ECN CAPITAL

Interim Condensed Carve-out Combined Financial Statements

SEPTEMBER 30, 2016

ECN Capital Corp.

INTERIM CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION

[unaudited, in thousands of Canadian dollars]

	As at September 30, 2016	As at December 31, 2015
	$	$
ASSETS		
Cash	**47,204**	—
Restricted funds *[notes 5 and 11]*	**166,747**	222,530
Finance receivables *[note 3]*	**3,074,674**	3,129,794
Equipment under operating leases *[note 4]*	**2,559,235**	2,692,731
Accounts receivable and other assets	**221,720**	44,853
Notes receivable *[note 9]*	**—**	27,338
Derivative financial instruments *[note 11]*	**692**	4,014
Property, equipment and leasehold improvements	**1,393**	678
Intangible assets	**335**	25,565
Deferred tax assets	**11,599**	16,674
Goodwill	**7,890**	8,074
	6,091,489	6,172,251
LIABILITIES AND NET INVESTMENT		
Liabilities		
Accounts payable and accrued liabilities	**78,351**	57,080
Derivative financial instruments *[note 11]*	**22,724**	17,747
Secured borrowings *[note 5]*	**4,268,531**	4,471,392
Deferred tax liabilities	**11,410**	34,621
Total liabilities	**4,381,016**	4,580,840
Net investment	**1,561,212**	1,403,325
Accumulated other comprehensive income	**149,261**	188,086
Net investment *[note 6]*	**1,710,473**	1,591,411
	6,091,489	6,172,251

See accompanying notes

ECN Capital Corp.

INTERIM CARVE-OUT COMBINED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars]

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
	$	$
NET FINANCIAL INCOME		
Interest income	**47,181**	46,230
Rental revenue, net *[note 4]*	**40,172**	36,173
	87,353	82,403
Interest expense	**41,544**	32,671
Net interest income before provision for credit losses	**45,809**	49,732
Provision for credit losses *[note 3]*	**7,839**	4,928
Net interest income	**37,970**	44,804
Other revenues *[note 8]*	**10,574**	8,584
	48,544	53,388
OPERATING EXPENSES		
Salaries, wages and benefits *[note 9]*	**9,178**	11,853
General and administrative expenses *[note 9]*	**8,279**	6,557
Impairment and amortization of intangible assets from acquisitions *[note 10]*	**26,605**	377
Share-based compensation *[note 7]*	**3,089**	2,796
	47,151	21,583
SEPARATION COSTS		
Separation costs	**10,250**	—
Income (loss) before income taxes	**(8,857)**	31,805
Provision for (recovery of) income taxes	**(10,082)**	6,956
Net income for the period	**1,225**	24,849

See accompanying notes

ECN Capital Corp.

INTERIM CARVE-OUT COMBINED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars]

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	$	$
NET FINANCIAL INCOME		
Interest income	**143,119**	132,014
Rental revenue, net *[note 4]*	**124,681**	90,746
	267,800	222,760
Interest expense	**121,668**	92,111
Net interest income before provision for credit losses	**146,132**	130,649
Provision for credit losses *[note 3]*	**17,514**	12,088
Net interest income	**128,618**	118,561
Other revenues *[note 8]*	**23,661**	38,147
	152,279	156,708
OPERATING EXPENSES		
Salaries, wages and benefits *[note 9]*	**26,670**	30,487
General and administrative expenses *[note 9]*	**24,183**	17,242
Impairment and amortization of intangible assets from acquisitions *[note 10]*	**27,255**	1,420
Share-based compensation *[note 7]*	**6,973**	7,976
	85,081	57,125
SEPARATION COSTS		
Separation costs	**10,250**	—
Income before income taxes	**56,948**	99,583
Provision for income taxes	**5,227**	21,410
Net income for the period	**51,721**	78,173

See accompanying notes

ECN Capital Corp.

INTERIM CARVE-OUT COMBINED STATEMENTS OF COMPREHENSIVE INCOME

[unaudited, in thousands of Canadian dollars]

	Three-month period ended September 30, 2016 $	Three-month period ended September 30, 2015 $
Net income for the period	**1,225**	24,849
OTHER COMPREHENSIVE INCOME (LOSS)		
Items subject to reclassification:		
Cash flow and foreign exchange hedges *[note 11]*	**7,259**	(28,798)
Net unrealized foreign exchange gain	**6,010**	72,915
	13,269	44,117
Deferred tax expense (recovery)	**2,360**	(7,923)
Total other comprehensive income	**10,909**	52,040
Comprehensive income for the period	**12,134**	76,889

See accompanying notes

INTERIM CARVE-OUT COMBINED STATEMENTS OF COMPREHENSIVE INCOME

[unaudited, in thousands of Canadian dollars]

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	$	$
Net income for the period	**51,721**	78,173
OTHER COMPREHENSIVE INCOME		
Items subject to reclassification:		
Cash flow and foreign exchange hedges *[note 11]*	**(13,604)**	(31,893)
Net unrealized foreign exchange gain (loss)	**(29,193)**	130,740
	(42,797)	98,847
Deferred tax expense (recovery)	**(3,972)**	6,272
Total other comprehensive income (loss)	**(38,825)**	92,575
Comprehensive income for the period	**12,896**	170,748

See accompanying notes

ECN Capital Corp.

