

Interim Condensed Consolidated Financial Statements

JUNE 30, 2017

ECN Capital Corp.

Interim condensed consolidated statements of financial position

[unaudited, in thousands of Canadian dollars]

	As at June 30, 2017 \$	As at December 31, 2016 \$
Assets		
Cash	9,041	45,849
Restricted funds <i>[note 7]</i>	104,710	136,871
Finance receivables <i>[note 4]</i>	1,591,560	3,387,979
Equipment under operating leases <i>[note 5]</i>	2,578,333	2,618,612
Inventories <i>[note 6]</i>	137,550	140,019
Accounts receivable and other assets	69,684	38,212
Notes receivable <i>[note 12]</i>	44,383	40,668
Derivative financial instruments <i>[note 14]</i>	6,511	11,385
Property, equipment and leasehold improvements	4,754	3,812
Intangible assets	57	640
Deferred tax assets	20,862	7,747
Goodwill	4,560	4,560
	4,572,005	6,436,354
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued liabilities	86,245	84,252
Derivative financial instruments <i>[note 14]</i>	9,256	2,980
Secured borrowings <i>[note 7]</i>	2,366,685	4,504,591
Deferred tax liabilities	90,563	17,360
Total liabilities	2,552,749	4,609,183
Shareholders' equity <i>[note 8]</i>	2,019,256	1,827,171
	4,572,005	6,436,354

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of operations

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

	Three-month period ended June 30, 2017 \$	Three-month period ended June 30, 2016 \$	Six-month period ended June 30, 2017 \$	Six-month period ended June 30, 2016 \$
Net financial income				
Interest income	22,931	26,954	47,222	56,775
Rental revenue, net <i>[note 5]</i>	39,410	39,968	78,407	84,509
	62,341	66,922	125,629	141,284
Interest expense	27,307	30,337	58,752	62,451
Net interest income before provision for credit losses	35,034	36,585	66,877	78,833
Provision for (recovery of) credit losses <i>[note 4]</i>	2,329	(7,671)	2,446	2,869
Net interest income	32,705	44,256	64,431	75,964
Other revenue <i>[note 10]</i>	3,024	4,170	8,639	8,068
	35,729	48,426	73,070	84,032
Operating expenses				
Salaries, wages and benefits	6,602	4,197	15,205	9,889
General and administrative expenses	9,027	5,869	17,347	12,016
Impairment and amortization of intangible assets from acquisitions	—	—	—	650
Share-based compensation <i>[note 9]</i>	4,062	1,497	6,900	3,241
Separation and reorganization costs <i>[note 11]</i>	—	—	3,300	—
	19,691	11,563	42,752	25,796
Gain on sale of advisory business <i>[note 3]</i>	2,318	—	2,318	—
Income before income taxes from continuing operations	18,356	36,863	32,636	58,236
Provision for income taxes	2,442	8,479	5,239	13,501
Net income for the period from continuing operations	15,914	28,384	27,397	44,735
Net income (loss) from discontinued operations	—	(4,452)	272,352	5,760
Net income for the period	15,914	23,932	299,749	50,495
Basic				
Continuing operations <i>[note 13]</i>	\$0.04	\$0.07	\$0.06	\$0.12
Discontinued operations <i>[note 13]</i>	—	\$(0.01)	\$0.70	\$0.01
Total basic earnings per share <i>[note 13]</i>	\$0.04	\$0.06	\$0.76	\$0.13
Diluted				
Continuing operations <i>[note 13]</i>	\$0.03	\$0.07	\$0.06	\$0.11
Discontinued operations <i>[note 13]</i>	—	\$(0.01)	\$0.69	\$0.01
Total diluted earnings per share <i>[note 13]</i>	\$0.03	\$0.06	\$0.75	\$0.12

See accompanying notes

ECN Capital Corp.

