	(582)
Additions	—	—	(9,349)	(9,349)
Amortization	411	(1,792)	—	(1,381)
FX and other adjustments	111		—	111
Balance, December 31, 2017	**(60)**	**(1,792)**	**(9,349)**	**(11,201)**
Amortization	**(1,079)**	**(12,047)**	**(3,502)**	**(16,628)**
FX and other adjustments	**(2)**	**—**	**—**	**(2)**
Balance, December 31, 2018	**(1,141)**	**(13,839)**	**(12,851)**	**(27,831)**
Net carrying value				
December 31, 2017	3,710	120,808	11,223	135,741
December 31, 2018	**5,263**	**236,761**	**22,703**	**264,727**

During the year ended December 31, 2018, the Company acquired intangible assets as part of its acquisition of Kessler. See note 4 for further discussion. During the year ended December 31, 2017, the Company acquired intangible assets as part of its acquisition of Triad Financial and Service Finance.

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

12. 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. The Company recognized goodwill on three separate business acquisitions completed during the years ended December 31, 2018 and 2017. See note 4 for further details.

	2018	2017
	$	$
Balance, beginning of year	**279,602**	4,560
Additions from new acquisitions	**133,465**	283,209
Impairment	**—**	(4,560)
Adjustments	**—**	(3,607)
Balance, end of year	**413,067**	279,602

Goodwill outstanding as at December 31 has been allocated to the CGUs below as follows:

	2018	2017
	$	$
Service Finance	**235,466**	235,427
Triad	**48,475**	44,175
Kessler	**129,126**	—
	413,067	279,602

The Company conducted its annual goodwill impairment analysis as at October 31, 2018. The impairment analysis involved comparing the carrying amount of each CGU's assets and liabilities to their respective recoverable amounts. The recoverable amount was determined using the value in use approach measured by discounting the future expected cash flows of the CGUs. The discounted future cash flow models were based on historical operating results and were consistent with the forecasts presented to, and approved by, the Company's Board of Directors. The pre-tax discount rates used in the future cash flow models were specific to each CGU and ranged from 18% to 25%.

Based on the analysis performed, no goodwill impairment charge was required in any of the Company's CGUs.

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

13. 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:

	2018	2017
	$	$
Retained reserve interest - asset	**204,123**	202,150
Retained reserve interest - liability	**(182,103)**	(184,151)
Retained reserve interest	**22,020**	17,999

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

14. Secured Borrowings

	December 31, 2018			
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Term senior credit facility [2]	**350,000**	**4.20**	**—**	**—**
Deferred financing costs	**(14,564)**			
Total secured borrowings	**335,436**			

	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	115,806	2.89	116,544	16,915
Securitization programs	304,349	2.39	326,434	3,326
Asset-backed securities	293,481	3.56	399,197	7,857
Term senior credit facility [2]	444,681	3.30	—	—
	1,158,317	3.08	842,175	28,098
Deferred financing costs	(15,943)			
Total secured borrowings	1,142,374			

[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, 2018.

Term senior credit facility

On December 31, 2018, the Company amended the term senior credit facility, reducing its size to $1,000,000 [December 31, 2017 - $2,200,000]. The amended facility is syndicated to a group of seven Canadian, US and international banks with a maturity date of December 31, 2022. 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.

At December 31, 2018, the Company has available capacity of $650,000 [December 31, 2017 $1,755,319].

Life insurance company term funding facilities

As at January 31, 2018, in connection with the sale of the Canada C&V Finance assets, the Company paid the outstanding principal in full, totaling C$137,853, and terminated the life insurance company term funding facilities.

Prior to the payout, life insurance company term funding facilities were 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 received 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 were 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% at December 31, 2017. 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.

Securitization programs

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

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 was C$382,597 of variable-funding notes outstanding at a weighted average floating interest rate of 2.39% with expected final maturities in 2022.

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 $420,705 and terminated its securitization program related to the business sold. The Company paid C$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 $14,344 of available financing from its remaining securitization program.

