

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.
[formerly, Element Financial Corporation]

September 30, 2016

Element Fleet Management Corp. [formerly, Element Financial Corporation]

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[unaudited, in thousands of Canadian dollars]

	As at September 30, 2016	As at December 31, 2015
	\$	\$
ASSETS		
Cash	6,766	61,007
Restricted funds [notes 5 and 12]	572,677	619,870
Finance receivables [note 3]	13,541,251	17,555,296
Equipment under operating leases [note 4]	1,395,696	4,126,553
Accounts receivable and other assets	325,665	295,804
Notes receivable [note 10]	48,741	50,819
Derivative financial instruments [note 12]	34,637	18,114
Property, equipment and leasehold improvements	75,380	48,021
Deferred tax assets	165,140	142,563
Intangible assets	899,989	982,618
Goodwill	1,166,738	1,262,680
	18,232,680	25,163,345
Assets of distributed operations [note 17]	6,091,489	—
	24,324,169	25,163,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	531,416	654,638
Derivative financial instruments [note 12]	31,824	33,359
Secured borrowings [note 5]	12,928,287	17,862,038
Convertible debentures [note 6]	850,822	836,472
Deferred tax liabilities	34,279	59,283
	14,376,628	19,445,790
Distribution dividend payable [note 17]	1,710,473	—
Liabilities of distributed operations [note 17]	4,381,016	—
Total liabilities	20,468,117	19,445,790
Shareholders' equity [note 7]	3,856,052	5,717,555
	24,324,169	25,163,345

See accompanying notes

On behalf of the Board:

Director

Director

Element Fleet Management Corp. [formerly, Element Financial Corporation]

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
	\$	\$
NET FINANCIAL INCOME		
Interest income	165,173	112,984
Rental revenue, net <i>[note 4]</i>	25,912	—
	191,085	112,984
Interest expense	88,306	40,919
Net interest income before provision for credit losses	102,779	72,065
Provision for (recovery of) credit losses <i>[note 3]</i>	237	(158)
Net interest income	102,542	72,223
Service and other revenues <i>[note 9]</i>	127,750	59,320
	230,292	131,543
OPERATING EXPENSES		
Salaries, wages and benefits	62,226	33,398
General and administrative expenses	41,485	26,002
Amortization of convertible debenture synthetic discount <i>[note 6]</i>	3,103	2,906
Share-based compensation <i>[note 8]</i>	7,109	5,978
	113,923	68,284
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	15,443	4,595
Transaction and integration costs <i>[note 8]</i>	40,858	128,068
Separation costs	30,750	—
	87,051	132,663
Income (loss) before income taxes from continuing operations	29,318	(69,404)
Provision for (recovery of) of income taxes	(6,326)	(39,899)
Net income for the period from continuing operations	35,644	(29,505)
Net income for the period from distributed operations <i>[note 17]</i>	1,225	24,849
Net income for the period	36,869	(4,656)
Basic		
Continuing operations <i>[note 11]</i>	\$ 0.07	\$ (0.13)
Distributed operations <i>[note 11]</i>	\$ —	\$ 0.08
Total basic earnings (loss) per share <i>[note 11]</i>	\$ 0.07	\$ (0.04)
Diluted		
Continuing operations <i>[note 11]</i>	\$ 0.07	\$ (0.13)
Distributed operations <i>[note 11]</i>	\$ —	\$ 0.08
Total diluted earnings (loss) per share <i>[note 11]</i>	\$ 0.07	\$ (0.04)

See accompanying notes

Element Fleet Management Corp. [formerly, Element Financial Corporation]

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	\$	\$
NET FINANCIAL INCOME		
Interest income	503,171	256,330
Rental revenue, net <i>[note 4]</i>	79,459	—
	582,630	256,330
Interest expense	257,779	93,189
Net interest income before provision for credit losses	324,851	163,141
Provision for (recovery of) credit losses <i>[note 3]</i>	(4,734)	(807)
Net interest income	329,585	163,948
Service and other revenues <i>[note 9]</i>	388,466	147,624
	718,051	311,572
OPERATING EXPENSES		
Salaries, wages and benefits	180,791	85,178
General and administrative expenses	131,302	61,098
Amortization of convertible debenture synthetic discount <i>[note 6]</i>	9,159	6,334
Share-based compensation <i>[note 8]</i>	19,635	16,772
	340,887	169,382
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	46,742	13,497
Transaction and integration costs <i>[note 8]</i>	93,405	168,536
Separation costs	30,750	—
	170,897	182,033
Income (loss) before income taxes from continuing operations	206,267	(39,843)
Provision for (recovery of) income taxes	20,017	(31,668)
Net income (loss) for the period from continuing operations	186,250	(8,175)
Net income for the period from distributed operations <i>[note 17]</i>	51,721	78,173
Net income for the period	237,971	69,998
Basic		
Continuing operations <i>[note 11]</i>	\$ 0.41	\$ (0.11)
Distributed operations <i>[note 11]</i>	\$ 0.13	\$ 0.28
Total basic earnings per share <i>[note 11]</i>	\$ 0.55	\$ 0.17
Diluted		
Continuing operations <i>[note 11]</i>	\$ 0.41	\$ (0.11)
Distributed operations <i>[note 11]</i>	\$ 0.13	\$ 0.28
Total diluted earnings per share <i>[note 11]</i>	\$ 0.54	\$ 0.17

See accompanying notes

Element Fleet Management Corp. [formerly, Element Financial Corporation]

**INTERIM CONDENSED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME**

[unaudited, in thousands of Canadian dollars]

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
	<u>\$</u>	<u>\$</u>
Net income (loss) for the period	36,869	(4,656)
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 12]</i>	27,465	(60,642)
Net unrealized foreign exchange gain	70,672	149,805
	<u>98,137</u>	<u>89,163</u>
Deferred tax expense (recovery)	7,596	(16,684)
Total other comprehensive income from continuing operations	90,541	105,847
Total other comprehensive income from distributed operations, net of tax	10,909	52,040
Total other comprehensive income	101,450	157,887
Comprehensive income for the period	138,319	153,231

See accompanying notes

Element Fleet Management Corp. [formerly, Element Financial Corporation]