INTERIM CARVE-OUT COMBINED STATEMENTS OF NET INVESTMENT

[unaudited, in thousands of Canadian dollars]

	Element's net investment $	Accumulated other comprehensive income $	Total net investment $
Balance, December 31, 2015	**1,403,325**	**188,086**	**1,591,411**
Comprehensive income for the period	**51,721**	**(38,825)**	**12,896**
Net adjustments to owner's net investment	**101,820**	**—**	**101,820**
Employee stock option expense *[note 7]*	**4,346**	**—**	**4,346**
Balance, September 30, 2016	**1,561,212**	**149,261**	**1,710,473**
Balance, December 31, 2014	938,638	46,855	985,493
Comprehensive income for the period	78,173	92,575	170,748
Net adjustments to owner's net investment	217,492	—	217,492
Employee stock option expense *[note 7]*	6,575	—	6,575
Balance, September 30, 2015	1,240,878	139,430	1,380,308

See accompanying notes

INTERIM CARVE-OUT COMBINED STATEMENTS OF CASH FLOWS

[unaudited, in thousands of Canadian dollars]

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	$	$
OPERATING ACTIVITIES		
Net income for the period	**51,721**	78,173
Items not affecting cash		
Share-based compensation *[note 7]*	**4,346**	6,575
Depreciation of property, equipment and leasehold improvements	**297**	181
Amortization of intangible assets	**230**	1,545
Amortization of deferred lease costs	**8,055**	8,158
Amortization of deferred financing costs	**9,531**	7,515
Amortization of equipment under operating leases	**49,543**	30,854
Impairment and amortization of intangible assets from acquisitions *[note 10]*	**27,255**	1,420
Provision for credit losses	**17,514**	12,088
	168,492	146,509
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(1,198,339)**	(1,318,538)
Repayments of finance receivables	**1,018,461**	1,183,056
Investment in equipment under operating leases	**(175,691)**	(903,032)
Proceeds on disposals of equipment under operating leases	**215,556**	9,280
Syndications of finance receivables	**95,609**	34,281
Other non-cash operating assets and liabilities	**(166,058)**	(46,204)
Cash used in operating activities	**(41,970)**	(894,648)
INVESTING ACTIVITIES		
Decrease in restricted funds	**53,701**	58,001
Purchase of property, equipment and leasehold improvements	**(1,138)**	(408)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	**100**	—
Purchase of intangible assets	**(121)**	(373)
Increase in notes receivable	**—**	(1,684)
Increase in deferred financing costs	**(41,376)**	(11,128)
Cash provided by investing activities	**11,166**	44,408
FINANCING ACTIVITIES		
Net investment from parent [*note 9]*	**101,819**	217,492
Issuance of secured borrowings, net	**(23,301)**	632,748
Cash provided by financing activities	**78,518**	850,240
Effects of foreign exchange rates on cash	**(510)**	—
Net increase in cash during the period	**47,204**	—
Cash, beginning of period	**—**	—
Cash, end of period	**47,204**	—
Supplemental cash flow information:		
Cash income taxes paid	—	—
Cash interest paid	**121,668**	92,111

NOTES TO INTERIM CONDENSED CARVE-OUT COMBINED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

September 30, 2016

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

On February 16, 2016, the Board of Directors of Element Financial Corporation ["Element"] approved a plan to separate Element into two publicly-traded companies [the “Separation”]. The plan involved the separation of the portion of Element and its subsidiaries comprising the Commercial and Vendor [“C&V”] Finance, Rail Finance and Aviation Finance verticals from the existing corporate structure into ECN Capital Corp. ["ECN Capital" or the “Company”], a newly created publicly traded company. The Fleet Management vertical continues to operate within the existing corporate structure which has also been renamed Element Fleet Management Corp. ["Element Fleet" or "EFN"].

The Separation of Element into ECN Capital and Element Fleet has been implemented through a court approved plan of arrangement and was approved at a special meeting of Element shareholders on September 20, 2016 and received final approval from the Ontario Supreme Court of Justice on September 21, 2016. The Separation was effective on October 3, 2016. Detailed information regarding the Separation and its effects, including a description of certain risks and uncertainties in respect of the Separation and the operation of EFN and the Company as separate publicly traded companies, are included in the Management Information Circular of Element [the “Circular”] dated July 28, 2016 and available under EFN’s profile at www.sedar.com.