**Interim condensed consolidated statements of
comprehensive income (loss)**

[unaudited, in thousands of Canadian dollars]

	Three-month period ended June 30, 2017 \$	Three-month period ended June 30, 2016 \$	Six-month period ended June 30, 2017 \$	Six-month period ended June 30, 2016 \$
Net income for the period	15,914	23,932	299,749	50,495
Other comprehensive income (loss)				
Cash flow and foreign exchange hedges <i>[note 14]</i>	(2,013)	(12,620)	2,808	(11,968)
Net unrealized foreign exchange gain (loss)	(28,886)	(7,224)	(46,791)	16,373
	(30,899)	(19,844)	(43,983)	4,405
Deferred tax expense (recovery)	(512)	(3,988)	969	(3,774)
Total other comprehensive income (loss)	(30,387)	(15,856)	(44,952)	8,179
Other comprehensive income (loss) from discontinued operations				
Realization of accumulated other comprehensive income on the sale of the US C&V Finance business	—	—	(155,812)	—
Total other comprehensive income (loss) from discontinued operations, net of tax	—	(9,496)	607	(57,913)
Total other comprehensive income from discontinued operations	—	(9,496)	(155,205)	(57,913)
Total other comprehensive income	(30,387)	(25,352)	(200,157)	(49,734)
Comprehensive income (loss) for the period	(14,473)	(1,420)	99,592	761

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of changes in shareholders' equity

[unaudited, in thousands of Canadian dollars]

	Common share capital \$	Preferred share capital \$	Contributed surplus \$	Retained earnings \$	Owners' net investment \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, December 31, 2015	—	—	—	—	1,403,325	188,086	1,591,411
Net adjustment to owners' equity	—	—	—	—	(37,160)	—	(37,160)
Comprehensive income (loss) for the period	—	—	—	—	50,495	(49,734)	761
Employee stock option expense [note 9]	—	—	—	—	3,032	—	3,032
Balance, June 30, 2016	—	—	—	—	1,419,692	138,352	1,558,044
Balance, December 31, 2016	1,418,882	97,315	119,309	(18,717)	—	210,382	1,827,171
Employee stock options exercised [note 8]	988	—	—	—	—	—	988
Preferred shares issued	—	97,404	—	—	—	—	97,404
Comprehensive income (loss) for the period	—	—	—	299,749	—	(44,952)	254,797
Accumulated other comprehensive income on sale of business	—	—	—	—	—	(155,205)	(155,205)
Dividends – Preferred shares	—	—	—	(4,481)	—	—	(4,481)
Dividends – Common shares	—	—	—	(7,752)	—	—	(7,752)
Employee stock option expense [note 9]	—	—	6,334	—	—	—	6,334
Balance June 30, 2017	1,419,870	194,719	125,643	268,799	—	10,225	2,019,256

See accompanying notes

ECN Capital Corp.

Interim condensed consolidated statements of cash flows

[unaudited, in thousands of Canadian dollars]

	Six-month period ended June 30, 2017 \$	Six-month period ended June 30, 2016 \$
Operating activities		
Net income for the period from continuing operations	27,397	50,495
Items not affecting cash		
Share-based compensation [note 9]	6,900	3,032
Depreciation of property, equipment and leasehold improvements	465	156
Amortization of intangible assets	23	(105)
Amortization of deferred lease costs	2,395	6,297
Amortization of deferred financing costs	8,998	6,242
Amortization of equipment under operating leases	35,092	35,594
Change in asset valuation reserve	412	—
Provision for credit losses	2,509	9,675
Gain on sale of aviation advisory business	(2,318)	—
	<u>81,873</u>	<u>111,386</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(244,296)	(867,712)
Reduction in finance receivables	244,649	589,146
Investment in equipment under operating leases	(84,521)	(83,708)
Proceeds on disposal of equipment under operating leases	73	14,529
Syndications of finance receivables	8,336	54,560
Other non-cash operating assets and liabilities	(13,941)	16,901
Cash provided by (used in) operating activities – continuing operations	<u>(7,827)</u>	<u>(164,898)</u>
Investing activities		
Decrease in restricted funds	3,872	6,599
Proceeds on disposal of U.S. C&V Finance business	2,024,532	
Purchase of property, equipment and leasehold improvements	(3,918)	(826)
Proceeds on disposal of property, equipment and leasehold improvements, and intangible assets	472	35
Decrease (increase) in notes receivable	(4,915)	1,660
Purchase of intangible assets	—	(114)
Cash provided by investing activities – continuing operations	<u>2,020,043</u>	<u>7,354</u>
Financing activities		
Issuance of preferred shares, net [note 8]	98,392	—
Net investment from parent	—	(29,586)
Issuance (repayment) of secured borrowings, net	(2,131,376)	204,902
Dividends paid or accrued	(12,233)	—
Increase in deferred financing costs	(1,418)	(17,772)
Cash provided by (used in) financing activities – continuing operations	<u>(2,046,635)</u>	<u>157,544</u>
Net changes in cash utilized by discontinued operations	<u>(2,389)</u>	<u>—</u>
Net decrease in cash during the period	<u>(36,808)</u>	<u>—</u>
Cash, beginning of period	45,849	—
Cash, end of period from continuing operations	<u>9,041</u>	<u>—</u>
Supplemental cash flow information		
Cash taxes paid	24,697	—
Cash interest paid	83,470	80,124