**INTERIM CONDENSED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE (LOSS) 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	237,971	69,998
OTHER COMPREHENSIVE (LOSS) INCOME		
Cash flow and foreign exchange hedges <i>[note 12]</i>	17,062	(51,045)
Net unrealized foreign exchange (loss) gain	(327,898)	250,449
	(310,836)	199,404
Deferred tax income (recovery)	3,536	(31,195)
Total other comprehensive (loss) income from continuing operations	(314,372)	230,599
Total other comprehensive (loss) income from distributed operations, net of tax	(38,825)	92,574
Total other comprehensive (loss) income	(353,197)	323,173
Comprehensive (loss) income for the period	(115,226)	393,171

See accompanying notes

Element Fleet Management Corp. [formerly, Element Financial Corporation]

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
[unaudited, in thousands of Canadian dollars]

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	4,229,848	533,656	46,200	61,867	160,777	685,207	5,717,555
Comprehensive income (loss) for the period	—	—	—	—	237,971	(353,197)	(115,226)
Dividends - Preferred shares [note 7]	—	—	—	—	(26,736)	—	(26,736)
Dividends - Common shares	—	—	—	—	(28,975)	—	(28,975)
Net taxes on dividends paid	—	—	—	—	(750)	—	(750)
Options exercised [notes 7 and 8]	4,475	—	—	(2,187)	—	—	2,288
Employee stock option expense [note 8]	—	—	—	18,369	—	—	18,369
Distribution dividend [note 17] (1)	(1,444,448)	—	—	—	(266,025)	—	(1,710,473)
Balance, September 30, 2016	2,789,875	533,656	46,200	78,049	76,262	332,010	3,856,052
Balance, December 31, 2014	2,248,103	365,113	33,135	39,692	18,299	126,609	2,830,951
Comprehensive income for the period	—	—	—	—	69,998	323,173	393,171
Dividends - Preferred shares [note 7]	—	—	—	—	(22,135)	—	(22,135)
Net taxes on dividends paid	—	—	—	—	(646)	—	(646)
Options exercised [notes 7 and 8]	23,137	—	—	(6,535)	—	—	16,602
Shares issued [note 7]	1,955,753	168,522	—	—	—	—	2,124,275
Issuance of convertible debentures	—	—	13,061	—	—	—	13,061
Employee stock option expense [note 8]	—	—	—	22,066	—	—	22,066
Balance, September 30, 2015	4,226,993	533,635	46,196	55,223	65,516	449,782	5,377,345

(1) Distribution dividend allocated to retained earnings represents \$149,261 transferred from AOCI on October 3, 2016 related to amounts transferred to ECN Capital on the Separation, and \$116,764 of retained earnings allocated on a pro-rata proportion of the remaining fair value between common share capital and retained earnings.

See accompanying notes

Element Fleet Management Corp. [formerly, Element Financial Corporation]

INTERIM CONDENSED CONSOLIDATED 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 <i>[note 16]</i>		
Net income (loss) for the period from continuing operations	186,250	(8,175)
Items not affecting cash		
Share-based compensation <i>[note 8]</i>	14,023	15,777
Depreciation of property, equipment and leasehold improvements	5,990	3,157
Amortization of intangible assets, including from acquisitions	50,012	16,188
Amortization of deferred lease costs	8,775	2,811
Amortization of deferred financing costs	20,883	10,936
Amortization of equipment under operating leases	253,787	—
Amortization of convertible debenture synthetic discount and deferred costs	14,350	9,890
Write-off of intangible assets and other assets	3,500	—
Share of earnings from equity accounted investments	13,787	(5,519)
Provision for credit losses	(4,734)	(807)
	<u>566,623</u>	<u>44,258</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(4,432,684)	(2,979,974)
Repayments of finance receivables	4,376,662	2,058,711
Investment in equipment under operating leases	(479,192)	—
Proceeds on disposal of equipment under operating leases	217,328	—
Syndications of finance receivables	289,497	280,890
Other non-cash operating assets and liabilities <i>[note 16]</i>	(229,107)	(90,381)
Cash provided by (used in) operating activities - continuing operations	<u>309,127</u>	<u>(686,496)</u>
INVESTING ACTIVITIES <i>[note 16]</i>		
Business acquisition	14,699	(8,910,009)
Increase in restricted funds	(208,555)	(81,000)
Purchase of property, equipment and leasehold improvements	(39,328)	(4,924)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	3,682	1,575
Purchase of intangible assets	(39,084)	(14,954)
Decrease (increase) in notes receivable	2,078	(320)
Increase in deferred financing costs	(38,478)	(38,796)
Cash used in investing activities - continuing operations	<u>(304,986)</u>	<u>(9,048,428)</u>
FINANCING ACTIVITIES <i>[note 16]</i>		
Issuance of share capital, net <i>[note 7]</i>	2,288	2,140,876
Issuance of convertible debentures	—	550,236
Issuance of secured borrowings, net	97,992	7,261,006
Dividends paid	(55,711)	(22,135)
Cash provided by financing activities - continuing operations	<u>44,569</u>	<u>9,929,983</u>
Effects of foreign exchange rates on cash	(1,132)	3,309
Net changes in cash utilized by distributed operations <i>[note 17]</i>	<u>(101,819)</u>	<u>(217,778)</u>
Net decrease in cash during the period	<u>(54,241)</u>	<u>(19,410)</u>
Cash, beginning of period	61,007	66,869
Cash, end of period from continuing operations	<u>6,766</u>	<u>47,459</u>
Supplemental cash flow information:		
Cash taxes paid	18,710	940
Cash interest paid	224,740	65,852

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

1. CORPORATE INFORMATION

Element Fleet Management Corp. ["Element Fleet" or "EFN"], formerly Element Financial Corporation [the "Company" or "Element"] was incorporated under the *Business Corporations Act* of Ontario (Canada) on May 11, 2007 and commenced operations on that date. The registered office of the Company is 161 Bay Street, Suite 3600, Toronto, Ontario. The Company is a public corporation traded on the Toronto Stock Exchange under the symbol "EFN".

On February 16, 2016, the Board of Directors of Element Financial Corporation 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"], a newly created publicly traded company. The Fleet Management vertical continues to operate within the existing corporate structure which has been renamed Element Fleet Management Corp.

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 the 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. On 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 reflects the completion of the Separation, with Element Fleet presented as continuing operations and ECN Capital presented as distributed operations, both derived from the accounting records of Element as if the businesses had operated on a stand-alone basis for the current and prior periods. Element Fleet includes the Fleet Management vertical business and ECN Capital includes Rail Finance, Commercial and Vendor Finance, and the Aviation Finance vertical businesses. The majority of the assets and liabilities in the Element Fleet interim condensed consolidated statements of financial position have been derived from this vertical organization. The Element Fleet interim condensed consolidated statements of operations reflect intercompany expense allocations made by Element for certain corporate functions, shared services, and employee related costs. Where possible, these allocations were made on a specific identification basis.