Upon the Separation, common shareholders were granted one common share of Element Fleet and one common share of ECN Capital in exchange for each Element share. The information herein presents the carve-out combined financial position, results of operations, changes in Element’s net investment and cash flows of the Company’s C&V Finance, Rail Finance, and Aviation Finance vertical organization as if they had operated as a stand-alone entity. The carve-out combined financial statements have been derived from the accounting records of Element on a carve-out basis and should be read in conjunction with Element's annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2015 and Element’s interim condensed consolidated financial statements and the notes thereto for the three month period ended September 30, 2016. The carve-out combined financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board. As the carve-out combined financial statements represent portions of Element’s business, which were not previously organized into a single legal entity, the net assets of ECN Capital have been reflected as Element’s net investment.

The majority of the assets and liabilities in the carve-out combined statements of financial position of ECN Capital have been derived from Element's C&V Finance, Rail Finance, and Aviation Finance vertical organization. Element did not specifically distinguish payments due to or due from operations, but rather considered all such amounts, including retained earnings, to be part of a capital pool allocated between Element's net investment and the allocated portion of secured borrowings on the basis of a computed financial leverage ratio in the carve-out combined financial statements. Element also used a centralized approach to cash management under which cash deposits were transferred to Element on a daily basis and pooled with other Element entities. As a result, none of Element's cash was previously allocated to the Company's carve-out combined December 31, 2015 financial statement position. As at September 30, 2016, a cash balance of $47,204 was recognized in ECN Capital's statements of financial position, with a corresponding increase to Element's net investment, to reflect the anticipated cash balance immediately following the Separation. Additionally, certain corporate assets of Element that related to ECN Capital have been included in the carve-out combined statements of financial position of the Company.

The carve-out combined statements of operations reflect inter-company expense allocations made to the Company by Element for certain corporate functions, shared services, and employee related costs. Where possible, these allocations were made on a specific identification basis, and when specific identification was not possible, these expenses were allocated by Element based on relative percentages of net average earning assets or some other basis depending on the nature of the allocated cost. The carve-out combined statements of operations reflect an allocation of interest expense based upon the funding cost attributable to the allocated portion of secured borrowings.

Management believes both the assumptions and the allocations underlying the carve-out combined financial statements of ECN Capital are reasonable. However, as a result of the basis of presentation described above, the carve-out combined financial statements may not be indicative of ECN Capital's results of operations, financial position and cash flows in the future or of what ECN Capital's operations, financial position and cash flows would have been if ECN Capital had operated as a stand-alone company.

On July 25, 2016, Element announced a definitive agreement with INFOR Acquisition Corporation ("IAC") whereby ECN Capital was to acquire all the issued and outstanding shares in the capital of IAC following the completion of the Separation transaction, providing the Company with additional cash equity estimated at $223 million. On October 12, 2016, the Company announced that by mutual agreement, IAC and ECN Capital had terminated the previously announced qualifying transaction that would have resulted in the acquisition of all of the outstanding IAC shares.

The carve-out combined financial statements were authorized for issuance by the Board of Directors of ECN Capital on November 21, 2016.

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed carve-out combined statements have been prepared in conformity with accounting policies disclosed in the carve-out combined financial statements for the year ended December 31, 2015. These interim condensed carve-out combined financial statements should be read in conjunction with the carve-out combined financial statements and notes of the Company as at and for the year ended December 31, 2015, which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed carve-out combined financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

3. FINANCE RECEIVABLES

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

	September 30, 2016		
	Leases $	Loans $	Total $
Minimum lease payments	1,240,948	2,131,255	3,372,203
Unguaranteed residual values	197,203	—	197,203
Gross investment	1,438,151	2,131,255	3,569,406
Unearned income	(214,339)	(283,304)	(497,643)
Net investment	1,223,812	1,847,951	3,071,763
Net realizable value of impaired receivables	3,343	3,589	6,932
Unamortized deferred costs and subsidies	5,853	17,902	23,755
Security deposits	(26,968)	(3,380)	(30,348)
Other receivables	18,636	565	19,201
Allowance for credit losses	(7,431)	(9,198)	(16,629)
Total	1,217,245	1,857,429	3,074,674

