Consolidated Financial Statements

Element Fleet Management Corp.

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Element Fleet Management Corp.

We have audited the accompanying consolidated financial statements of **Element Fleet Management Corp.**, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Element Fleet Management Corp.** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 14, 2018

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of Canadian dollars]

	As at December 31, 2017	As at December 31, 2016
	$	$
ASSETS		
Cash	**76,637**	12,638
Restricted funds *[notes 10 and 19]*	**484,280**	606,461
Finance receivables *[note 4]*	**12,768,133**	13,454,011
Equipment under operating leases *[note 5]*	**1,599,423**	1,421,637
Accounts receivable and other assets *[note 6]*	**315,801**	435,901
Notes receivable *[note 17]*	**19,670**	22,078
Derivative financial instruments *[note 19]*	**32,026**	67,238
Property, equipment and leasehold improvements *[note 7]*	**67,409**	80,742
Deferred tax assets *[note 15]*	**177,602**	156,895
Intangible assets *[note 8]*	**819,308**	880,420
Goodwill *[note 9]*	**1,209,344**	1,282,643
	17,569,633	18,420,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**582,090**	552,794
Derivative financial instruments *[note 19]*	**33,342**	27,532
Secured borrowings *[note 10]*	**12,307,873**	12,983,535
Convertible debentures *[note 11]*	**875,918**	855,688
Deferred tax liabilities *[note 15]*	**30,327**	19,761
	13,829,550	14,439,310
Shareholders' equity *[note 12]*	**3,740,083**	3,981,354
	17,569,633	18,420,664

See accompanying notes

On behalf of the Board:

Director Director

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

		Year ended December 31, 2017		Year ended December 31, 2016
		$		$
NET REVENUE				
Service and other revenue *[note 14]*		**623,605**		617,459
Interest income, net *[note 6 and 14]*		**630,483**		667,594
Rental revenue		**481,466**		444,010
Depreciation of equipment under operating leases *[note 5]*		**(366,531)**		(340,234)
Direct costs of fixed rate service contracts *[note 14]*		**(39,905)**		(42,001)
		1,329,118		1,346,828
Interest expense		**377,091**		348,468
Net revenue		**952,027**		998,360
OPERATING EXPENSES				
Salaries, wages and benefits		**318,870**		294,359
General and administrative expenses		**150,579**		167,024
Depreciation and amortization		**15,976**		11,077
Amortization of convertible debenture synthetic discount *[note 11]*		**13,147**		12,314
Share-based compensation *[note 13]*		**19,930**		22,485
		518,502		507,259
BUSINESS ACQUISITION AND SEPARATION COSTS				
Amortization of intangible assets from acquisitions		**55,823**		62,472
Transaction, strategic review and integration costs		**82,001**		161,997
Separation costs		—		76,686
		137,824		301,155
Share of loss from and provision in equity accounted investments *[note 6]*		**120,982**		—
Income before income taxes from continuing operations		**174,719**		189,946
Provision for income taxes		**20,075**		(318)
Net income for the year from continuing operations		**154,644**		190,264
Net income for the year from distributed operations *[note 27]*		—		51,721
Gain on distribution of assets, net of taxes		—		171,354
		—		223,075
Net income for the year		**154,644**		413,339
Basic *[note 18]*				
Continuing operations	**$**	**0.29**	$	0.40
Distributed operations	**$**	—	$	0.58
Total basic earnings per share	**$**	**0.29**	$	0.98
Diluted *[note 18]*				
Continuing operations	**$**	**0.29**	$	0.39
Distributed operations	**$**	—	$	0.57
Total diluted earnings per share	**$**	**0.29**	$	0.96

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

[in thousands of Canadian dollars]