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

Element Fleet is a publicly traded fleet management company with more than \$18.0 billion in assets and operations in the U.S., Canada, Mexico, Australia and New Zealand. Element Fleet is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 48 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing - helping our more than 2,800 customers optimize their fleet performance and productivity.

Prior to October 3, 2016, the Company organized its activities and operations around four verticals: [i] Fleet Management; [ii] Rail Finance; [iii] Commercial and Vendor Finance; and [iv] Aviation Finance. Fleet Management provides vehicle fleet leasing, management solutions, and related service programs including service cards, remarketing, maintenance management and accident services. Rail Finance provides leases and other secured financing for railcars for the North American rail industry. Commercial and Vendor Finance, in conjunction with manufacturers and distributors, delivers financing and leasing solutions to end-user customers in the transportation, construction, commercial, industrial, healthcare, golf, technology and office products sectors. Aviation Finance provides leases and other secured financing for corporate airplanes and helicopters.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

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, 2015.

As a result of the approval of the Separation, the Company has adopted IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and IFRIC 17, *Distribution of Non-Cash Assets to Owners*. In accordance with IFRS 5, the Company has presented assets and liabilities of distributed operations separately from other assets and liabilities in the interim condensed consolidated statements of financial position at September 30, 2016, and the Company has not reclassified or re-presented amounts for the comparative period ended December 31, 2015. For the interim condensed consolidated statements of operations, the Company has separated distributed operations as a single amount from continuing operations and has reclassified and re-presented each period and related note disclosures.

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, 2015, 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 November 14, 2016.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

3. FINANCE RECEIVABLES

The following tables present finance receivables based on the ultimate obligor's location:

	September 30, 2016			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,464,487	11,655,915	351,142	13,471,544
Unguaranteed residual values	—	59,235	78,066	137,301
Gross investment	1,464,487	11,715,150	429,208	13,608,845
Unearned income	(119,638)	(1,040,450)	(36,373)	(1,196,461)
Net investment - continuing operations	1,344,849	10,674,700	392,835	12,412,384
Net realizable value of impaired receivables	112	5	2,492	2,609
Unamortized deferred costs and subsidies	(6,746)	(121,967)	(397)	(129,110)
Security deposits	(1,552)	15,022	(13,565)	(95)
Interim fundings	67,236	452,462	598	520,296
Fleet management service receivables	74,499	496,870	44,790	616,159
Other receivables	2,647	65,675	59,074	127,396
Allowance for credit losses	(1,595)	(3,052)	(3,741)	(8,388)
Total finance receivables - continuing operations	1,479,450	11,579,715	482,086	13,541,251

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

	December 31, 2015 (1)			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,587,847	11,792,715	635,816	14,016,378
Unguaranteed residual values	—	156,426	74,435	230,861
Gross investment	1,587,847	11,949,141	710,251	14,247,239
Unearned income	(131,320)	(1,035,741)	(38,727)	(1,205,788)
Net investment - continuing operations	1,456,527	10,913,400	671,524	13,041,451
Net realizable value of impaired receivables	273	—	550	823
Unamortized deferred costs and subsidies	(7,737)	(149,670)	(831)	(158,238)
Security deposits	(1,426)	7,651	(14,259)	(8,034)
Interim fundings	56,299	635,181	20,120	711,600
Fleet management service receivables	113,006	569,645	25,201	707,852
Other receivables	4,465	86,499	52,480	143,444
Allowance for credit losses	(798)	(6,795)	(5,804)	(13,397)
Total finance receivables - continuing operations	1,620,609	12,055,911	748,981	14,425,501
Finance receivables - distributed operations included in the comparative period	1,299,361	1,834,887	(4,453)	3,129,795
Total finance receivables	2,919,970	13,890,798	744,528	17,555,296

(1) Amounts have been reclassified to reflect the impact of distributed operations [note 17].

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

	September 30, 2016		December 31, 2015 (1)	
	\$	%	\$	%
31-60 days past due	1,483	0.01	4,003	0.03
61-90 days past due	9,371	0.08	4,908	0.04
Greater than 90 days past due	183	0.00	1,962	0.02
Total past due	11,037	0.09	10,873	0.09
Current	12,401,347	99.91	13,030,578	99.91
Total net investment, continuing operations	12,412,384	100.00	13,041,451	100.00

(1) Amounts have been adjusted to reflect the impact of distributed operations [note 17].

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

Selected characteristics of the finance receivables of continuing operations

	September 30, 2016		December 31, 2015 (1)	
	Leases	Loans	Leases	Loans
Net investment, continuing operations	\$12,120,377	\$ 292,007	\$ 12,653,816	\$ 387,635
Weighted average fixed interest rate	5.04%	10.59%	5.10%	6.67%
Weighted average floating interest rate	3.15%	9.33%	3.07%	7.76%
Percentage of portfolio with fixed interest rate	49.09%	70.89%	50.21%	5.12%

(1) Amounts have been adjusted to reflect the impact of distributed operations [note 17].

Allowance for credit losses

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

	Nine-month period ended September 30, 2016	Year ended December 31, 2015 (1)
	\$	\$
Allowance for credit losses, beginning of period	13,397	2,795
Assumed through business and portfolio acquisitions	634	8,974
Provision for (recovery of) credit losses from continuing operations	(4,734)	911
Charge-offs, net of recoveries from continuing operations	(23)	(199)
Impact of foreign exchange rates from continuing operations	(886)	916
Allowance for credit losses, end of period	8,388	13,397
Allowance as a percentage of finance receivables	0.06%	0.09%
Finance receivables in arrears [90 days and over]	183	1,962
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.00%	0.02%
Impaired receivables, at estimated net realizable value	2,609	823

(1) Amounts have been adjusted to reflect the impact of distributed operations [note 17].

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

4. 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.

	September 30, 2016	December 31, 2015 (1)
	\$	\$
Cost	1,655,481	1,523,677
Accumulated amortization	259,785	89,855
Net carrying amount of equipment under operating leases from continuing operations	<u>1,395,696</u>	1,433,822
Carrying amount of equipment under operating leases of distributed operations, included in the comparative period		2,692,731
		<u>4,126,553</u>

(1) Amounts have been reclassified to reflect the impact of distributed operations [note 17].