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

	December 31, 2015		
	Leases	**Loans**	**Total**
	$	$	$
Minimum lease payments	1,466,475	2,029,985	3,496,460
Unguaranteed residual values	215,879	—	215,879
Gross investment	1,682,354	2,029,985	3,712,339
Unearned income	(298,886)	(255,374)	(554,260)
Net investment	1,383,468	1,774,611	3,158,079
Net realizable value of impaired receivables	3,581	448	4,029
Unamortized deferred costs and subsidies	10,700	9,022	19,722
Security deposits	(32,228)	(1,357)	(33,585)
Other receivables	1,105	838	1,943
Allowance for credit losses	(8,332)	(12,062)	(20,394)
Total	1,358,294	1,771,500	3,129,794

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

	September 30, 2016		**December 31, 2015**	
	$	%	$	%
31-60 days past due	**10,768**	**0.35**	8,952	0.28
61-90 days past due	**5,335**	**0.17**	2,612	0.08
Greater than 90 days past due	**2,826**	**0.09**	3,030	0.10
Total past due	**18,929**	**0.61**	14,594	0.46
Current	**3,052,834**	**99.39**	3,143,485	99.54
	3,071,763	**100.00**	3,158,079	100.00

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

Selected characteristics of the finance receivables

	September 30, 2016		December 31, 2015	
	Leases	**Loans**	**Leases**	**Loans**
Net investment	**$1,223,812**	**$1,847,951**	$1,383,468	$1,774,611
Weighted average fixed interest rate	**6.83%**	**6.23%**	7.46%	6.35%
Weighted average floating interest rate	**n/a**	**4.90%**	n/a	5.10%
Percentage of portfolio with fixed interest rate	**100.00%**	**88.36%**	100.00%	76.08%

Allowance for credit losses

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

	Nine-month period ended September 30, 2016	Year ended December 31, 2015
	$	$
Allowance for credit losses beginning of period	**20,394**	14,120
Provision for credit losses	**17,514**	17,730
Charge-offs, net of recoveries	**(20,469)**	(13,559)
Impact of foreign exchange	**(810)**	2,103
Allowance for credit losses, end of period	**16,629**	20,394
Allowance as a % of finance receivables	**0.54%**	0.65%
Finance receivables in arrears [90 days & over]	**2,826**	3,030
Arrears [90 days & over] as % of net investment in finance receivables	**0.09%**	0.10%
Impaired receivables at estimated net realizable value	**6,932**	4,029

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

4. EQUIPMENT UNDER OPERATING LEASES

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

	September 30, 2016		
	Rail	**Aviation**	**Total**
	$	$	$
Cost	**2,376,891**	**294,180**	**2,671,071**
Accumulated depreciation	**80,657**	**31,179**	**111,836**
Net carrying amount	**2,296,234**	**263,001**	**2,559,235**

	December 31, 2015		
	Rail	**Aviation**	**Total**
	$	$	$
Cost	2,390,989	376,283	2,767,272
Accumulated depreciation	48,931	25,610	74,541
Net carrying amount	2,342,058	350,673	2,692,731

Rental revenue, net, consists of the following for the three-month and nine-month periods ended September 30:

	For the three-month periods ended 2016		For the nine-month periods ended 2015	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
	$	$	$	$
Rental revenue	**56,656**	48,399	**174,224**	121,600
Amortization of equipment under operating leases	**(16,484)**	(12,226)	**(49,543)**	(30,854)
	40,172	36,173	**124,681**	90,746

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

5. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	September 30, 2016			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Life insurance company term funding facilities	**289,411**	**3.06**	**282,371**	**33,324**
Securitization programs	**970,822**	**2.07**	**1,186,661**	**20,020**
Asset-backed securities	**1,440,207**	**3.94**	**1,815,510**	**42,689**
Term senior credit facility (2)	**1,617,980**	**2.23**	**—**	**—**
	4,318,420	**2.82**	**3,284,542**	**96,033**
Deferred financing costs	**(49,889)**			
	4,268,531			

	December 31, 2015			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Life insurance company term funding facilities	444,128	3.21	426,699	45,921
Securitization programs	1,038,048	2.30	1,325,814	41,621
Asset-backed securities	980,503	3.41	1,185,449	25,140
Term senior credit facility (2)	2,029,816	2.60	—	—
	4,492,495	2.79	2,937,962	112,682
Deferred financing costs	(21,103)			
	4,471,392			

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

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

The Company was in compliance with all financial and reporting covenants with all of its lenders as at September 30, 2016.

Life insurance company term funding facilities

As at September 30, 2016, the Company has access to committed lines of funding of $300,147 from three Canadian life insurance companies [December 31, 2015 – $470,091]. The lower committed lines reflect higher funding from securitization programs. As at September 30, 2016, the Company has access to $139,515 [December 31, 2015 – $245,855] of available financing under its life insurance company term funding facilities.

In conjunction with the Separation, the life insurance company funding facilities previously with Element are continuing under the same terms with the Company.