	Year ended December 31, 2017	Year ended December 31, 2016
	$	$
Net income for the year	**154,644**	413,339
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges *[note 19]*	**(36,608)**	69,434
Net unrealized foreign exchange loss	**(313,769)**	(260,963)
	(350,377)	(191,529)
Deferred income tax expense (recovery)	**(3,667)**	18,768
Total other comprehensive loss from continuing operations	**(346,710)**	(210,297)
Total other comprehensive loss from distributed operations, net of tax	—	(38,825)
Transfer of other comprehensive gain from distributed operations to net income on separation, net of tax	—	(149,261)
Total other comprehensive loss	**(346,710)**	(398,383)
Comprehensive income (loss) for the year	**(192,066)**	14,956

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of Canadian dollars]

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
	$	$	$	$	$	$	$
Balance, December 31, 2016	**2,803,336**	**533,656**	**46,200**	**78,974**	**232,836**	**286,352**	**3,981,354**
Comprehensive income (loss) for the year	—	—	—	—	**154,644**	**(346,710)**	**(192,066)**
Dividends - Preferred shares *[note 12]*	—	—	—	—	**(41,301)**	—	**(41,301)**
Dividends - Common shares	—	—	—	—	**(96,518)**	—	**(96,518)**
Net taxes on dividends paid	—	—	—	—	**(818)**	—	**(818)**
Options exercised *[notes 12 and 13]*	**17,518**	—	—	**(8,499)**	—	—	**9,019**
Issuance of shares, net of share issue costs	—	**146,756**	—	—	—	—	**146,756**
Shares repurchased for cancellation *[note 12]*	**(65,318)**	—	—	**(13,599)**	—	—	**(78,917)**
Employee stock option expense *[note 13]*	—	—	—	**12,574**	—	—	**12,574**
Balance, December 31, 2017	**2,755,536**	**680,412**	**46,200**	**69,450**	**248,843**	**(60,358)**	**3,740,083**
Balance, December 31, 2015	4,229,848	533,656	46,200	61,867	160,777	684,735	5,717,083
Comprehensive income (loss) for the year	—	—	—	—	413,339	(398,383)	14,956
Dividends - Preferred shares *[note 12]*	—	—	—	—	(35,648)	—	(35,648)
Dividends - Common shares	—	—	—	—	(38,644)	—	(38,644)
Net taxes on dividends paid	—	—	—	—	(963)	—	(963)
Options exercised *[notes 12 and 13]*	6,436	—	—	(3,004)	—	—	3,432
Shares issue costs, adjustment	11,500	—	—	—	—	—	11,500
Employee stock option expense *[note 13]*	—	—	—	20,111	—	—	20,111
Distribution dividend	(1,444,448)	—	—	—	(266,025)	—	(1,710,473)
Balance, December 31, 2016	2,803,336	533,656	46,200	78,974	232,836	286,352	3,981,354

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars]