See accompanying notes

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

1. Corporate information and basis of presentation

ECN Capital Corp. ["ECN Capital" or the "Company"] is an independent financial services company that originates, co-invests in and manages asset-based financing and related service programs. The Company originates a broad range of equipment and capital assets by way of secured loans, financial leases, conditional sales contracts and operating leases. Headquartered in Toronto, the registered office is located at 181 Bay Street, Suite 2830, Toronto, Ontario, Canada. ECN Capital has approximately 126 employees and operates in Canada and the United States. The Company is a public corporation and trades on the Toronto Stock Exchange under the symbol "ECN".

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

These interim condensed consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of the Company as if it had operated on a stand-alone basis throughout the reported periods. Namely, the comparative results as at and for the period ended June 30, 2016 were prepared on a carve-out basis. The operating results for the current period ended June 30, 2017 represent actual financial results for the period. The financial position of the Company as at December 31, 2016 was derived from the assets and liabilities assumed as part of the Separation and actual transactions post the separation date of October 3, 2016.

See Note 1 of the December 31, 2016 consolidated financial statements for further information on the Separation.

2. Summary of significant accounting policies

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2016.

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

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 8, 2017.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

Discontinued operations

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

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

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

3. Business Acquisitions and Divestitures

Acquisition of Service Finance

On June 8, 2017, the Company announced that it has entered into a definitive agreement to acquire Service Finance Holdings, LLC ["Service Finance"] for cash consideration of \$410 million (US\$ 304 million). In addition, the Company has agreed to a deferred purchase price earn-out plan with the vendors that will be based on the achievement of prescribed return on average equity targets over the next five years.

Founded in 2004, Service Finance originates and services prime and super-prime instalment contracts to finance home improvement projects in the U.S. Originations are sourced through exclusive national vendor programs with top manufacturers and dealers. Service Finance will represent a new operating segment for the Company.

Sale of Advisory Business

On May 31, 2017, the Company closed a transaction with Stellwagon Group, the commercial aviation finance advisory and asset management business of Acasta Enterprises Inc. ["Acasta"], to sell the Company's Commercial Aviation Advisory Business. As part of the transaction, certain key employees of the ECN Commercial Aviation Advisory and the office in Stamford, CT will transition to Acasta. In connection with the transaction, the Company received 3,037,500 shares of Acasta and recorded a gain of \$2.3 million which is stated net of a reserve of \$7,973 to reflect the impact of a twelve-month hold period on the Acasta shares, transaction-related costs of \$7,241, and transaction-related compensation expenses of \$4,753 for employees retained by Acasta.

Sale of U.S. C&V Finance Business

In the first quarter of 2017, the Company entered into two separate transactions resulting in the sale of its U.S. C&V Finance business. The transactions were structured as asset sales and cover the exclusivity of the Company's C&V Finance business in the United States. The total sale price of US\$1,531,095 for the US C&V Finance business include cash proceeds of US\$1,521,910 and a performance-based contingent amount of US\$9,185 that has been included in other assets. The fair value of the performance-based contingent amount is re-evaluated on a quarterly basis.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

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

4. Finance receivables

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

	June 30, 2017		
	Leases	Loans	Total
	\$	\$	\$
Minimum lease payments	758,845	1,005,778	1,764,623
Non-guaranteed residual values	61,733	—	61,733
Gross investment	820,578	1,005,778	1,826,356
Unearned income	(124,462)	(115,485)	(239,947)
Net investment	696,116	890,293	1,586,409
Net realizable value of impaired receivables	2,635	2,765	5,400
Unamortized deferred costs and subsidies	8,365	4,060	12,425
Security deposits	(15,892)	(617)	(16,509)
Other receivables	10,062	2,128	12,190
Allowance for credit losses	(4,637)	(3,718)	(8,355)
Total finance receivables	696,649	894,911	1,591,560