Securitization programs

During the third quarter of 2016, a securitization program with borrowings of US$96,000 was paid in full. As at September 30, 2016, the Company has available capacity of $455,428 [December 31, 2015 – $336,986] from these securitization programs.

In conjunction with the Separation, the securitization programs previously with Element are continuing under the same terms with the Company.

Asset-backed securities

During the third quarter of 2016, the Company entered into a new US dollar asset-backed securities funding arrangement of up to US$50,000 with a Canadian bank. As at September 30, 2016, the Company had access to $0 [December 31, 2015 – $0] of available financing from asset-backed securities debt.

In conjunction with the Separation, the asset-backed securities programs previously with Element are continuing under the same terms with the Company.

Term senior credit facility

The term senior credit facility represents the Company's portion of Element's senior revolving facility [$1,617,980 as at September 30, 2016 of Element's $4,620,158 and $2,029,816 at December 31, 2015 of Element's $5,243,840]. The amounts presented on the Company's carve-out combined statements of financial position represent inter-company balances between Element and the Company with the same terms and conditions as Element's revolving facility. The Company's portion as at September 30, 2016 of the drawn amount, has been allocated to reflect ECN Capital's expected borrowings immediately following the Separation. The Company's portion in periods prior to September 30, 2016 was an allocation based on the Company's unencumbered assets that constituted its average borrowing base during the respective period.

Element's revolving facility was syndicated to a group of 24 Canadian, US and international banks and had a maturity date of August 31, 2018. The revolving facility bore interest at the prime rate plus 0.45% or one-month bankers' acceptance rate plus 1.45% per annum on outstanding Canadian denominated balances and US base rate plus 0.45% per annum or 1-month LIBOR rate plus 1.45% per annum on outstanding US denominated balances. The term senior credit facility was secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property. After the Separation, Element Fleet retained the legal obligations associated with the revolving facility.

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

Restricted funds

Restricted funds of $166,747 include [i] cash reserves of $96,032 at September 30, 2016 [December 31, 2015 – $112,682], which represents collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of $70,715 as at September 30, 2016 [December 31, 2015 – $109,848], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

6. NET INVESTMENT

Element’s investment in the operations of ECN Capital is presented as Element's net investment in the carve-out combined financial statements. The net investment amount represents capital invested, accumulated retained earnings of the operations of ECN Capital less the accumulated net distributions to Element, and accumulated other comprehensive income of the operations.

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

7. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the three-month and nine-month periods ended September 30:

	Three-month period ended		Nine-month period ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
	$	$	$	$
[a] Stock options	**1,314**	2,329	**4,346**	6,575
[b] Deferred share units	**—**	—	**—**	—
[c] Performance share units	**1,775**	467	**2,627**	1,401
	3,089	2,796	**6,973**	7,976
Allocated as:				
Share-based compensation	**3,089**	2,796	**6,973**	7,976
Transaction and integration costs	**—**	—	**—**	—
	3,089	2,796	**6,973**	7,976

Element granted stock options and performance share units to employees of the Company. The share based compensation expense recognized on the carve-out combined statements of operations of the Company represents grants to a direct employee of the Company for services provided, and excludes grants to employees of the Company that relate to services provided to Element. The amounts noted above exclude corporate allocations from Element. Performance share units are shown net of Element hedged amounts.

Below is a summary of the Company's stock options, Deferred Share Units and Performance Share Unit plans. More detailed information regarding the plans are available in the Circular.

Stock options

Upon the Separation, each outstanding Element option was exchanged for one EFN option and one Company option, both of which will, upon vesting, entitle the holder to acquire one EFN common share and one Company common share. The original exercise price of each outstanding Element option was allocated to the Company option such that an amount equal to the tax neutral transaction proportion of the original exercise price will be payable to the Company for each common share; this amount has been determined to be approximately 20.6% of the original exercise price. An amount equal to the remainder of the original exercise price will be payable to EFN for each EFN common share. The terms for these options are a continuation of the earlier granted Element option. The participating Element directors, officers, employees and consultants who hold these options are permitted to hold and exercise his or her EFN and Company options received as part of the Separation in accordance with their terms as long as they remain an employee or director of EFN, the Company or its successors or affiliates.

On October 3, 2016, 22,556,684 options were issued in ECN Capital for an average weighted exercise price of $2.59 per option.

Subsequent to the Separation, the Company will continue with a stock option plan to allow participants to purchase Company shares at a specified exercise price within a specified exercise period of no later than eight years. The exercise price will be established by the Company's Board of Directors at the time of the grant but shall be no less than the closing price of the Company's common shares on the last trading day before the grant date.

Deferred share unit plan

Element had established a Deferred Share Unit [“DSU”] plan whereby Element’s Board of Directors may award DSUs as compensation for services rendered. All DSU obligations for this plan remain with Element Fleet.