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

	For the three-months periods ended		For the nine-month periods ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Rental revenue	109,933	—	333,246	—
Amortization of equipment under operating leases	(84,021)	—	(253,787)	—
	<u>25,912</u>	<u>—</u>	<u>79,459</u>	<u>—</u>

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

September 30, 2016

5. SECURED BORROWINGS

Secured borrowings of continuing operations outstanding were as follows:

	September 30, 2016			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	3,372,987	1.30	3,600,815	62,690
Term notes, in revolving period	2,208,640	2.00	2,326,604	28,766
Variable-funding notes	4,398,027	1.56	4,665,131	52,927
Other	3,055	5.00	3,054	—
Vehicle management asset-backed debt	9,982,709	1.57	10,595,604	144,383
Term senior credit facility (2)	3,002,178	2.61	—	—
	12,984,887	1.81	10,595,604	144,383
Deferred financing costs	(56,600)			
Total secured borrowings of continuing operations	12,928,287			
	December 31, 2015 (3)			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	4,103,237	1.20	4,469,958	87,126
Term notes, in revolving period	1,176,400	0.99	1,282,565	14,728
Variable-funding notes	4,862,051	1.31	5,133,401	59,615
Other	2,749	5.00	2,749	—
Vehicle management asset-backed debt	10,144,437	1.23	10,888,673	161,469
Securitization programs	77,735	1.93	133,189	1,019
Term senior credit facility (2)	3,214,024	2.60	—	—
	13,436,196	1.56	11,021,862	162,488
Deferred financing costs	(45,550)			
Secured borrowings of continuing operations	13,390,646			
Secured borrowings of discontinued operations, net of deferred financing costs included in the comparative period	4,471,392			
Total secured borrowings	17,862,038			

- (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 a first priority interest on all property.
- (3) Amounts have been reclassified to reflect the impact of distributed operations [note 17].

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

Vehicle management asset-backed debt

Term notes, in amortization period

During the first quarter of 2016, US \$850 million of revolving notes were converted into amortizing notes.

Term notes, in revolving period

During the first quarter and second quarter of 2016, the Company issued US \$700 million and US \$1,000 million of term notes, respectively. The proceeds from this issuance were used to pay down the variable-funding notes.

Variable-funding notes

During the second quarter of 2016, the Company renegotiated an existing variable-funding note program, increasing the number of lenders and expanding the program to US \$2,007 million. A portion of the proceeds from this increase was used to pay out an existing lender under another variable-funding note program.

As at September 30, 2016, the Company has available capacity in variable-funding notes and other of \$5,031,104 [December 31, 2015 - \$3,475,456] under its vehicle management asset-backed debt facilities.

Term senior credit facility

As part of the Separation, the Company amended its senior credit facility. The overall facility has been reduced from \$7,379,222 as at December 31, 2015 to \$4,590,950 to reflect the Company's lower borrowing requirements post-Separation. The amended term senior credit facility is syndicated to a group of 21 Canadian, US and international banks, with a maturity date of September 30, 2019.

As at September 30, 2016, the Company had available capacity of \$1,588,772 [December 31, 2015 - \$2,135,382] from the term senior credit facility.

Restricted funds

Restricted funds include [i] cash reserves of \$144,383 as at September 30, 2016 [December 31, 2015 - \$275,170, of which \$162,488 is attributable to continuing operations], which represent restricted collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of \$424,791 as at September 30, 2016 [December 31, 2015 - \$331,390, of which \$237,635 is attributable to continuing operations], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates. At September 30, 2016, cash reserves and cash accumulated in the collection account related to facilities used by the distributed operations have been included in assets of distributed operations.

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6. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

		September 30, 2016					
Final maturity date	Conversion price per share (2)	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	17.85	5.125	345,000	(6,830)	(20,304)	317,866
Issued on May 29, 2015	June 30, 2020	23.80	4.250	575,000	(18,227)	(23,817)	532,956
				920,000	(25,057)	(44,121)	850,822
		December 31, 2015					
Final maturity date	Conversion price per share (2)	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	17.85	5.125	345,000	(8,510)	(25,155)	311,335
Issued on May 29, 2015	June 30, 2020	23.80	4.250	575,000	(21,737)	(28,126)	525,137
				920,000	(30,247)	(53,281)	836,472

(1) Stated interest rate on face principal value.

(2) In accordance with the indentures governing the debentures, the Board of Directors, on October 18, 2016, adjusted the conversion price per share to \$14.33 for the June 18, 2014 issuance and to \$19.10 for the May 29, 2015 issuance, to effect the distributed operations.

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7. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2015	386,134,550	4,229,848
Exercise of options	20,701	168
Balance, March 31, 2016	386,155,251	4,230,016
Exercise of options	546,517	3,496
Balance, June 30, 2016	386,701,768	4,233,512
Exercise of options	54,040	811
Distribution dividend (allocated share capital) <i>[note 17]</i>	—	(1,444,448)
Balance, September 30, 2016	386,755,808	2,789,875
Balance, December 31, 2014	264,059,081	2,248,103
Exercise of options	2,340,469	25,754
Issuance of shares, net of costs	119,735,000	1,955,991
Balance, December 31, 2015	386,134,550	4,229,848

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	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Preferred Shares, Series G	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	#	\$	#	\$	#	\$	#	\$
Balance, December 31, 2015	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543
Issuance of shares, net of costs	—	—	—	—	—	—	—	—
Balance, September 30, 2016	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543
Balance, December 31, 2014	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	—	—
Issuance of shares, net of costs	—	—	—	—	—	—	6,900,000	168,543
Balance, December 31, 2015	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543

Preferred share dividends

During the three and nine-month periods ended September 30, 2016, the Company paid \$8,912 and \$26,736 in preference share dividends, respectively [three and nine-month periods ended September 30, 2015 - \$9,917 and \$22,135, respectively].

As at September 30, 2016, the unaccrued cumulative preference share dividends were \$98 [December 31, 2015 - \$98].