Asset-backed securities

During 2018, in connection with the sale of certain rail assets, the Company transferred the obligation related to the ERL I program to the purchaser.

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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. At December 31, 2017, there was $293,481 of term notes in amortization period outstanding at a weighted average fixed interest rate of 3.56%, with an expected final maturity in 2035.

Restricted funds

The following table represents restricted funds as at December 31:

	December 31, 2018	December 31, 2017
	$	$
Restricted - cash in collection accounts	**18,929**	31,313
Restricted - cash reserves	**—**	28,098
	18,929	59,411

Restricted funds of $18,929 include [i] cash reserves of nil at December 31, 2018 [December 31, 2017 - $28,098], which represents collateral for secured borrowing arrangements; and [ii] cash accumulated in collection accounts of $18,929 as at December 31, 2018 [December 31, 2017 - $31,313], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

Contractual maturity of secured borrowings

Secured borrowings as at December 31, 2018, comprised the $350,000 balance outstanding under the Company's term senior credit facility. This facility is secured by a general security agreement in favor of the lenders consisting of first priority interest on all property. The contractual maturity of the secured borrowings outstanding as at December 31, 2017 compared to the maturity of the finance receivables and future minimum payments to be received on equipment under operating leases is as follows:

	2017		
	Secured borrowings gross of interest costs	Finance receivables and equipment under operating leases	
	$	$	%
Maturity			
Within 1 year	164,946	456,638	36.1%
In 1 to 3 years	258,586	446,167	58.0%
In 3 to 5 years	341,315	260,897	130.8%
After 5 years	368	128,818	0.3%
	765,215	1,292,520	59.2%
Interest costs	(51,579)		
Net of interest costs	713,636		
Revolving senior credit facility	444,681		
	1,158,317		

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

15. 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**
	#	$
Balance, December 31, 2016	387,112,489	1,056,738
Exercise of options	1,667,174	917
Common share repurchases	(11,151,076)	(34,176)
Balance, December 31, 2017	377,628,587	1,023,479
SIB repurchases	**(31,944,444)**	**(91,392)**
NCIB repurchases	**(40,026,388)**	**(114,467)**
Exercise of options	**985,596**	**299**
Balance, December 31, 2018	**306,643,351**	**817,919**

Substantial Issuer Bid

On April 16, 2018, the Company completed an initial modified "Dutch auction" substantial issuer bid ("SIB")to purchase for cancellation up to C$115 million of its outstanding common shares from shareholders for cash. The Company purchased 31,944,444 shares at a purchase price of C$3.60 per share for an aggregate purchase price of approximately $91.4 million (C$115.0 million) including fees and expenses.

Subsequent to year-end, on January 15, 2019, the Company completed a second modified Dutch auction SIB to purchase for cancellation up to C$265.0 million of its outstanding common shares from shareholders for cash. The Company purchased 70,666,666 shares at a purchase price of C$3.75 per share for an aggregate purchase price of approximately $198.5 million (C$265 million) including fees and expenses.

Normal Course Issuer Bid

On June 28, 2018, the TSX approved the renewal of the Company's Normal Course Issuer Bid ["NCIB"] for commencement on July 5, 2018. Pursuant to the renewal, the Company may repurchase up to an additional 31,339,030 common shares, representing approximately 10% of the public float. The NCIB will end on the earlier of July 4, 2019 and the completion of purchases under the NCIB.

During the year ended December 31, 2018, the Company purchased 40,026,388 common shares for a total of $114.5 (C$146.3 million) or C$3.65 per common share pursuant to the NCIB.

In aggregate since 2017, under the current and previous NCIB, the Company purchased 51,177,491 common shares for a total of $148.3 million (C$189.3 million) or C$3.70 per common share.