	Year ended December 31, 2017	Year ended December 31, 2016
	$	$
OPERATING ACTIVITIES *[note 26]*		
Net income for the year from continuing operations	**154,644**	190,264
Items not affecting cash		
Share-based compensation *[note 13]*	**12,574**	20,111
Depreciation of property, equipment and leasehold improvements	**11,707**	8,162
Amortization of intangible assets, including from acquisitions	**60,092**	65,387
Amortization of deferred lease costs	**20,078**	12,695
Amortization of deferred financing costs	**34,161**	28,796
Depreciation of equipment under operating leases	**366,531**	340,234
Amortization of convertible debenture synthetic discount and deferred costs	**20,230**	19,216
Write-off of intangible assets and other assets	**—**	4,995
Share of loss from joint venture investment	**121,063**	—
Share of earnings from other equity accounted investments	**(18,180)**	(19,301)
Recovery of (provision for) credit losses	**921**	(3,834)
	783,821	666,725
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(5,691,246)**	(5,891,483)
Repayments of finance receivables	**4,822,953**	5,857,748
Investment in equipment under operating leases	**(796,187)**	(672,416)
Proceeds on disposal of equipment under operating leases	**229,429**	255,355
Syndications of finance receivables	**682,791**	518,166
Other non-cash operating assets and liabilities *[note 26]*	**28,982**	(239,784)
Cash provided by operating activities - continuing operations	**60,543**	494,311
INVESTING ACTIVITIES *[note 26]*		
Business acquisition	**(449)**	(28,079)
Proceeds from (investment in) managed fund	**26,426**	(1,576)
Investment in non-consolidated companies	**(19,276)**	—
Decrease (increase) in restricted funds	**49,951**	(229,721)
Purchase of property, equipment and leasehold improvements	**(10,664)**	(45,354)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	**3,497**	4,856
Purchase of intangible assets	**(47,050)**	(38,770)
Decrease in notes receivable	**2,408**	28,741
Increase in deferred financing costs	**(44,546)**	(41,509)
Cash used in investing activities - continuing operations	**(39,703)**	(351,412)
FINANCING ACTIVITIES *[note 26]*		
Issuance of share capital, net *[note 12]*	**155,775**	3,432
Shares repurchased	**(78,917)**	—
Issuance of secured borrowings, net	**103,707**	(13,398)
Dividends paid	**(135,663)**	(74,292)
Cash provided by (used in) financing activities - continuing operations	**44,902**	(84,258)
Effects of foreign exchange rates on cash	**(1,743)**	(948)
Net changes in cash used in distributed operations *[note 26]*	**—**	(101,819)
Net increase (decrease) in cash during the year	**63,999**	(44,126)
Cash, beginning of the year	**12,638**	56,764
Cash, end of the year from continuing operations	**76,637**	12,638
Supplemental cash flow information:		
Cash taxes paid	**40,758**	44,453
Cash interest paid	**364,822**	296,636

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

1. CORPORATE INFORMATION

Element Fleet Management Corp. ["Element Fleet", "EFN" or the "Company"], formerly Element Financial Corporation ["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 [the "TSX"] 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 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.

Element Fleet is a publicly traded fleet management company with more than $17.6 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 50 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 more than 2,800 customers optimize their fleet performance and productivity.

December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 14, 2018.

Basis of consolidation

Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the dates of their acquisition. Transactions and balances amongst these entities have been eliminated upon consolidation.

Subsidiaries, which include certain private partnerships and structured entities, are entities over which the Company has control. The Company controls an entity when [1] it has the power over the entity; [2] it has exposure, or rights, to variable returns from its involvement with the entity, and [3] it has the ability to use its power over the entity to affect the amount of its returns.

Associates and Joint Ventures

Associates and joint ventures are entities which the Company has significant influence or joint control, but not control, over the operating and financial management policy decisions of the entity. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Investments in associates and joint ventures are accounted for using the equity method and initially recorded at cost. Subsequently, the investment in an associate or joint venture is adjusted for changes in the Company's share of net assets of the associate or joint venture and such changes are reflected in the consolidated statements of operations.

December 31, 2017

Significant accounting policies

Finance receivables

The Company provides financing to customers through direct financing leases and loans.

Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Unearned finance income includes origination fees earned.

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. Unearned finance income includes loan origination fees earned.

Initial direct costs that relate to the origination of the finance receivables are deferred and recognized as yield adjustments using the effective interest rate method over the term of the related financial asset. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

Direct financing leases and loans are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a direct financing lease or a loan is deemed to be impaired at the earlier of the date it has been individually provided for when timely collection is not assured or when it has been in arrears for 120 days. When amounts receivable are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for credit losses.

Also included in finance receivables are secondary receivables, including interim funding [lease assets in transit to the lessee] and fleet management receivables [amounts receivable from ancillary fleet service revenues, including fuel cards, accident management services and maintenance].

Equipment under operating leases

The Company determines the classification of a lease at its lease inception date.

An operating lease is one that does not transfer substantially all of the risks and rewards of ownership to the lessee.

Operating leases entered into by the Company are reported as "Equipment under operating leases" and are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term or estimated useful life of the asset up to 10 years from the date of manufacture, with an average term of approximately 45 months.

Rental revenue on operating leases is recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use.

Revenue recognition

Interest income relates to finance receivables as described above. This income is recognized on an accrual basis using the effective interest rate method for leases and loans that are not considered impaired, and is being reported net of provision for credit loss as "Interest income, net".