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8. SHARE-BASED COMPENSATION

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

	Three-month period ended		Nine-month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
[a] Stock options	4,768	5,361	14,023	15,777
[b] Deferred share units	1,348	569	3,536	2,416
[c] Performance share units	7,042	13,100	22,405	12,824
	13,158	19,030	39,964	31,017

Allocated as:

Share-based compensation (1), (2)	7,109	5,978	19,635	16,772
Transaction and integration costs (3)	6,049	13,052	20,329	14,245
	13,158	19,030	39,964	31,017

- (1) Included in the three and nine-month periods ended September 30, 2016 is \$1,349, related to the acceleration of the amortization of the historical volume weighted average price ["VWAP"] of performance share units for participants that became employees of ECN Capital on the Separation.
- (2) Excluded in the three and nine-month periods ended September 30, 2016 is \$1,314 and \$4,346 of stock option expenses, and \$1,775 and \$2,627 of PSU expenses, respectively, [three-month and nine-month periods ended September 30, 2015 - \$2,043 and \$6,289 of stock option expenses, and \$753 and \$1,687 of PSU expenses, respectively] for share-based compensation recognized in the net income from distributed operations.
- (3) Included in the three-month and nine-month periods ended September 30, 2016 is \$3,227, related to the acceleration of amortization of the historical VWAP of performance share units for participants that became employees of ECN Capital on the Separation.

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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 \$	Adjusted weighted average exercise price (2)
Outstanding, December 31, 2014	16,855,416	9.68	
Granted	8,461,877	16.43	
Forfeited	(401,137)	13.83	
Expired	(39,730)	8.34	
Exercised (1)	(2,522,572)	8.35	
Outstanding, December 31, 2015	22,353,854	12.31	
Granted	120,000	15.11	
Forfeited	(78,633)	15.71	
Expired	(11,471)	12.39	
Exercised (1)	(41,982)	8.00	
Outstanding, March 31, 2016	22,341,768	12.32	
Granted	1,285,250	14.25	
Forfeited	(71,555)	16.10	
Expired	(13,062)	13.80	
Exercised (1)	(713,602)	5.99	
Outstanding, June 30, 2016	22,828,799	12.61	
Forfeited	(10,000)	18.02	
Expired	(29,165)	11.38	
Exercised (1)	(68,559)	10.58	
Outstanding, September 30, 2016	22,721,075	12.61	10.02

(1) Weighted average share price of options exercised during the nine-month period ended September 30, 2016 was \$14.25 [year ended December 31, 2015 - \$18.14].

(2) Upon the Separation, the exercise price of an Element Fleet option was adjusted to approximately 79.4% of the original exercise price.

The Element Board determined that, upon completion of the distribution to the shareholders of the distributed operations, it would be in the best interest of Element that each outstanding option be exchanged for one Element Fleet option and one ECN Capital option, both of which will, upon vesting, entitle the holder to acquire one Element Fleet common share and one ECN Capital common share respectively. The original exercise price of each outstanding Element option was allocated in part to the Element Fleet option such

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that an amount equal to the tax neutral transaction proportion of the original exercise price will be payable to Element Fleet for each common share; this amount has been determined to be approximately 79.4% of the original exercise price. An amount equal to the remainder of the original exercise price will be payable to ECN Capital for each ECN Capital common share. The terms for these options are a continuation of the earlier granted Element option. The participating Element directors, officers, employees and consultants with these options are permitted to hold and exercise his or her Element Fleet and ECN Capital options received as part the Separation in accordance with their terms as long as they remain an employee or director of Element Fleet, ECN Capital or its successors or affiliates.

Subsequent to the distribution, both Element Fleet and ECN Capital will continue with stock option plans to allow participants to purchase their respective 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 Element Fleet and ECN Capital Boards, respectively, at the time of the grant, but shall be no less than the closing price of the common shares on the last trading day before the grant date.

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	Nine-month period ended September 30, 2016	Year ended December 31, 2015
Weighted average share price	\$	14.33	16.43
Average term to exercise	Years	7.0	7.0
Share price volatility	%	33.0	27.7
Weighted average expected annual dividend	\$	0.10	0.00
Risk-free interest rate	%	0.99	1.02
Forfeiture rate	%	1.02	1.02

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[b] Deferred share units and performance share units

	Number of deferred share units #	Number of performance share units #
	#	#
Outstanding, December 31, 2014	1,524,453	1,389,033
Granted	131,783	2,555,751
Forfeited	—	(8,742)
Redeemed	(205,715)	(1,713,090)
Outstanding, December 31, 2015	1,450,521	2,222,952
Granted	93,961	14,036
Forfeited	—	(7,646)
Redeemed	—	(927,498)
Outstanding, March 31, 2016	1,544,482	1,301,844
Granted	24,163	120,535
Forfeited	—	(1,827)
Redeemed	(9,297)	—
Outstanding, June 30, 2016	1,559,348	1,420,552
Granted	27,482	2,528
Forfeited	—	(26,158)
Outstanding, September 30, 2016	1,586,830	1,396,922

[i] Deferred share units ["DSU"]

As at September 30, 2016, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$26,055 [December 31, 2015 – \$24,224].

Subsequent to the distribution to the shareholders of the distributed operations, Element DSUs were adjusted such that the underlying share applicable to each Element DSUs shall refer to an Element Fleet common share. The aggregate number of Element Fleet DSUs for each Element Fleet participant shall be equal to (A) the number of Element DSUs held multiplied by (B) the fair market value of an Element common share immediately prior to the Separation divided by the fair market value of an Element Fleet common share following completion of the Separation, with the fair market value determined by the Board based on an independent valuation performed; this amount has been determined to be 1.239245 times the Element DSUs. This adjustment provides Element DSU holders with an aggregate value after the Separation equal to the aggregate value held immediately prior to the Separation. As a result, an aggregate total of 1,966,471 DSUs were outstanding after giving effect to the Separation.

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[ii] Performance share units ["PSU"]

As at September 30, 2016, 1,396,922 PSUs remain unvested and outstanding and the fair value of PSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$18,926 [December 31, 2015 - 2,222,952 unvested PSUs and \$11,547 of liabilities]. The PSUs vest on achievement of specific performance conditions over 2016 and 2017.

Subsequent to the distribution to the shareholders of the distributed operations, Element PSUs were adjusted such that for each Element PSU outstanding is now being referenced to an Element Fleet common share, and an additional PSU was issued and referenced to an ECN Capital common share, such that the aggregate value immediately following the distribution is equal to the aggregate value of the Element PSUs immediately prior to the distribution.

[iii] Hedging of DSUs and PSUs

As at September 30, 2016, the Company has hedged 1,396,923 share units and net derivative liabilities of \$1,190, which will be applied to the settlement of PSU awards [December 31, 2015 - 3,653,456 share units hedged and net derivative assets of \$1,703 for PSU and DSU awards].

9. SERVICE AND OTHER REVENUE

Service and other revenue are net of cost of goods sold of \$15,378 and \$46,763 for the three and nine-month periods ended September 30, 2016, respectively [three and nine-month periods ended September 30, 2015 - \$11,875 and \$35,161, respectively].