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

Preferred share dividends

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

	Preferred shares	
	Shares	**Amount**
	#	$
Series A 6.50% Rate Reset Preferred Shares	4,000,000	72,477
Series C 6.25% Rate Reset Preferred Shares	4,000,000	72,441
Balance, December 31, 2018	**8,000,000**	**144,918**

During the year ended December 31, 2018, the Company paid $5,008 [after tax cost of $5,118] C$1.625 per Series A share in dividends. During the year ended December 31, 2017, the Company paid $6,994 [after tax cost of $7,186] or C$1.625 per Series A share in preferred share dividends.

During the year ended December 31, 2018 the Company paid $4,815 [after tax cost of $4,921] or C$1.5625 per Series C share in dividends. During the year ended December 31, 2017, the Company paid $3,754 [after tax cost of $3,857] or C$0.9386 per Series C share in preferred share dividends.

Common share dividends

During the year ended December 31, 2018, the Company paid a common share dividend of $10,172, or C$0.04 per common share [December 31, 2017 - $14,895, or C$0.04 per common share].

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

16. Share-based Compensation

Share-based compensation expense

Share-based compensation expense consists of the following:

	Year Ended	
	December 31, 2018	December 31, 2017
	$	$
Stock options	**2,959**	2,669
Deferred share units ("DSUs")	**1,041**	2,249
Performance share units and restricted share units ("PSUs" and "RSUs")	**10,338**	3,323
Share-based compensation - continuing operations	**14,338**	8,241

[a] Stock options

The Company has 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.

During the year ended December 31, 2018, the Company granted 2,700,000 stock options to employees with a weighted average exercise price of C$3.53 per share. The stock options have a fair value of $3.1 million calculated using the Black-Scholes method of valuation, assuming a risk-free rate of 2.17%, volatility of 22%, and a dividend yield of 1.14% annually.

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

	Number of options	Weighted average exercise price	Weighted average exercise price
	#	$	C$
Issued on Separation	30,953,592	2.04	2.64
Granted	5,315,000	2.76	3.57
Forfeited	(1,042,054)	2.50	3.24
Exercised	(3,616,423)	1.71	2.21
Outstanding, December 31, 2017	31,610,115	2.18	2.83
Granted	**2,700,000**	**2.72**	**3.53**
Forfeited	**(671,366)**	**2.04**	**2.64**
Exercised	**(1,940,374)**	**1.61**	**2.09**
Outstanding, December 31, 2018	**31,698,375**	**2.83**	**2.94**

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

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	2018	2017
Weighted average share price	C$	**3.53**	3.57
Weighted average term to exercise	Years	**4.0**	6.5
Weighted average share price volatility	%	**22.0**	30.8
Weighted average expected annual dividend	C$	**0.04**	0.04
Risk-free interest rate	%	**2.15**	1.44
Forfeiture rate	%	**1.02**	1.02

As at December 31, 2018, 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]	#	#	#
C$0.00 to C$1.00	0.53	531,663	—	531,663
C$1.01 to C$2.00	1.11	2,620,793	—	2,620,793
C$2.01 to C$3.00	3.86	12,041,281	1,599,048	13,640,329
C$3.01 and over	4.49	9,334,331	5,571,259	14,905,590
	3.87	24,528,068	7,170,307	31,698,375

[b] Deferred Share Units [“DSU”], Performance share units ["PSU"] and Restricted share units ["RSU"]

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.

The Company also has a Share Unit Plan that 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

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

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, 2018, the following DSUs, PSUs and RSUs were outstanding:

	Deferred share units	**Performance share units**	**Restricted share units**	**Total**
	#	#	#	#
Outstanding, December 31, 2016	96,678	—	—	96,678
Granted	676,302	813,611	—	1,489,913
Outstanding, December 31, 2017	772,980	813,611	—	1,586,591
Granted	**470,969**	**4,533,137**	**1,819,234**	**6,823,340**
Redeemed	**(49,691)**	**(1,384,918)**	**(652,499)**	**(2,087,108)**
Outstanding, December 31, 2018	**1,194,258**	**3,961,830**	**1,166,735**	**6,322,823**

During the year ended December 31, 2018, the Company granted 470,969 DSUs, to members of the Company's Board of Directors. As at December 31, 2018, the fair value of DSUs recorded as accounts payable and accrued liabilities was $3,205 [December 31, 2017 - $2,600].