Service and other revenue is recognized as on an accrual basis when such services are provided to the lessee. These services include fuel cards, accident management services and maintenance services. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third party lessor. Syndication fees are recognized as income when the lease syndication has been completed.

Allowance for credit losses

The Company reviews its individually significant finance leases and loans at each consolidated statement of financial position date to assess the adequacy of the allowance for credit losses and to determine whether an impairment loss should be recorded in the consolidated statements of operations. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the allowance. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. Leases and loans that have been assessed individually and found not to be impaired and all individually insignificant leases are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the lease and loan portfolio, such as levels of arrears and credit utilization, and judgments to the effect of concentrations of risks.

Restricted funds

Restricted funds represent cash reserve accounts that are held in trust as security for secured borrowings and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts.

Restricted funds also include amounts posted as collateral for derivative contracts.

Derivative financial instruments and hedge accounting

The Company utilizes derivatives to manage interest rate risk and foreign currency exposure, as well as equity price risk exposure related to the Company's stock compensation plans that are accounted for as liabilities. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

The Company applies hedge accounting to derivatives that meet the criteria for hedge accounting in IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"].

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

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

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

The Company also uses interest rate derivatives, mainly interest rate swap agreements, to hedge its exposure to changes in future cash flows due to interest rate risk on its floating rate debt and assets.

The Company also uses total return swap agreements to hedge its exposure to changes in future cash flows due to changes in the Company's share price on its stock compensation plans that are accounted for as liabilities.

Hedges of a net investment

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

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

Secured borrowings

The Company periodically transfers pools of finance receivables to third parties, including structured entities. Transfers of pools of finance receivables under certain arrangements, including transfers where a security interest or legal ownership is transferred, do not result in derecognition of the finance receivables from the Company's consolidated statements of financial position and continue to be recognized on the Company's consolidated statements of financial position and accounted for as finance receivables, as described above. As such, these transactions result in the recognition of secured borrowings when cash is received from the third party or structured entity.

The secured borrowings are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability.

Deferred financing costs are presented as a reduction of secured borrowings and relate to costs incurred to obtain funding agreements that result in these arrangements. These amounts are accreted to income over a period matching the repayment terms of the secured borrowing obtained during the initial commitment period.

Convertible debentures

The convertible debentures are accounted for as a compound financial instrument with a debt component and a separate equity component. The debt component of this compound financial instrument is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component is subsequently deducted from the total carrying value of the compound instrument to derive the equity component. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through income as finance costs.

December 31, 2017

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation using the declining balance method for equipment at annual rates designed to depreciate the cost of the equipment over their estimated useful lives. Leasehold improvements are depreciated on a straight-line basis over the underlying lease terms. Buildings, vehicles and computer servers are depreciated using the straight-line method over their estimated useful life. Land is not depreciated. The rates of amortization are as follows:

Office equipment	30% per annum
Computer equipment	55% per annum for general equipment 5 years for servers
Leasehold improvements	Lease term
Vehicles	4 years
Buildings	25 years

Impairment is recognized when a fixed asset's estimated recoverable amount is less than the carrying amount, including reductions in recoverable amount as a result of the Separation.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets, including previously unrecognized intangible assets and liabilities, including contingent liabilities but excluding future restructuring of the acquired business, at fair value.

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ["CGU"] to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Transaction and integration costs and separation costs

The Company presents transaction and integration costs and separation costs separately on the consolidated statements of operations because these costs differ from other expenses in their frequency and predictability, and presenting them separately provides useful information to financial statement users.

The Company defines transaction costs as incremental costs that are incurred to effect, and are directly associated with, a business combination or potential business combinations and transactions. Examples of transaction costs include advisory fees, due diligence fees, professional or consulting fees, certain financing charges, and management compensation directly attributable the transaction. Transaction costs are expensed as incurred.