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10. NOTES RECEIVABLE

The notes receivable of \$48,741 as at September 30, 2016 [December 31, 2015 - \$50,819] represent loans to certain employees and officers of the Company. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. The loans were granted in order to help finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee.

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

	Nine-month period ended September 30, 2016	Year ended December 31, 2015
	\$	\$
Notes receivable, beginning of period	50,819	45,299
Additions	2,039	8,696
Interest income	1,034	1,335
Repayments [interest and principal]	(5,151)	(4,511)
Notes receivable, end of period	48,741	50,819

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11. EARNINGS (LOSS) PER SHARE

Basic earnings per share are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income (loss) from continuing operations attributable to shareholders	\$ 35,644	\$ (29,505)	\$ 186,250	\$ (8,175)
Cumulative dividends on preferred shares	\$ (8,912)	\$ (8,904)	\$ (26,736)	\$ (22,135)
Net income (loss) from continuing operations available to common shareholders	\$ 26,732	\$ (38,409)	\$ 159,514	\$ (30,310)
Net income from distributed operations attributable to common shareholders	1,225	24,849	51,721	78,173
Total net income (loss) attributable to common shareholders	27,957	(13,560)	211,235	47,863
Weighted average number of common shares outstanding - basic [number]	386,741,904	305,072,862	386,389,018	278,034,655
Basic earnings (loss) per share from continuing operations	\$ 0.07	\$ (0.13)	\$ 0.41	\$ (0.11)
Basic earnings per share from distributed operations	\$ —	\$ 0.08	\$ 0.13	\$ 0.28
Total earnings (loss) per share	\$ 0.07	\$ (0.04)	\$ 0.55	\$ 0.17

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Diluted earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015 (1)
Net income (loss) from continuing operations available to common shareholders adjusted for the effects of dilution	\$ 26,732	\$ (38,409)	\$ 159,514	\$ (30,310)
Net income from distributed operations available to common shareholders adjusted for the effects of dilution	1,225	24,849	51,721	78,173
Total net income available to common shareholders adjusted for the effects of dilution	<u>27,957</u>	<u>(13,560)</u>	<u>211,235</u>	<u>47,863</u>
Weighted average number of common shares outstanding - basic [number]	386,741,904	305,072,862	386,389,018	278,034,655
Dilutive stock options and warrants [number]	3,832,710	—	4,193,125	—
Weighted average number of common shares outstanding - diluted [number]	<u>390,574,614</u>	<u>305,072,862</u>	<u>390,582,143</u>	<u>278,034,655</u>
Diluted earnings (loss) per share from continuing operations	\$ 0.07	\$ (0.13)	\$ 0.41	\$ (0.11)
Diluted earnings per share from distributed operations	\$ —	\$ 0.08	\$ 0.13	\$ 0.28
Total diluted earnings (loss) per share	<u>\$ 0.07</u>	<u>\$ (0.04)</u>	<u>\$ 0.54</u>	<u>\$ 0.17</u>

(1) Dilutive stock options and warrants have been restated for the nine-months ended September 30, 2015 as these are anti-dilutive to continuing operations.

Instruments outstanding as at September 30, 2016 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 11,811,913 and 11,796,862 stock options for the three-month and nine-month periods ended September 30, 2016 [three-month and nine-month periods ended September 30, 2015 - 22,985,499 and 22,985,499 stock options, respectively].

In addition, the convertible debentures [note 6] were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three and nine-month periods ended September 30, 2016 and 2015.

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12. 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 the periods ended:

	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	1,687	46,646	(28,679)	47,326
Fair value changes recorded in other comprehensive income (loss)	27,465	(60,642)	17,062	(51,045)

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Notional amounts and fair values of derivative instruments

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

	September 30, 2016	December 31, 2015
	\$	\$
Notional principal		
Derivative assets		
Interest rate contracts	2,581,883	3,553,869
Foreign exchange agreements	795,253	369,347
Total return swaps	5,058	26,721
Derivative assets - continuing operations	<u>3,382,194</u>	3,949,937
Derivative assets - distributed operations included in comparative period end		<u>1,103,831</u>
		<u>5,053,768</u>
Derivative liabilities		
Interest rate contracts	5,489,291	4,302,912
Foreign exchange agreements	546,373	489,298
Total return swaps	19,070	32,588
Derivative liabilities - continuing operations	<u>6,054,734</u>	4,824,798
Derivative liabilities - distributed operations included in comparative period end		<u>1,340,469</u>
		<u>6,165,267</u>
Fair values		
Restricted funds - collateral posted - continuing operations	<u>3,503</u>	(2,762)
Restricted funds - collateral posted - distributed operations included in comparative period end		<u>16,072</u>
Derivative assets		
Interest rate contracts	5,530	7,535
Foreign exchange agreements	28,044	1,352
Total return swaps	1,063	5,213
Derivative assets - continuing operations	<u>34,637</u>	14,100
Derivative assets - distributed operations included in comparative period end		<u>4,014</u>
		<u>18,114</u>
Derivative liabilities		
Interest rate contracts	28,583	11,303
Foreign exchange agreements	988	799
Total return swaps	2,253	3,510
Derivative liabilities - continuing operations	<u>31,824</u>	15,612
Derivative liabilities - distributed operations included in comparative period end		<u>17,747</u>
		<u>33,359</u>

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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 relationship for continuing operations, as at:

	September 30, 2016 \$	December 31, 2015 \$
Interest rate contracts	(23,053)	(3,768)
Foreign exchange agreements	27,056	553
Total return swaps	(1,190)	1,703
	<u>2,813</u>	<u>(1,512)</u>

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 arrangement or similar agreement that were not included in the offset amount above; and the amount of cash collateral received or pledged.

	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 arrangement or similar agreement that are not set- off 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	34,637	—	34,637	23,820	—	10,817
Derivative financial instrument liabilities	31,824	—	31,824	23,820	3,503	4,501
As at December 31, 2015 (1)						
Derivative financial instrument assets	18,114	—	18,114	11,189	—	6,925
Derivative financial instrument liabilities	33,359	—	33,359	11,189	13,310	8,860

(1) Derivatives related to distributed operations are included in the comparative period end.