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

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

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

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

	June 30, 2017		December 31, 2016 ^[1]	
	\$	%	\$	%
31 – 60 days past due	2,061	0.13	2,589	0.16
61 – 90 days past due	114	0.01	582	0.04
Greater than 90 days past due	550	0.03	284	0.02
Total past due	2,725	0.17	3,455	0.22
Current	1,583,684	99.83	1,633,887	99.78
Total net investment, continuing operations	1,586,409	100.00	1,637,342	100.00

[1] There were no finance receivables outstanding as at June 30, 2017 related to discontinued operations. For December 31, 2016, amounts have been adjusted to exclude discontinued operations.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

Selected characteristics of the finance receivables of continuing operations

	June 30, 2017		December 31, 2016 ^[1]	
	Leases	Loans	Leases	Loans
Net investment, continuing operations	\$696,116	\$890,293	\$794,227	\$843,115
Weighted average fixed interest rate	6.60%	6.40%	6.65%	6.37%
Weighted average floating interest rate	n/a	5.33%	n/a	5.05%
Percentage of portfolio with fixed interest rate	100.00%	71.72%	100.00%	71.69%

[1] There were no finance receivables outstanding as at June 30, 2017 related to discontinued operations. For December 31, 2016, amounts have been adjusted to exclude discontinued operations.

Allowance for credit losses

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

	Six-month period ended June 30, 2017	Year ended December 31, 2016 ^[1]
	\$	\$
Allowance for credit losses, beginning of period	4,377	8,122
Provision for credit losses [2]	7,742	4,719
Charge-offs, net of recoveries	(3,787)	(8,444)
Impact of foreign exchange rates	23	(20)
Allowance for credit losses, end of period	8,355	4,377
Allowance as a percentage of finance receivables	0.53%	0.27%
Finance receivables in arrears [90 days and over]	550	284
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.04%	0.02%
Impaired receivables, at estimated net realizable value	5,400	2,985

[1] There was no allowance for discontinued operations as at June 30, 2017. For December 31, 2016, amounts have been adjusted to exclude discontinued operations.

[2] Includes \$4,000 reclassified from discontinued operations to continuing operations in the six-month period ended June 30, 2017.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

5. Equipment under operating leases

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

	June 30, 2017	December 31, 2016
	\$	\$
Cost	2,736,083	2,748,685
Accumulated amortization	157,750	130,073
Net carrying amount of equipment under operating leases	2,578,333	2,618,612

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

	For the three-month periods ended		For the six-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Rental revenue	57,007	56,205	113,499	117,568
Amortization of equipment under operating leases	(17,597)	(16,237)	(35,092)	(33,059)
	39,410	39,968	78,407	84,509

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

6. Inventories

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

	Railcar	Aviation	Canada C&V Finance	Continuing operations	U.S. C&V Finance ^[1]	Total
	\$	\$	\$	\$	\$	\$
At December 31, 2015	—	—	2,840	2,840	12,452	15,292
Net additions during the year	56,574	99,938	4,255	160,767	4,241	165,008
Valuation reserve	—	(40,281)	—	(40,281)	—	(40,281)
At December 31, 2016	56,574	59,657	7,095	123,326	16,693	140,019
Net additions/removals during the period	(14,163)	33,256	(771)	18,322	(16,693)	1,629
Valuation reserve	—	412	—	412	—	412
Foreign exchange rate adjustments	(1,620)	(2,890)	—	(4,510)	—	(4,510)
At June 30, 2017	40,791	90,435	6,324	137,550	—	137,550

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

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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June 30, 2017

7. Secured borrowings

	June 30, 2017			
	Balance outstanding	Weighted average interest rate [1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Life insurance company term funding facilities	212,945	2.93	208,987	25,162
Securitization programs	354,534	1.93	377,226	3,875
Asset-backed securities	1,375,438	3.97	1,784,539	41,085
Term senior credit facility [2]	462,815	2.92	—	—
	<u>2,405,732</u>	<u>3.38</u>	<u>2,370,752</u>	<u>70,122</u>
Deferred financing costs	(39,047)			
Total secured borrowings	<u>2,366,685</u>			

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

[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 June 30, 2017.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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

June 30, 2017

Life insurance company term funding facilities

At June 30, 2017, the Company had committed lines of funding of \$352,039, of which \$212,945 was utilized providing the Company access to \$139,094.

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

Securitization programs

On April 3, 2017, in connection with the sale of the US C&V Finance business, the Company repaid the outstanding balance of US\$420,705 and terminated its securitization program related to the business sold.