During the year ended December 31, 2018, the Company granted 4,740,642 PSUs and 1,299,285 RSUs to senior executives and employees of the Company. The fair value of PSUs and RSUs recorded as accounts payable and accrued liabilities was $7,765 (December 31, 2017 - $3,361).

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

17. Other Revenue and Other Expenses

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

	2018	2017
	$	$
Income from corporate investments	**7,119**	7,283
Fees and other	**3,503**	—
Foreign exchange	**(580)**	721
Total other revenue	**10,042**	8,004

Other expenses consist of the following for the yeas ended December 31:

	2018	2017
	$	$
Amortization of intangible assets related to business combinations	**16,983**	2,615
Restructuring and reorganization costs	**15,539**	7,060
Business acquisition costs	**13,404**	17,290
Unrealized loss on foreign currency hedge	**4,289**	—
Non-controlling interest	**9,394**	—
Total other expenses	**59,609**	26,965

A restructuring charge of $15.5 million has been recorded in the year ended December 31, 2018 consisting of severance accruals of $10.6 million, moving costs of $1.3 million, and leasehold write-offs and break fees of $3.6 million in connection with the Toronto corporate office.

During the year ended December 31, 2018, the Company entered into a foreign currency forward contract to economically hedge the outstanding SIB, resulting in an unrealized loss of $4.3 million. The foreign currency forward contract was settled on January 15, 2019, resulting in a realized gain of $2.0 million.

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

18. Income Taxes

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

	2018	2017
	$	$
Consolidated statements of operations		
Current income tax (recovery) expense	**112**	2,132
Deferred income tax recovery		
Origination and reversal of temporary differences	**(7,691)**	(49,855)
Income tax recovery reported in the consolidated statements of operations	**(7,579)**	(47,723)
Income tax expense (recovery) reported in the consolidated statements of changes in shareholders' equity	**811**	(249)

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

	2018	2017
	$	$
Loss before income taxes	**(10,214)**	(54,282)
Combined statutory Canadian federal and provincial tax rate	**26.61%**	26.61%
Income tax recovery based on statutory rate	**(2,718)**	(14,444)
Income tax adjusted for the effect of:		
Non-deductible and non-taxable items	**(5,158)**	(8,995)
Impact of foreign rate differential and changes to legislation	**297**	(24,284)
Total income tax recovery	**(7,579)**	(47,723)

In 2017, the impact of foreign rate differential and changes in legislation included the revaluation of the Company's U.S. deferred tax position resulting from the enacted U.S. tax legislation reducing the U.S. federal corporate income tax rate from 35% to 21%.

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

Deferred taxes

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

	2018	2017
	$	$
Deferred tax assets		
Tax loss carry forwards	**64,942**	3,536
Finance receivables	**(81,010)**	20,733
Unrealized foreign exchange gains and losses	**(232)**	—
Shares issuance cost	**711**	1,162
Capital assets, intangible assets, and other	**50,929**	6,345
Equipment under operating lease	**—**	(815)
Deferred financing charges	**(125)**	39
Unrealized losses (gains) on derivatives	**252**	(1,164)
Valuation allowance	**—**	—
	35,467	29,836
Deferred tax liabilities		
Finance receivables	**—**	92,113
Unrealized gains on derivatives	**—**	(376)
Tax loss carry forwards	**—**	(75,127)
Capital assets, intangible assets, and other	**—**	(1,799)
	—	14,811
Net deferred tax asset position	**35,467**	15,025

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

	2018	2017
	$	$
Balance, beginning of year	**15,025**	(7,159)
Tax benefit recognized in profit or loss	**21,253**	22,797
Tax expense recognized in other comprehensive income	**(811)**	(1,091)
Tax benefit recorded directly in equity	**—**	478
Balance, end of year	**35,467**	15,025

[iii] There are $91,075 in unused tax losses or temporary differences that have not been recognized as at December 31, 2018 related to our Canadian Legacy Businesses (December 31, 2017 - $nil).