Subsequent to the Separation, the Company has 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 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 DSU been common shares.

Performance and restricted share unit plans

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

Subsequent to the Separation, the Company's Board of Directors has adopted the ECN Capital Share Unit Plan which will allow the Board of Directors to grant both Company PSUs and Restricted Share Units [“RSUs”]. The Company PSUs and RSUs will vest no later than 3 years from the grant date and PSUs will be subject to performance conditions. The PSU performance multiplier may range from 0% to 200% depending on actual performance. On the vesting date, the Board of Directors has the discretion to settle PSUs and RSUs either through cash payment, issuance of Company common shares or some combination of cash and common shares. If and when the Company pays cash dividends to common shareholders, participants will be granted additional PSUs and RSUs equivalent to the dividends that would have been paid had the share units been common shares.

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

8. OTHER REVENUES

Other revenues consist of the following for the three-month and nine-month periods ended September 30:

	Three-month period ended		Nine-month period ended	
	September 30, 2016 $	**September 30, 2015 $**	**September 30, 2016 $**	**September 30, 2015 $**
Syndication fees	**3,879**	8,423	**6,211**	12,740
Capital advisory fees	**1,114**	355	**3,688**	15,783
Prepayment charges	**2,284**	1,395	**5,421**	8,550
Other	**3,297**	(1,589)	**8,341**	1,074
	10,574	8,584	**23,661**	38,147

9. RELATED PARTY TRANSACTIONS

Corporate allocations

Element utilizes a centralized corporate platform to provide shared services for general and administrative functions to the Company. These shared services include, but are not limited to, remuneration of directors and key management personnel of Element and support associated with information technology, enterprise risk management, internal audit, human resources, accounting and communications. The Company is also allocated expenses for insurance, bank fees, external audit fees and for costs to manage the overall corporate function of Element. Where possible, these allocations were made on a specific identification basis. Where specific identification was not possible, these expenses were allocated by Element based on relative percentages of net average earning assets. Corporate overhead allocations and allocated expenses recorded within salaries, wages and benefits for the three month and nine-month periods ended September 30, 2016 were $874 and $3,561, respectively [September 30, 2015 – $1,598 and $4,389, respectively]. Corporate overhead allocations and allocated expenses recorded within general and administrative expense for the three-month and nine-month periods ended September 30, 2016 and 2015 were $981 and $2,992, respectively [September 30, 2015 – $675 and $2,763, respectively].

C&V and Aviation allocations

The majority of the assets and liabilities in the carve-out combined statements of financial position of the Company have been derived from Element's vertical organization. However, selected assets that have historically been managed within the C&V Finance and Aviation Finance verticals were retained by EFN as part of the arrangement. These assets, which had a September 30, 2016 carrying value of $1,103,689 [December 31, 2015 – $986,457], have been excluded from the carve-out combined statements of financial position of the Company.

In addition, certain operating costs associated with these assets have been excluded from the carve-out combined statements of operations, including both direct costs identified by management and an allocation of certain indirect costs. For the three- month and nine- month periods ended September 30, 2016, the operating costs excluded from the carve-out statements of operations include salaries, wages and benefits of $326 and $992 respectively [September 30, 2015 – $328 and $945] and general and administrative expenses of $98 and $298 respectively [September 30, 2015 – $98 and $283]. During the quarter, management amended the allocation of operating costs associated with these assets to exclude indirect costs that are ultimately not expected to be retained by EFN as part of the arrangement. This change in cost allocation methodology was applied retrospectively, and certain prior period amounts have been amended. The effect of this change on the three-month period ended September 30,2015 was an increase in ECN Capital's general and administrative expense and salaries, wages and benefits of $621 and $1,829, respectively. The effect of this change on the nine-month period ended September 30, 2015 was an increase in ECN Capital's general and administrative expenses and salaries, wages and benefits of $1,311 and $3,836, respectively. Management has concluded that this does not represent a material change.

Notes receivable

Notes receivable of $0 as at September 30, 2016 [December 31, 2015 – $27,338] which represent loans to certain employees and officers of Element are now included in EFN upon the Separation. The loans were granted in order to help finance the purchase of Element's shares, bear interest at a rate of 3% per annum with interest payable monthly or annually. The principal is payable on demand in the event of non-payment of interest and the notes receivable are secured by the EFN and ECN shares purchased with full recourse to the employee. The decrease in the notes receivable was included in the carve-out combined statements of cash flows for the nine-month period ended September 30, 2016 in the net investment from parent line item.