As at June 30, 2017, the Company had available capacity of \$46,114 [December 31, 2016 – \$283,377].

Asset-backed securities

As at June 30, 2017, the Company has the following asset-backed securitizations outstanding:

Issuance date	At issuance	Outstanding as at June 30, 2017	
	US\$	US\$	C\$
April 11, 2014	340,347	299,736	388,578
February 26, 2015	405,000	362,056	469,369
March 18, 2016	422,841	399,175	517,491
	1,168,188	1,060,967	1,375,438

Term senior credit facility

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

On April 3, 2017, in connection with the sale of the US C&V Finance business, the Company repaid US\$902,595 of the term senior credit facility.

At June 30, 2017, the Company has available capacity of US\$2,142,999 [December 31, 2016 – US\$1,200,391].

ECN Capital Corp.

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

June 30, 2017

Restricted funds

	June 30, 2017 \$	December 31, 2016 \$
Continuing operations		
Restricted – cash in collection accounts	34,588	26,797
Restricted – cash reserves	70,122	83,896
	104,710	110,693
Discontinued operations		
Restricted – cash in collection accounts	—	16,751
Restricted – cash reserves	—	9,427
	—	26,178

8. Share capital

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

	Common shares	
	Shares #	Amount \$
Issued pursuant to the Separation transaction	386,755,808	1,418,727
Exercise of options	356,681	155
Balance, December 31, 2016	387,112,489	1,418,882
Exercise of options	1,009,293	573
Balance, March 31, 2017	388,121,782	1,419,455
Exercise of options	405,101	415
Balance, June 30, 2017	388,526,883	1,419,870

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

	Preferred shares	
	Shares #	Amount \$
Issued during the year	4,000,000	97,315
Balance, December 31, 2016	4,000,000	97,315
Issuance of shares, net of costs	4,000,000	97,404
Balance, June 30, 2017	8,000,000	194,719

ECN Capital Corp.

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Preferred share dividends

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

On May 25, 2017, the Company issued through a public offering, 4,000,000 6.25% Cumulative 5-year Minimum Rate Reset Preferred Shares, Series C ["Series C shares"], at a price of \$25.00 per preferred share for gross proceeds of \$100,000. The issuance included pre-tax transaction costs of \$3,537 [or after-tax transaction costs of \$2,596].

During the three- and six-month periods ended June 30, 2017, the Company paid \$1,625 and \$3,744 [after tax cost of \$1,670 and \$3,847] or \$0.40625 and \$0.93604 per Series A share in preferred share dividends [three- and six-month periods ended June 30, 2016 – nil].

During the three- and six-month periods ended June 30, 2017, the Company accrued \$616 and \$616 [after tax cost of \$634 and \$634] or \$0.15411 and \$0.15411 per Series C share in preferred share dividends [three- and six-month periods ended June 30, 2016 – nil].

Common share dividends

During the three- and six-month periods ended June 30, 2017, the Company paid \$3,881 and \$7,752 or \$0.01 and \$0.02 per common share, respectively [three- and six-month periods ended June 30, 2016 – nil].

9. Share-based compensation

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

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
[a] Stock options	2,339	1,097	5,058	2,441
[b] Deferred share units	1,723	—	1,842	—
[c] Performance share units and restricted share units	—	400	—	800
Total share-based compensation	4,062	1,497	6,900	3,241

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[a] Stock options

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

	Number of options #	Weighted average exercise price \$
Issued on Separation	22,556,684	2.59
Granted	8,895,000	2.70
Forfeited	(97,372)	2.95
Exercised	(400,720)	1.08
Outstanding, December 31, 2016	30,953,592	2.64
Granted	4,200,000	3.50
Forfeited	(109,505)	3.11
Exercised	(2,046,470)	2.02
Outstanding, March 31, 2017	32,997,617	2.79
Granted	505,000	3.79
Forfeited	(85,196)	2.97
Exercised	(1,012,898)	2.50
Outstanding, June 30, 2017	32,404,523	2.81

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

	Unit	Six-month period ended June 30, 2017	Year ended December 31, 2016
Weighted average share price	\$	3.79	2.70
Average term to exercise	Years	7.0	7.0
Share price volatility	%	35.77	33.10
Weighted average expected annual dividend	\$	0.04	0.04
Risk-free interest rate	%	1.27	0.94
Forfeiture rate	%	1.02	1.02

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[b] Deferred Share Units ["DSU"]

	Number of deferred share units #
Outstanding, December 31, 2016	96,678
Granted	419,700
Outstanding, March 31, 2017	516,378
Granted	150,129
Outstanding, June 30, 2017	666,507

As at June 30, 2017, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$438 [December 31, 2016 – \$319]. There are no hedges on DSU share units.