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19. Subsidiaries

List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly owned except for Kessler, which is 76% owned:

	Principal place of business
Service Finance Company, LLC	US
Triad Financial Services, Inc.	US
Kessler Financial Services, LLC	US
ECN (US) Holdings Corp.	US
ECN Platinum LLC	US
ECN Aviation Inc.	Canada

Subsidiaries with restrictions

The Company has no significant restrictions on its ability to access or use its assets and settle its liabilities within its subsidiaries.

20. Related Party Transactions

Notes receivable

Notes receivable of $38,146 as at December 31, 2018 [December 31, 2017 - $46,411] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of the Company's shares post-separation. The loans bear interest at a rate of Canadian prime less 50 basis points. The principal is payable on demand in the event of non-payment of interest, and the notes receivable are secured by the Element Fleet Management Corp. and ECN Capital shares purchased with full recourse to the employee/officer.

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

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Notes receivable, beginning of year	**46,411**	30,288
Additions	**11,583**	17,378
Interest income	**1,670**	841
Repayments (interest and principal)	**(4,608)**	(4,569)
Foreign exchange	**(3,312)**	2,473
Set-off amounts	**(13,598)**	—
Notes receivable, end of year	**38,146**	46,411

Effective December 31, 2018, the Company entered into an irrevocable agreement to set off the full amount of any retirement, consulting, and non-competition obligations owing to key executives, against their outstanding notes receivable balances. IAS 32, *Financial Instruments: Presentation,* allows for the offsetting of financial assets and financial liabilities when an entity has a legally enforceable right to set off the amounts and it intends to settle on a net basis. As at December 31, 2018, the amount of liabilities set off against notes receivable was $13.6 million.

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

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:

	2018	**2017**
	$	$
Salaries, bonuses and benefits	**8,590**	7,464
Share-based compensation	**8,929**	7,959
	17,519	15,423

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

21. Earnings Per Share

	Year ended	
	December 31, 2018	**December 31, 2017**
	$	$
Net income (loss) from continuing operations attributable to shareholders	**(2,635)**	(6,559)
Cumulative dividends on preferred shares	**9,823**	8,330
Net loss from continuing operations attributable to common shareholders	**(12,458)**	(14,889)
Net (loss) income from discontinued operations attributable to common shareholders	**(154,042)**	66,723
Total net (loss) income attributable to common shareholders	**(166,500)**	51,834
Weighted average number of common shares outstanding - basic	**334,837,525**	385,794,538
Basic (loss) per share from continuing operations	**$ (0.04)**	$ (0.04)
Basic (loss) income per share from discontinued operations	**$ (0.46)**	$ 0.17
Total income (loss) per share	**$ (0.50)**	$ 0.13
Weighted average number of common shares outstanding - diluted	**334,837,525**	394,642,153
Diluted income (loss) per share from continuing operations	**$ (0.04)**	$ (0.16)
Diluted (loss) income per share from discontinued operations	**$ (0.46)**	$ 0.26
Total diluted (loss) income per share	**$ (0.50)**	$ 0.10

Instruments outstanding as at December 31, 2018 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 6,315,208 stock options for the year ended December 31, 2018, [year ended December 31, 2017 - nil].

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22. Derivative Financial Instruments

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

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:

	Year ended	
	2018	**2017**
	$	$
Foreign exchange agreements recorded in other revenue	**(580)**	721
Fair value (losses) gains recorded in other comprehensive income	**(1,667)**	13,111

Notional amounts and fair values of derivative instruments

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

	December 31, 2018		December 31, 2017	
	Notional principal	**Fair value**	**Notional principal**	**Fair value**
	$	$	$	$
Derivative assets				
Interest rate contracts	**41,690**	**433**	361,368	2,151
Foreign exchange agreements	—	—	337,284	529
	41,690	**433**	698,652	2,680
Derivative liabilities				
Interest rate contracts	**95,331**	**1,253**	405,844	1,745
Foreign exchange agreements	**231,441**	**4,865**	13,727	21
	326,772	**6,118**	419,571	1,766

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.