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

10. IMPAIRMENT AND AMORTIZATION OF INTANGIBLE ASSETS FROM ACQUISITIONS

The impairment and amortization of intangible assets from acquisitions of $26,605 for the three-month period ended September 30, 2016 [$27,255 for the nine-month period ended September 30, 2016] represents the write-down to $0 of the non-cash intangible asset. This intangible asset related to the 2014 acquisition of the GE helicopter business and book of assets. The impairment reflects the decision to no longer originate assets in the commercial aviation business. Previous quarters' expenses represent historical amortization of the intangible asset.

11. 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, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposure to share-based compensation.

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 three-month and nine-month periods ended September 30:

	Three-month period ended		Nine-month period ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
	$	**$**	**$**	**$**
Foreign exchange agreements recorded in other revenues	**1,274**	(64,447)	**(17,438)**	(73,825)
Fair value changes recorded in other comprehensive income (loss)	**7,259**	(28,798)	**(13,604)**	(31,893)

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

Notional amounts and fair values of derivative instruments

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

	September 30, 2016	December 31, 2015
	$	$
Notional principal		
Derivative assets		
Interest rate contracts	**102,320**	1,097,076
Foreign exchange agreements	**171,923**	6,755
	274,243	1,103,831
Derivative liabilities		
Interest rate contracts	**2,036,783**	1,291,669
Foreign exchange agreements	**—**	488,000
	2,036,783	1,779,669
Fair values		
Restricted funds - collateral posted	**17,887**	16,072
Derivative assets		
Interest rate contracts	**105**	3,939
Foreign exchange agreements	**587**	75
	692	4,014
Derivative liabilities		
Interest rate contracts	**22,724**	11,291
Foreign exchange agreements	**—**	6,456
	22,724	17,747

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

Fair values of derivatives designated in hedging relationships

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

	September 30, 2016	December 31, 2015
	$	$
Interest rate contracts	**(22,619)**	(7,352)
Foreign exchange agreements	**587**	(6,381)
	(22,032)	(13,733)

Offsetting of derivative assets and liabilities

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

				Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the statements of financial position		
	Gross amounts of recognized financial instruments before netting on the statements of financial position	Gross amounts of recognized financial instruments set-off in the statements of financial position	Net amount of financial instruments presented in the statements of financial position	Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	$	$	$	$	$	$
As at September 30, 2016						
Derivative financial instrument assets	**692**	**—**	**692**	**692**	**—**	—
Derivative financial instrument liabilities	**22,724**	**—**	**22,724**	**692**	**17,887**	**4,145**
As at December 31, 2015						
Derivative financial instrument assets	4,014	—	4,014	1,042	—	2,972
Derivative financial instrument liabilities	17,747	—	17,747	1,052	16,072	623

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

12. 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 defines capital as the aggregate of Element's net investment, debt, and accounts payable and accrued liabilities.

The Company's capital structure is as follows:

	September 30, 2016	December 31, 2015
	$	$
Secured borrowings	**4,268,531**	4,471,392
Accounts payable and accrued liabilities	**78,351**	57,080
Total debt	**4,346,882**	4,528,472
Element's net investment	**1,710,473**	1,591,411
	6,057,355	6,119,883

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

13. SEGMENTED INFORMATION

Geographic information for the three-month and nine-month periods ended September 30, is as follows:

	September 30, 2016				September 30, 2015			
	Canada	**US**	**Other**	**Total**	**Canada**	**US**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
For the three-month period ended September 30,								
Financial revenue	**44,132**	**45,115**	**841**	**90,088**	53,155	30,230	2,674	86,059
Interest expense				**41,544**				32,671
Net financial income				**48,544**				53,388
For the nine-month period ended September 30,								
Financial revenue	**111,098**	**160,131**	**2,718**	**273,947**	137,901	104,403	6,515	248,819
Interest expense				**121,668**				92,111
Net financial income				**152,279**				156,708

	September 30, 2016				December 31, 2015			
	Canada	**US**	**Other**	**Total**	Canada	US	Other	Total
As at	**$**	**$**	**$**	**$**	$	$	$	$
Select assets								
Finance receivables	**1,094,629**	**1,984,266**	**(4,221)**	**3,074,674**	1,299,361	1,834,886	(4,453)	3,129,794
Equipment under operating leases	**354,374**	**2,147,421**	**57,440**	**2,559,235**	422,284	2,202,352	68,095	2,692,731
Goodwill	**4,560**	**3,330**	**—**	**7,890**	4,560	3,514	—	8,074
Property, equipment and leasehold improvements, and intangible assets	**58**	**1,670**	**—**	**1,728**	40	26,203	—	26,243
	1,453,621	**4,136,687**	**53,219**	**5,643,527**	1,726,245	4,066,955	63,642	5,856,842

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

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

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

The business segments are based upon the types of assets leased and serviced and the types of clients served. The financial reporting of ECN Capital's three business segments is consistent with the manner in which management currently evaluates the operating segment performance.