10. Other revenues

Other revenues consist of the following for the three-month period ended June 30:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Syndication fees	285	113	2,698	1,560
Capital advisory fees	702	1,258	1,738	2,574
Prepayment charges	987	1,102	2,146	1,841
Other revenue	1,050	1,697	2,057	2,093
Total other revenue, continuing operations	3,024	4,170	8,639	8,068
Discontinued operations	—	2,742	4,592	5,019
Total other revenue	3,024	6,912	13,231	13,087

11. Separation and reorganization costs

Separation and reorganization costs for the three-month and six-month periods ended June 30, 2017 were nil and \$4,672, respectively, for the termination of corporate office space commitments of which \$3,300 was allocated to continuing operations. There were no separation and reorganization costs incurred by the Company in the three- and six-month periods ended June 30, 2016.

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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June 30, 2017

12. Related party transactions

Notes receivable

Notes receivable of \$44,383 as at June 30, 2017 [December 31, 2016 – \$40,668] represent loans to certain employees and officers of the Company granted in order to help finance the purchase of Element's shares acquired prior to the Separation and to finance the purchase of the Company's shares post-separation. The loans bear interest at a rate of Canadian prime less 50 basis points with interest payable monthly or annually. The principal is payable on demand in the event of non-payment of interest and the notes receivable are secured by the Element Fleet and ECN Capital shares purchased with full recourse to the employee.

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

	Six-month period ended June 30, 2017	Year ended December 31, 2016
	\$	\$
Notes receivable, beginning of period	40,668	27,338
Additions	8,912	13,051
Interest income	353	802
Repayments (interest and principal)	(5,550)	(523)
Notes receivable, end of period	44,383	40,668

Corporate allocations

Element utilized a centralized corporate platform to provide shared services for general and administrative functions to the Company prior to the Separation. Corporate overhead allocations and allocated expenses recorded within salaries, wages and benefits for the three- and six-month periods ended June 30, 2016 were \$1,365 and \$2,687, respectively. Corporate overhead allocations and allocated expenses recorded within general and administrative expense for the three- and six-month periods ended June 30, 2016 were \$965 and \$2,011, respectively.

C&V Finance and Aviation Finance allocations

There were certain assets that were historically managed within the C&V Finance and Aviation Finance verticals but were retained by Element as part of the Separation. There were certain direct and indirect operating costs associated with these assets, which were excluded from the carve-out figures comprising the three- and six-month periods ended June 30, 2016 statement of operations, including both direct costs identified by management and an allocation of certain indirect costs based on net average earning assets. The operating costs excluded from the carve-out statement of operations include salaries, wages and benefits of \$322 and \$666, respectively, and general and administration expenses of \$97 and \$200, respectively.

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13. Earnings per share

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Net income from continuing operations attributable to shareholders	15,914	28,384	27,397	44,735
Cumulative dividends on preferred shares	2,241	—	4,360	—
Net income from continuing operations available to common shareholders	13,673	28,384	23,037	44,735
Net income (loss) from discontinued operations attributable to common shareholders	—	(4,452)	272,352	5,760
Total net income attributable to common shareholders	13,673	23,932	295,389	50,495
Weighted average number of common shares outstanding – basic	388,380,693	386,282,325	387,844,429	386,210,635
Basic earnings per share from continuing operations	\$0.04	\$0.07	\$0.06	\$0.12
Basic earnings per share from discontinued operations	—	(\$0.01)	\$0.70	\$0.01
Total earnings per share	\$0.04	\$0.06	\$0.76	\$0.13
Weighted average number of common shares outstanding – diluted	398,021,098	390,632,380	396,407,359	390,593,992
Diluted earnings per share from continuing operations	\$0.03	\$0.07	\$0.06	\$0.11
Diluted earnings per share from discontinued operations	—	(\$0.01)	\$0.69	\$0.01
Total diluted earnings per share	\$0.03	\$0.06	\$0.75	\$0.12

Instruments outstanding as at June 30, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include nil and 1,183,426 stock options for the three- and six-month periods ended June 30, 2017, respectively [three- and six-month periods ended June 30, 2016 – 11,809,842 and 11,815,221, respectively].