The Company defines integration costs as incremental costs that are directly associated with a program to integrate an acquired business with the Company's existing operations. Examples of integration costs include staff rationalization, lease cancellations/onerous lease contracts, staff relocation costs, rebranding, consulting fees and internal compensation costs associated with integration and related restructuring, data migration and disentanglement of operations. Integration costs are expensed as incurred unless earlier recognition is appropriate under the restructuring provision rules within IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

The Company defines separation costs as incremental costs that are directly associated with the separation of the Company from distributed operations. Examples of separation costs include staff relocation, rebranding, consulting fees associated with separation-related activities, data migration and disentanglement of operations, legal fees, listing fees, write-offs of abandoned or reduced premises space and related leasehold improvements, and write-offs of certain financing charges. Separation costs are expensed as incurred unless earlier recognition is appropriate under the restructuring provision rules within IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Intangible assets

The Company's intangible assets include computer software and customer relationships and are measured at cost. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for impairment at each reporting period. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of operations.

The rates of amortization are as follows:

Computer software	3 to 12 years depending on the software application
Customer relationships	Declining balance 5% per annum

Share-based payments

Stock options

The Company issues share‑based awards to certain employees and directors. The awards are consist of equity-settled stock options and the related cost is measured based on the estimated fair value on the date the awards are granted. The fair value of the stock options is estimated using the Black‑Scholes option valuation model. The cost of the stock options issued to employees is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

Deferred share unit plan

The Company has established a Deferred Share Unit ["DSU"] plan for executives and directors whereby the Company's Board of Directors [the “Board”] may award DSUs as compensation for services rendered. The plan is intended to promote a greater alignment of long-term interests between executives and directors and the shareholders of the Company. The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Additionally, directors may elect to receive up to 100% of their annual remuneration in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant.

Each DSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a common share. DSUs mature upon termination of employment or directorship, whereupon the holder is entitled to receive a cash payment that reflects the fair market value of the equivalent number of common shares.

DSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of DSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed.

Performance share unit plan

The Company has established a Performance Share Unit ["PSU"] plan for employees of the Company and its subsidiaries, whereby the Board may award PSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of PSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each PSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company’s common shares, accrues dividend equivalents in the form of additional PSUs based on the amount of the dividend paid on a common share.

PSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of PSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed or expectations with respect to performance criteria. Until the PSUs are settled, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Restricted share unit plan

The Company has established a Restricted Share Unit ["RSU"] plan for employees of the Company and its subsidiaries, whereby the Board may award RSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of RSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each RSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional RSUs based on the amount of the dividend paid on a common share.

RSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of RSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed. Until the RSUs are settled, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the year attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period.

Other financial instruments

Other financial instruments held or issued by the Company include cash, restricted funds, finance receivables, accounts receivable, notes receivable, accounts payable and accrued liabilities, and secured borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Translation of foreign currencies

The consolidated financial statements of the Company are presented in Canadian dollars, which is the Company's functional and presentation currency. Foreign currency denominated monetary assets and liabilities of the Company and its subsidiaries that have the same functional currency are translated using the closing rate and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenue and expense items are measured at average exchange rates during the year. Realized and unrealized gains and losses arising from translation into the functional currency are included in the consolidated statements of operations. Foreign currency denominated non-monetary assets and liabilities, measured at historical cost, are translated at the rate of exchange in effect at the transaction date.

Assets and liabilities of foreign operations with a functional currency other than the Canadian dollar, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates prevailing at the year end, while revenue and expenses of these foreign operations are translated into Canadian dollars at the average exchange rates for the year. Exchange gains and losses arising from the translation of these foreign operations and from the results of hedging the net investment in these foreign operations, net of applicable taxes, are included in net foreign currency translation adjustments, which is included in accumulated other comprehensive income. A deferred tax asset or liability is not recognized in respect of a translation gain or loss arising from the Company's investment in its foreign operations as it is not expected that such a gain or loss would be realized for tax purposes in the foreseeable future.

Upon disposition of a foreign operation, any cumulative translation adjustment gain or loss, including the impact of hedging, will be reclassified from other comprehensive income to the consolidated statements of operations, and included as part of the gain or loss recognized on disposition of the foreign operations.