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

	December 31, 2018 $	December 31, 2017 $
Derivative assets		
Gross amounts of financial instruments recognized on the consolidated statements of financial position	**433**	2,151
Amounts subject to an enforceable master netting agreement	**(118)**	529
	551	2,680
Derivative liabilities		
Gross amounts of financial instruments recognized on the consolidated statements of financial position	**6,118**	1,745
Amounts subject to an enforceable master netting agreement	**(118)**	21
	6,236	1,766

Rate and price

The following table provides the average rate of the hedging derivatives:

		December 31, 2018				December 31, 2017		
		Average exchange rate (1)		Average fixed interest rate (1)		Average exchange rate (1)		Average fixed interest rate (1)
Cash flow hedges								
Foreign exchange risk								
Foreign exchange forwards	CAD-USD	**1.33**		**n/a**	CAD-USD	1.26		n/a
Foreign exchange flat	CAD-EUR	**1.58**		**n/a**	CAD-EUR	1.58		n/a
Interest rate risk								
Interest rate swaps		**n/a**	**CAD**	**1.44%**		n/a	CAD	1.54%
		n/a	**USD**	**2.84%**		n/a	USD	n/a

(1) Includes average foreign exchange rates and fixed interest rates relating to significant hedging relationships

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

23. 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, 2018	December 31, 2017
	$	$
Secured borrowings	**335,436**	1,142,374
Accounts payable and accrued liabilities	**200,782**	103,186
Other liabilities[1]	**100,120**	32,587
	636,338	1,278,147
Shareholders' equity	**1,106,977**	1,498,392
	1,743,315	2,776,539

[1] Includes a $66.4 million [December 31, 2017 - nil] redemption liability to the non-controlling interests of Kessler and a $33.1 million [December 31, 2017 - $32.6 million] deferred purchase consideration liability relating to the acquisition of Service Finance in 2017.

24. Segmented Information

Operating segments

ECN Capital's operating results are categorized into three core and two legacy operating segments and a Corporate segment. The Company's core operating segments consist of: [a] Service Finance - Unsecured Consumer Loans; [b] Triad - Secured Consumer Loans; and [c] Kessler - Consumer Credit Cards; and the Company's two Legacy Businesses consist of: [d] Rail Finance; and [e] Aviation Finance. The Company's Chief Operating Decision Maker, the CEO, reviews the operating results, assesses performance and makes capital allocation decisions at the business segment level. Therefore, each of the Company's business segments is an operating and reporting segment for financial reporting purposes. The financial reporting of ECN Capital's three core and two Legacy Business segments is consistent with the manner in which management currently evaluates the operating segment performance.

The consolidated statements of operations for continuing operations by segment for the year ended December 31 are shown in the tables below. The results of the Company's Legacy Businesses are shown in note 5.

Notes to consolidated financial statements

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December 31, 2018

	For the year ended December 31, 2018				
	Service Finance - Unsecured Consumer Loans	Triad - Secured Consumer Loans	Kessler - Consumer Credit Cards	Corporate	Total continuing operations
	$	$	$	$	$
Revenues	81,563	49,564	62,179	10,659	203,965
Operating expenses					
Compensation and benefits	15,381	17,354	20,466	12,206	65,407
General and administrative expenses	10,111	10,309	6,033	14,557	41,010
Interest expense	4,457	1,611	847	24,337	31,252
Depreciation and amortization	280	434	491	1,358	2,563
Share-based compensation	—	—	—	14,338	14,338
Other expenses	—	—	—	59,609	59,609
	30,229	29,708	27,837	126,405	214,179
Income (loss) before income taxes from continuing operations	51,334	19,856	34,342	(115,746)	(10,214)