14. Derivative financial instruments

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

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Cash flow hedging relationships

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

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenues	(4,489)	(3,269)	(10,436)	11,756
Fair value changes recorded in other comprehensive income (loss)	(2,013)	(12,620)	2,808	(11,968)

Notional amounts and fair values of derivative instruments

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

	As at June 30, 2017		As at December 31, 2016	
	Notional principal	Fair value	Notional principal	Fair value
	\$	\$	\$	\$
Derivative assets				
Interest rate contracts	425,551	4,359	1,934,581	10,950
Foreign exchange agreements	201,460	2,152	542,480	435
	627,011	6,511	2,477,061	11,385
Derivative liabilities				
Interest rate contracts	32,741	245	226,888	2,200
Foreign exchange agreements	388,920	9,011	168,240	780
	421,661	9,256	395,128	2,980

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Offsetting of derivative assets and liabilities

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

	June 30, 2017	December 31, 2016
	\$	\$
Derivative assets		
Gross amounts of financial instruments recognized on the interim condensed consolidated statements of financial position	6,511	11,385
Amounts subject to an enforceable master netting agreement	4,307	2,980
	<u>2,204</u>	<u>8,405</u>
Derivative liabilities		
Gross amounts of financial instruments recognized on the interim condensed consolidated statements of financial position	9,256	2,980
Amounts subject to an enforceable master netting agreement	4,306	2,980
	<u>4,950</u>	<u>—</u>

15. 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:

	June 30, 2017	December 31, 2016
	\$	\$
Secured borrowings	2,366,685	4,504,591
Accounts payable and accrued liabilities	86,245	84,252
	<u>2,452,930</u>	<u>4,588,843</u>
Shareholders' equity	2,019,256	1,827,171
	<u>4,472,186</u>	<u>6,416,014</u>

ECN Capital Corp.

Notes to interim condensed consolidated financial statements

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16. Segmented information

[a] Operating segments

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

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

The interim condensed consolidated statements of operations by segment for the three-month period ended June 30 are shown in the table below:

	For the three-month period ended June 30, 2017					Total
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	Discontinued Operations	
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	36,483	11,366	14,492	62,341	—	62,341
Interest expense	18,558	3,351	5,398	27,307	—	27,307
	17,925	8,015	9,094	35,034	—	35,034
Provision for credit losses	—	1,790	539	2,329	—	2,329
Other revenues	(154)	680	2,498	3,024	—	3,024
Net financial income	17,771	6,905	11,053	35,729	—	35,729
Adjusted operating expenses	8,219	3,273	4,137	15,629	—	15,629
Share-based compensation				4,062	—	4,062
Gain on sale of business				(2,318)	—	(2,318)
Net operating income [before income taxes]	9,552	3,632	6,916	18,356	—	18,356
Provision for income taxes				2,442	—	2,442
Net income for the period				15,914	—	15,914

ECN Capital Corp.

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June 30, 2017

	For the six-month period ended June 30, 2017					
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	Discontinued Operations	Total
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	73,034	23,693	28,902	125,629	26,328	151,957
Interest expense	38,341	8,530	11,881	58,752	10,289	69,041
	34,693	15,163	17,021	66,877	16,039	82,916
Provision for credit losses	—	1,907	539	2,446	5,949	8,395
Other revenues	2,793	2,034	3,812	8,639	4,592	13,231
Net financial income	37,486	15,290	20,294	73,070	14,682	87,752
Adjusted operating expenses	16,503	7,433	8,616	32,552	8,975	41,527
Share-based compensation				6,900	971	7,871
Separation and reorganization costs				3,300	1,372	4,672
Gain on sale of business				(2,318)	(341,817)	(344,135)
Net operating income [before income taxes]	20,983	7,857	11,678	32,636	345,181	377,817
Provision for income taxes				5,239	72,829	78,068
Net income for the period				27,397	272,352	299,749