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Future accounting changes

The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements.

IFRS 9, *Financial Instruments* ["IFRS 9"], was issued in November 2009 and amended in October 2010, November 2013, and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entities business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged. The new standard replaces the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. The standard introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. On transition to IFRS 9, the Company's investment in ECAF I Ltd. through ECAF I Holdings Ltd. will be classified as fair value through profit and loss, as a result the accrued interest previously recognized using the effective interest method for amortized cost investments will be reversed, and the Company will recognize a fair value adjustment which the Company is still in the process of evaluating. In addition, the Company expects an increase to the allowance for credit losses as a result of the transition to the expected loss model, including an allowance for loans to 19th Capital Group LLC, the Company is in the process of finalizing and refining the model. The impact of these two, which may be material, will be recognized through opening retained earnings. The Company does not expect any significant impact from changes in hedge accounting.

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"], was issued in May 2014 and is effective for years beginning on or after January 1, 2018, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. Management is in the process of evaluating the impact of the adoption of IFRS 15, and does not expect there to be a significant impact on the Company's consolidated financial statements.

IFRS 16, *Leases* ["IFRS 16"], will replace IAS 17, *Leases* ["IAS 17"]. IFRS 16 substantially carries forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS16 will have on the Company's consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and judgments are made based on information available as at the date the consolidated financial statements are issued. Accordingly, actual results may differ from those recorded amounts. Areas of financial reporting that require management's estimates and judgments are discussed below.

Allowance for credit losses

Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of the underlying leased assets and past experience. In addition, judgment is required assessing the allowance required for loans to 19th Capital joint venture, including the use of internally and externally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates, discount rates and asset values *[note 6]*.

Deferred tax assets

Deferred tax assets are recognized for unused income tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax-planning strategies.

Stock option expense

Compensation expense relating to stock option awards granted by the Company to employees and non-employees in exchange for services rendered is based on the fair value of the option. The stock option fair value is determined using the Black-Scholes option valuation model which requires the use of assumptions and is, by its nature, subject to measurement uncertainty.

Useful lives and residual values of equipment under operating leases

The Company's equipment under operating leases are recorded at cost and depreciated over their estimated useful lives to an estimated residual value using the straight-line method. The Company determines the economic useful life based on management's estimate of the period which the asset will generate revenue. The residual values are based on historical experience and economic factors. Management will periodically review the appropriateness of the estimated useful lives and residual values based on changes in economic circumstances and other factors. Changes in these estimates would result in a change in future depreciation expense.

Business combinations

Business combinations require management to exercise judgment in measuring the fair value of the assets acquired, equity instrument issued, and liabilities and contingent liabilities incurred or assumed.

Investment in joint venture

The cost of the investment in joint venture requires management to exercise judgment in measuring the fair value of the assets contributed by the Company to the joint venture. In addition, management judgment is required in assessing the recoverability of the the carrying value of the Company's investment in joint venture requires the use internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates, discount rates and asset values *[note 6]*.

Intangible assets valuation - customer relationships

The Company's customer relationships requires management to use judgment in estimating the fair value of this intangible asset acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating customer attrition rates to determine the appropriate amortization period for the customer relationship intangible asset.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable values of the Company's CGUs and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Distribution dividend valuation

The fair value of the distribution dividend requires management to exercise judgment in measuring the fair value of the assets and liabilities distributed. The Company used independent valuators to model and assess the fair value.