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

	For the year ended December 31, 2017		
	Service Finance	Corporate	Total continuing operations
	$	$	$
Revenues	17,092	7,773	24,865
Operating expenses			
Compensation and benefits	4,358	7,763	12,121
General and administrative expenses	1,873	8,838	10,711
Interest expense	63	20,240	20,303
Depreciation and amortization	71	735	806
Share-based compensation	—	8,241	8,241
Other expenses	—	26,965	26,965
	6,365	72,782	79,147
Income (loss) before income taxes before continuing operations	10,727	(65,009)	(54,282)

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

25. Commitments

The Company leases its offices under operating leases expiring on various dates through 2023. As at December 31, the remaining future minimum lease payments are as follows:

	2018	2017
	$	$
Within one year	**4,909**	2,303
After one year but not more than five years	**14,565**	7,362
More than five years	**4,876**	—
	24,350	9,665

26. 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, 2018 and 2017 is the carrying amounts as disclosed on the consolidated statements 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 14]*. This exposure is managed as the cash flows generated by the Company's net investment in leases and loans and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements.

Interest rate risk
Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company structures its secured borrowing arrangements to maintain a fixed interest rate spread between the interest 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 that 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, 2018, 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, 2018, 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 U.S. 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 2018, each one cent increase (decrease) in the average U.S/foreign currency exchange rates would be expected to increase/decrease net income before business acquisition costs and income taxes by a non-material amount in the absence of hedging transactions.

[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 rates 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.

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

27. 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, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	**51,992**	**—**	**—**	**51,992**
Restricted cash	**18,929**	**—**	**—**	**18,929**
Assets held for trading	**—**	**—**	**274,072**	**274,072**
Retained reserve interest	**—**	**—**	**22,020**	**22,020**
Derivative financial instruments, net	**—**	**(5,685)**	**—**	**(5,685)**
Redemption liability	**—**	**—**	**(66,360)**	**(66,360)**
Total	**70,921**	**(5,685)**	**229,732**	**294,968**

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	17,295	—	—	17,295
Restricted cash	59,411	—	—	59,411
Retained interest asset	—	—	17,999	17,999
Derivative financial instruments, net	—	914	—	914
Total	76,706	914	17,999	95,619

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.

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

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

Includes finance receivables held at amortized costs and loans secured by underlying assets. The carrying value of these balances approximates fair value. The assertion that the carrying value of the finance receivables and secured borrowings approximates fair value requires the use of estimates and significant judgment. These borrowings are classified as Level 3 financial instruments. The underlying assets securing the borrowings, such as finance receivables, equipment under operating lease, or the general assets of the Company, are credit-scored and/or valued based on internal models that are not necessarily used in market transactions. The fair value of any of these balances would be affected by a potential buyer's assessment of the transaction's credit quality, 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.

The fair value of finance receivables classified as assets held for trading is determined based on bids received on these loans in a private market.

[b] Assets measured at fair value on a non-recurring basis

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. Assets held for sale represent finance receivables, operating leases, and inventory within our Legacy Businesses that are held for sale as discussed in note 5.

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets held for sale	—	—	**333,963**	**333,963**
Total	—	—	**333,963**	**333,963**

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Inventories		—	93,806	93,806
Assets held for sale	—	681,919	—	681,919
Total	—	681,919	93,806	775,725

28. Subsequent Event

Subsequent to December 31, 2018, the Company advanced discussions surrounding leadership succession at Kessler and communicated its intention to purchase the 20% non-controlling interest pursuant to the original investment agreement. There is a put/call mechanism in the investment agreement that governs early redemption for the 20% non-controlling interest. The call option that is held by the Company can be exercised at any time prior to December 31, 2020. Depending on the circumstances prevailing at the time the call option is exercised, the cost of acquiring the non-controlling interest can range from $55.3 million to $66.4 million. The non-controlling interest is currently recorded as a redemption liability in the amount of $55.3 million as disclosed in note 4 and represents our estimate of the fair value of the 20% interest as at December 31, 2018. The actual cost to purchase the 20% non-controlling interest may differ from the redemption liability that is currently recorded.

29. Comparative Figures

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

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