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June 30, 2017

	For the three-month period ended June 30, 2016					
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	Discontinued Operations	Total
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	36,386	16,700	13,836	66,922	19,512	86,434
Interest expense	16,672	5,966	7,699	30,337	9,384	39,721
	19,714	10,734	6,137	36,585	10,128	46,713
Provision for credit losses	-	160	(7,831)	(7,671)	13,486	5,815
Other revenues	31	2,913	1,226	4,170	2,742	6,912
Net financial income	19,745	13,487	15,194	48,426	(616)	47,810
Adjusted operating expenses	5,514	2,390	2,162	10,066	4,848	14,914
Impairment and amortization of intangible assets from acquisitions						
Share-based compensation				1,497	318	1,815
Net operating income [before income taxes]	14,231	11,097	13,032	36,863	(5,782)	31,081
Provision for income taxes				8,479	(1,330)	7,149
Net income for the period				28,384	(4,452)	23,932

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	For the six-month period ended June 30, 2016					
	Rail Finance	Aviation Finance	Canada C&V Finance	Total continuing operations	Discontinued Operations	Total
	\$	\$	\$	\$	\$	\$
Interest income and rental revenue, net	76,651	36,516	28,117	141,284	39,163	180,447
Interest expense	33,873	13,617	14,961	62,451	17,673	80,124
	<u>42,778</u>	<u>22,899</u>	<u>13,156</u>	<u>78,833</u>	<u>21,490</u>	<u>100,323</u>
Provision for credit losses	-	331	2,538	2,869	6,807	9,676
Other revenues	(78)	5,781	2,365	8,068	5,019	13,087
Net financial income	<u>42,700</u>	<u>28,349</u>	<u>12,983</u>	<u>84,032</u>	<u>19,702</u>	<u>103,734</u>
Adjusted operating expenses	10,908	5,606	5,391	21,905	11,490	33,395
Impairment and amortization of intangible assets from acquisitions				650	—	650
Share-based compensation				3,241	644	3,885
Net operating income [before income taxes]	<u>31,792</u>	<u>22,743</u>	<u>7,592</u>	<u>58,236</u>	<u>7,568</u>	<u>65,804</u>
Provision for income taxes				13,501	1,808	15,309
Net income for the period				<u>44,735</u>	<u>5,760</u>	<u>50,495</u>

ECN Capital Corp.

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[b] Geographic Segments

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

Geographic information for the three-month periods ended June 30, is as follows:

	As at June 30, 2017				As at December 31, 2016 ^[1]			
	Canada	US	Other	Total	Canada	US	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	1,135,118	456,442	—	1,591,560	1,089,854	2,301,247	(3,122)	3,387,979
Equipment under operating leases	262,168	2,269,857	46,308	2,578,333	373,309	2,186,910	58,393	2,618,612
Goodwill	4,560	—	—	4,560	4,560	—	—	4,560
Property, equipment and leasehold improvements and intangibles	4,752	59	—	4,811	2,593	1,859	—	4,452
	1,406,598	2,726,358	46,308	4,179,264	1,470,316	4,490,016	55,271	6,015,603

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

	For the three-month period ended				For the six-month period ended			
	June 30, 2017				June 30, 2017			
	Canada	US	Other	Total	Canada	US	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Finance revenue from continuing operations	27,804	34,196	1,036	63,036	55,275	74,573	1,974	131,822
Interest expense from continuing operations				27,307				58,752
Net financial income from continuing operations				35,729				73,070

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June 30, 2017

	For the three-month period ended				For the six-month period ended			
	June 30, 2016				June 30, 2016			
	Canada	US	Other	Total	Canada	US	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Finance								
revenue from								
continuing								
operations	41,387	36,366	1,010	78,763	76,965	67,470	2,048	146,483
Interest								
expense from								
continuing								
operations				30,337				62,451
Net financial								
income from								
continuing								
operations				48,426				84,032

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

17. Fair value of financial instruments

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

Valuation methods and assumptions

Finance receivables and secured borrowings on finance receivables

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

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Notes receivable

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

Derivatives

The fair values of derivatives are presented in note 14 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

18. Subsequent events

Sale of Rail Finance Assets

On August 4, 2017 the Company entered into a definitive purchase agreement to sell approximately 1,550 railcar assets to ITE Management L.P. for proceeds of approximately US\$173 million, and effective August 8, 2017 entered into a separate definitive purchase agreement to sell 100% of the railcar assets in its Element Rail Leasing II portfolio to Napier Park Global Capital US LP for proceeds of approximately US\$935 million. The total book value of the railcar assets to be sold is approximately US\$1.15 billion and represent approximately 65% of the Company's portfolio.

19. Comparative figures

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