The financial statement of operations by segment for the three-month period ended September 30 are shown in the table below:

	September 30, 2016				September 30, 2015			
	Rail Finance	Aviation Finance	C&V Finance	Total	Rail Finance	Aviation Finance	C&V Finance	Total
	$	$	$	$	$	$	$	$
For the three-month period ended September 30,								
Interest income and rental revenue, net	**36,767**	**15,364**	**35,222**	**87,353**	32,425	19,808	30,170	82,403
Interest expense	**17,109**	**4,997**	**19,438**	**41,544**	12,005	7,016	13,650	32,671
	19,658	**10,367**	**15,784**	**45,809**	20,420	12,792	16,520	49,732
Provision for credit losses	**—**	**147**	**7,692**	**7,839**	—	159	4,769	4,928
	19,658	**10,220**	**8,092**	**37,970**	20,420	12,633	11,751	44,804
Other revenues	**3,282**	**3,524**	**3,768**	**10,574**	(8)	215	8,377	8,584
Net financial income	**22,940**	**13,744**	**11,860**	**48,544**	20,412	12,848	20,128	53,388
Impairment and amortization of intangible assets from acquisitions		**26,605**		**26,605**		377		377
Share-based compensation (1)				**3,089**				2,796
Net segment operating income (before tax)	**17,987**	**(15,355)**	**1,850**	**1,393**	16,131	9,190	9,280	31,805
Separation costs				**10,250**				—
Provision for income taxes				**(10,082)**				6,956
Net income for the period				**1,225**				24,849

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

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

The financial statement of operations by segment for the nine-month period ended September 30 are shown in the table below:

	September 30, 2016				September 30, 2015			
	Rail Finance	Aviation Finance	C&V Finance	Total	Rail Finance	Aviation Finance	C&V Finance	Total
	$	$	$	$	$	$	$	$
For the nine-month period ended September 30,								
Financial income								
Interest income and rental revenue, net	**113,418**	**51,880**	**102,502**	**267,800**	80,547	54,363	87,850	222,760
Interest expense	**50,982**	**18,614**	**52,072**	**121,668**	32,546	21,281	38,284	92,111
	62,436	**33,266**	**50,430**	**146,132**	48,001	33,082	49,566	130,649
Provision for credit losses	**—**	**478**	**17,036**	**17,514**	—	1,318	10,770	12,088
	62,436	**32,788**	**33,394**	**128,618**	48,001	31,764	38,796	118,561
Other revenues	**3,204**	**9,305**	**11,152**	**23,661**	293	19,071	18,783	38,147
Net financial income	**65,640**	**42,093**	**44,546**	**152,279**	48,294	50,835	57,579	156,708
Impairment and amortization of intangible assets from acquisitions		27,255		**27,255**		1,420		1,420
Share-based compensation (1)				**6,973**				7,976
Net segment operating income (before tax)	**49,779**	**6,738**	**17,654**	**67,198**	37,608	41,566	28,385	99,583
Separation costs				**10,250**				—
Provision for income taxes				**5,227**				21,410
Net income for the period				**51,721**				78,173

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

[unaudited, in thousands of Canadian dollars, except where otherwise noted]

The financial statement position by segment as at September 30, 2016 and as at December 31, 2015 are shown in the table below:

	September 30, 2016				December 31, 2015			
	Rail Finance	Aviation Finance	C&V Finance	Total	Rail Finance	Aviation Finance	C&V Finance	Total
As at	**$**	**$**	**$**	**$**	$	$	$	$
Segment assets								
Finance receivables	**3,916**	**748,955**	**2,321,803**	**3,074,674**	1,123	1,054,582	2,074,089	3,129,794
Equipment under operating leases	**2,296,234**	**263,001**	**—**	**2,559,235**	2,342,058	350,673	—	2,692,731
Other assets	**174,942**	**124,180**	**150,233**	**449,355**	110,646	40,173	165,268	316,087
Goodwill and intangible assets	**—**	**3,330**	**4,895**	**8,225**	—	28,605	5,034	33,639
Total assets	**2,475,092**	**1,139,466**	**2,476,931**	**6,091,489**	2,453,827	1,474,033	2,244,391	6,172,251
Segment liabilities								
Debt	**1,771,684**	**575,275**	**1,921,572**	**4,268,531**	1,735,479	929,641	1,806,272	4,471,392
Other liabilities	**57,254**	**24,095**	**31,136**	**112,485**	32,507	19,079	57,862	109,448
Total liabilities	**1,828,938**	**599,370**	**1,952,708**	**4,381,016**	1,767,986	948,720	1,864,134	4,580,840

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Valuation methods and assumptions

Finance receivables and secured borrowings on finance receivables

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

Derivatives

The fair values of derivatives are presented in note 11 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values and/or intrinsic values. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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