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

4. FINANCE RECEIVABLES

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

	December 31, 2017			
	Canada	**US**	**Other**	**Total**
	$	**$**	**$**	**$**
Minimum lease payments	**1,473,742**	**10,617,200**	**281,248**	**12,372,190**
Unguaranteed residual values	**—**	**16,326**	**71,532**	**87,858**
Gross investment	**1,473,742**	**10,633,526**	**352,780**	**12,460,048**
Unearned income	**(149,772)**	**(788,515)**	**(40,281)**	**(978,568)**
Net investment	**1,323,970**	**9,845,011**	**312,499**	**11,481,480**
Net realizable value of impaired receivables	**381**	**4,225**	**4,059**	**8,665**
Unamortized deferred costs and subsidies	**(5,121)**	**(99,901)**	**—**	**(105,022)**
Prepaid lease payments and security deposits	**(5,807)**	**(38,427)**	**(20,166)**	**(64,400)**
Interim fundings	**41,058**	**533,636**	**12,523**	**587,217**
Fleet management service receivables	**105,005**	**503,581**	**51,641**	**660,227**
Other receivables	**1,219**	**120,111**	**82,940**	**204,270**
Allowance for credit losses	**(324)**	**(2,770)**	**(1,210)**	**(4,304)**
Total finance receivables	**1,460,381**	**10,865,466**	**442,286**	**12,768,133**

	December 31, 2016			
	Canada	US	Other	Total
	$	$	$	$
Minimum lease payments	1,465,962	11,410,387	292,910	13,169,259
Unguaranteed residual values	—	12,789	72,901	85,690
Gross investment	1,465,962	11,423,176	365,811	13,254,949
Unearned income	(115,729)	(733,527)	(33,160)	(882,416)
Net investment	1,350,233	10,689,649	332,651	12,372,533
Net realizable value of impaired receivables	635	1,499	1,029	3,163
Unamortized deferred costs and subsidies	(6,322)	(123,184)	(323)	(129,829)
Prepaid lease payments and security deposits	(7,385)	(6,201)	(13,982)	(27,568)
Interim fundings	58,450	422,960	1,669	483,079
Fleet management service receivables	79,457	496,526	47,865	623,848
Other receivables	693	72,564	61,609	134,866
Allowance for credit losses	(1,350)	(2,985)	(1,746)	(6,081)
Total finance receivables	1,474,411	11,550,828	428,772	13,454,011

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

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

	December 31, 2017 (1)		December 31, 2016	
	$	**%**	$	%
31-60 days past due	**3,999**	**0.03**	2,057	0.02
61-90 days past due	**5,918**	**0.05**	250	0.00
Greater than 90 days past due	**1,594**	**0.01**	360	0.00
Total past due	**11,511**	**0.09**	2,667	0.02
Current	**11,469,969**	**99.91**	12,369,866	99.98
Total net investment	**11,481,480**	**100.00**	12,372,533	100.00

(1) At December 31, 2017, $5,240 of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover for losses.

Selected characteristics of the finance receivables

	December 31, 2017		December 31, 2016 (1)	
	Leases	**Loans (2)**	Leases	Loans (2)
Net investment	**$ 10,625,691**	**$ 855,789**	$ 11,484,494	$ 888,039
Weighted average fixed interest rate	**3.99%**	**5.90%**	4.01%	5.29%
Weighted average floating interest rate	**4.07%**	**9.71%**	3.26%	8.83%
Percentage of portfolio with fixed interest rate	**46.04%**	**98.77%**	45.09%	94.23%

(1) December 31, 2016 leases and loans have been reclassified, and the weighted average interest rates adjusted, to reflect the characterization of the loans provided to the joint venture, instead of the assets contributed.

(2) Included are loans to 19th Capital joint venture of $775,898, which have a weighted average fixed interest rate of 5.60% [December 31, 2016 - $829,108, weighted average fixed interest rate of 5.28%].

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

December 31, 2017

Allowance for credit losses

An analysis of the Company's allowance for credit losses is as follows for the year ended December 31:

	2017 $	2016 (1) $
Allowance for credit losses, beginning of period	**6,081**	13,397
Recovery of credit losses	**(921)**	(3,834)
Charge-offs, net of recoveries	**(611)**	(2,654)
Impact of foreign exchange rates	**(245)**	(828)
Allowance for credit losses, end of period	**4,304**	6,081
Allowance as a percentage of finance receivables	**0.03%**	0.05%
Finance receivables in arrears [90 days and over]	**1,594**	360
Arrears [90 days and over] as a percentage of net investment in finance receivables	**0.01%**	0.00%
Impaired receivables, at estimated net realizable value	**8,665**	3,163

(1) Reflects amounts from continuing operation.