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13. 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:

	September 30, 2016	December 31, 2015
	\$	\$
Secured borrowings	12,928,287	17,862,038
Convertible debentures	850,822	836,472
Total debt	13,779,109	18,698,510
Accounts payable and accrued liabilities	531,416	654,638
	14,310,525	19,353,148
Shareholders' equity	3,856,052	5,717,555
	18,166,577	25,070,703

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14. SEGMENTED INFORMATION

[A] Operating Segments

Prior to the separation of the Company [note 17], the Company had two operating and reporting segments consisting of [a] the Fleet Management segment and [b] the Commercial Finance segment, which aggregated the Rail Finance, the Commercial and Vendor Finance and the Aviation verticals ["Commercial Finance"].

Following the Separation, the Company had one reporting segment, which aggregates the previously reported Fleet Management segment with other fleet like assets and operations that were transferred to the segment as part of the separation arrangement.

Element Fleet Management Corp. [formerly, Element Financial Corporation]

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[B] Geographic Segments

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

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 from continuing operations	33,751	212,579	72,268	318,598	33,710	138,752	—	172,462
Interest expense from continuing operations				(88,306)				(40,919)
Net financial income from continuing operations				230,292				131,543
For the nine-month period ended September 30,								
Financial revenue from continuing operations	93,208	658,680	223,942	975,830	95,882	308,879	—	404,761
Interest expense from continuing operations				(257,779)				(93,189)
Net financial income from continuing operations				718,051				311,572
	September 30, 2016				December 31, 2015			
	Canada	US	Other	Total	Canada	US	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
As at								
Select assets - continuing Operations								
Finance receivables	1,479,450	11,579,715	482,086	13,541,251	1,620,609	12,055,911	748,981	14,425,501
Equipment under operating leases	0	—	1,395,696	1,395,696	—	—	1,433,822	1,433,822
Investment in managed fund	—		—	0		154,012		154,012
Goodwill and intangible assets	204,573	1,812,948	49,206	2,066,727	250,176	1,918,966	42,517	2,211,659
Property, equipment and leasehold improvements	8,810	58,957	7,613	75,380	8,074	34,114	5,155	47,343
	1,692,833	13,451,620	1,934,601	17,079,054	1,878,859	14,163,003	2,230,475	18,272,337

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.

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15. 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.

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost as presented in note 6. The fair market value of the debt component as at September 30, 2016 was estimated at \$892,980 by discounting the stream of remaining payments at 5.50%, which represents the rate of interest prevailing for instruments of similar terms and risks without the conversion feature. Convertible debentures are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is 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 12 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.

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16. SUPPLEMENT TO STATEMENT OF CASH FLOWS

Other non-cash operating assets and liabilities:

	For the nine-month periods ended	
	September 30, 2016	September 30, 2015
	\$	\$
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	(100,690)	(174,646)
Accounts payable and accrued liabilities	(60,921)	175,925
Deferred tax assets	(56,004)	(95,193)
Deferred tax liabilities	15,011	2,300
Derivative financial instruments	(26,503)	1,233
	(229,107)	(90,381)

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The interim condensed consolidated statements of cash flows reflect only the impact of the Company's activities during the period. To simplify understanding of these transactions, and the related non-cash components, the major statement of financial position changes are more fully detailed below with indications as to the amounts included in the interim condensed consolidated statements of cash flows.

	Nine-month period ended September 30, 2016
	\$
Finance receivables <i>[note 3]</i>	
Balance as at December 31, 2015	17,555,296
Originations [included in cash flows]	4,432,684
Repayments [included in cash flows]	(4,376,662)
Assets sold to syndications [included in cash flows]	(289,497)
Amortization of deferred lease costs [adjustment to income in cash flows]	(8,775)
Provision for credit losses [adjustment to income in cash flows]	4,734
Impact of foreign exchange translation [excluded from cash flows]	(646,735)
Finance receivables transferred to distributed operations	(3,129,794)
Balance as at September 30, 2016	13,541,251
Equipment under operating leases <i>[note 4]</i>	
Balance as at December 31, 2015	4,126,553
Originations [included in cash flows as investment in equipment under operating leases]	479,192
Disposals [included in cash flows]	(217,328)
Amounts transferred to inventory	(2,292)
Amortization of equipment under operating leases [adjustment to income in cash flows]	(253,787)
Impact of foreign exchange translation [excluded from cash flows]	(43,911)
Equipment under operating leases transferred to distributed operations	(2,692,731)
Balance as at September 30, 2016	1,395,696

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	Nine-month period ended September 30, 2016
	<u>\$</u>
Secured borrowings [note 5]	
Balance as at December 31, 2015	17,862,038
Net issuance [included in cash flows]	97,992
Increase in deferred financing costs [included in cash flows]	(38,478)
Amortization of deferred financing costs [adjustment to income in cash flows]	20,883
Impact of foreign exchange translation [excluded from cash flows]	(563,859)
Secured borrowings transferred to distributed operations	(4,450,289)
Balance as at September 30, 2016	<u>12,928,287</u>

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17. DISTRIBUTED OPERATIONS

On October 3, 2016, subsequent to the quarter end, Element completed the separation of its C&V Finance, Aviation Finance and Rail Finance verticals, into ECN Capital Corp. ["ECN Capital"] implemented by way of a plan of arrangement.

The distributed operations have been presented and accounted for using IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and IFRIC 17, *Distribution of Non-Cash Assets to Owners*. Under this guidance, a distribution dividend payable of \$1,710,473 was recorded. The dividend was based on the fair value of the distribution as determined using independent valuers and approved by the Company's Board of Directors. The allocation of the components of equity was determined by allocating the fair value by a pro-rata proportion of share capital and retained earnings [see interim condensed consolidated statements in changes in shareholders' equity and changes in equity of distributed operations].

The assets and liabilities of distributed operations at September 30, 2016 were as follows:

	As at September 30, 2016 \$
Assets	
Cash	47,204
Restricted funds	166,747
Finance receivables	3,074,674
Equipment under operating leases	2,559,235
Accounts receivable and other assets	221,720
Derivative financial instruments	692
Property, equipment and leasehold improvements	1,393
Deferred tax assets	11,599
Intangible assets	335
Goodwill	7,890
Total assets	6,091,489
Liabilities	
Accounts payable and accrued liabilities	78,351
Derivative financial instruments	22,724
Secured borrowings	4,268,531
Deferred tax liabilities	11,410
Total liabilities	4,381,016
Net assets of distributed operations	1,710,473

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The results of distributed operations were as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
NET FINANCIAL INCOME				
Interest income	47,181	46,230	143,119	132,014
Rental revenue, net	40,172	36,173	124,681	90,746
	87,353	82,403	267,800	222,760
Interest expense	41,544	32,671	121,668	92,111
Net interest income before provision for credit losses	45,809	49,732	146,132	130,649
Provision for credit losses	7,839	4,928	17,514	12,088
Net interest income	37,970	44,804	128,618	118,561
Management fees and other revenues	10,574	8,584	23,661	38,147
	48,544	53,388	152,279	156,708
OPERATING EXPENSES				
Salaries, wages and benefits	9,178	11,853	26,670	30,487
General and administrative expenses	8,279	6,557	24,183	17,242
Share-based compensation	3,089	2,796	6,973	7,976
	20,546	21,206	57,826	55,705
BUSINESS ACQUISITION AND SEPARATION COSTS				
Amortization of intangible assets from acquisitions	—	377	650	1,420
Impairment of discontinued operations	26,605	—	26,605	—
Separation costs	10,250	—	10,250	—
	36,855	377	37,505	1,420
Income before income taxes from distributed operations	(8,857)	31,805	56,948	99,583
Provision for (recovery of) income taxes	(10,082)	6,956	5,227	21,410
Net income for the period from distributed operations	1,225	24,849	51,721	78,173

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The changes in equity of distributed operations were as follows:

	Common share capital	Retained earnings	Owner's Net Investment	Accumulated other comprehensive income	Total
	\$	\$		\$	\$
Balance, December 31, 2015	—	—	1,403,325	188,086	1,591,411
Comprehensive income (loss) for the period	—	—	51,721	(38,825)	12,896
Net adjustments to owner's net investment	—	—	101,820	—	101,820
Employee stock option expense	—	—	4,346	—	4,346
September 30, 2016	—	—	1,561,212	149,261	1,710,473
Issuance of common shares and reclassification of owner's net investment	1,444,448	116,764	(1,561,212)	—	—
October 3, 2016	1,444,448	116,764	—	149,261	1,710,473
Balance, December 31, 2014	—	—	938,638	46,855	985,493
Comprehensive income (loss) for the period	—	—	78,173	92,575	170,748
Net adjustments to owner's net investment	—	—	217,492	—	217,492
Employee stock option expense	—	—	6,575	—	6,575
September 30, 2015	—	—	1,240,878	139,430	1,380,308

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The cash flows were as follows for distributed operations:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
	<u>\$</u>	<u>\$</u>
OPERATING ACTIVITIES		
Net income for the period	51,721	78,173
Items not affecting cash		
Share-based compensation	4,346	6,289
Depreciation of property, equipment and leasehold improvements	297	181
Amortization of intangible assets, including from acquisitions	880	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 of discontinued operations	23,157	—
Provision for credit losses	17,514	12,088
	<u>165,044</u>	<u>144,803</u>
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 disposal 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 provided by (used in) operating activities	<u>(45,418)</u>	<u>(896,354)</u>
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)
Decrease (increase) in notes receivable	—	(1,684)
Decrease (increase) in deferred financing costs	(41,376)	(11,128)
Cash provided by investing activities	<u>11,166</u>	<u>44,408</u>
FINANCING ACTIVITIES		
Net investment from parent	101,819	217,778
Issuance of secured borrowings, net	(19,853)	634,168
Cash provided by financing activities	<u>81,966</u>	<u>851,946</u>
Effects of foreign exchange rates on cash	<u>(510)</u>	<u>—</u>
Net increase in cash during the period	<u>47,204</u>	<u>—</u>
Cash, beginning of period	<u>—</u>	<u>—</u>
Cash, end of period	<u>47,204</u>	<u>—</u>

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17a. Finance receivables

The following table presents finance receivables as at September 30, 2016 and December 31, 2015 for distributed operations:

	September 30, 2016	December 31, 2015
	\$	\$
Minimum lease payments	3,372,203	3,496,460
Unguaranteed residual values	197,203	215,879
Gross investment	3,569,406	3,712,339
Unearned income	(497,644)	(554,260)
Net investment	3,071,762	3,158,079
Net realizable value of impaired receivables	6,932	4,029
Unamortized deferred costs and subsidies	23,755	19,722
Security deposits	(30,348)	(33,585)
Interim fundings	9,131	1,723
Other receivables	10,071	221
Allowance for credit losses	(16,629)	(20,394)
Total finance receivables	3,074,674	3,129,795

The following table presents the delinquency status of the net investment in finance receivables of distributed operations, 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	3,052,833	99.39	3,143,485	99.54
Total net investment	3,071,762	100.00	3,158,079	100.00

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Selected characteristics of finance receivables

	September 30, 2016		December 31, 2015	
	Leases	Loans	Leases	Loans
Net investment, distributed operations	\$ 1,223,812	\$ 1,847,950	\$ 1,383,468	\$ 1,774,611
Weighted average fixed interest rate	6.83%	6.23%	7.46%	6.35%
Weighted average floating interest rate	—%	4.90%	—%	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 allowance for credit losses for distributed operations 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 rates	(810)	2,103
Allowance for credit losses, end of period	16,629	20,394
Allowance as a percentage of finance receivables	0.54%	0.65%
Finance receivables in arrears [90 days and over]	2,826	3,030
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.09%	0.10%
Impaired receivables, at estimated net realizable value	6,932	4,029

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17a. Equipment under operating leases

	September 30, 2016		
	Rail	Aviation	Total
	\$	\$	\$
Cost	2,376,891	294,180	2,671,071
Accumulated amortization	(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 amortization	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-months periods ended		For the nine-month periods ended	
	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

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17c. Secured borrowings

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	2.77	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 a first priority interest on all property.

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17d. Other income

Management fees and other revenue consist of the following for the periods ended:

	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

17d. Stock options

As disclosed in the management circular dated July 28, 2016 relating to the Separation, each outstanding Element option was exchanged for one Element Fleet option and one ECN Capital option, both of which will, upon vesting, entitle the holder to acquire one Element Fleet common share and one ECN Capital common share respectively. The original exercise price of each outstanding Element option was allocated to the Element Fleet option such that an amount equal to the tax neutral transaction proportion of the original exercise price will be payable to Element Fleet for each common share; this amount has been determined to be approximately 79.4% of the original exercise price. An amount equal to the remainder of the original exercise price will be payable to ECN Capital for each ECN Capital common share, or approximately 20.6%. The terms for these options are a continuation of the earlier granted Element option. The participating Element directors, officers, employees and consultants with these options are permitted to hold and exercise his or her Element Fleet and ECN Capital options received as part the Separation in accordance with their terms as long as they remain an employee or director of Element Fleet, ECN Capital 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.

18. COMPARATIVE FIGURES

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