Contractual maturities

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

	2017			2016		
	Gross investment $	Unearned income $	Net investment $	Gross investment $	Unearned income $	Net investment $
Maturity						
Within 1 year	**4,969,219**	**(357,502)**	**4,611,717**	4,690,470	(248,903)	4,441,567
In 1 to 3 years	**5,795,170**	**(454,139)**	**5,341,031**	6,433,899	(410,476)	6,023,423
In 3 to 5 years	**1,280,894**	**(123,199)**	**1,157,695**	1,726,274	(173,426)	1,552,848
After 5 years	**414,765**	**(43,728)**	**371,037**	404,306	(49,611)	354,695
	12,460,048	**(978,568)**	**11,481,480**	13,254,949	(882,416)	12,372,533

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

5. EQUIPMENT UNDER OPERATING LEASES

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

	For the year ended	
	December 31, 2017	**December 31, 2016**
	$	$
COST		
At the beginning of the year	**1,725,800**	1,523,677
Additions	**806,806**	672,417
Transfers	**12,251**	(2,292)
Disposals	**(387,543)**	(365,735)
Foreign exchange rate adjustments	**(122,639)**	(102,267)
At the end of the year	**2,034,675**	1,725,800
ACCUMULATED DEPRECIATION		
At the beginning of the year	**304,163**	89,855
Depreciation charge for the year	**366,531**	340,233
Disposals	**(147,495)**	(110,381)
Foreign exchange rate adjustments	**(87,947)**	(15,544)
At the end of the year	**435,252**	304,163
Net carrying amount	**1,599,423**	1,421,637

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

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

	2017	2016
	$	$
Within 1 year	**438,093**	445,727
In 1 to 3 years	**591,646**	540,184
In 3 to 5 years	**202,563**	118,029
After 5 years	**45,630**	24,636
	1,277,932	1,128,576

6. EQUITY ACCOUNTED INVESTMENTS

ECAF I Holdings Ltd.

On June 22, 2015, the Company acquired a 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer. As at December 31, 2017, ECAF I Ltd. has total assets of $1,441.5 million [December 31, 2016 - $1,998.2 million] and senior notes outstanding of $1,187.8 million [December 31, 2016 – $1,491.3 million], and subordinated Class E-1 notes outstanding of $402.2 million [December 31, 2016 – $415.6 million].

ECAF I Holdings Ltd. was accounted for using the equity method in the consolidated financial statements of the Company. The carrying amount of the Company's investment is $130,588 as at December 31, 2017 [December 31, 2016 – $148,056] and is reported in accounts receivable and other assets on the consolidated statements of financial position. The Company has recorded $18,100 of income from its investment in associates for the year ended December 31, 2017 [December 31, 2016 - $19,301], which has been included in interest income on the consolidated statements of operations.

Splend Holdings PTY Limited

On August 15, 2017, the Company acquired a 12.5% equity interest in Splend Holdings PTY Limited ["Splend"], a supplier of vehicles for on-demand rideshare and delivery services primarily operating in Australia, for Australian $7,143 or Canadian $7,124.

As at December 31, 2017, Splend has total assets of $36,869, and total liabilities of $25,305. The carrying amount of the Company's investment is $7,015, including goodwill of $5,997, as at December 31, 2017

[December 31, 2016 – $nil] and is reported in accounts receivable and other assets on the consolidated statements of financial position.

In addition, the Company has provided fleet management services and vehicle financing to Splend at pricing consistent with similar customers of the Company. At December 31, 2017, the Company has provided $11,882 of vehicle financings, and commitments to provide additional fleet management services and vehicle financing in various currencies, at a current commitment of Canadian $88,599 at December 31, 2017, and a maximum commitment of Canadian $198,358 subject to the maintenance of specific terms, conditions and covenants.

For the year ended December 31, 2017, the Company has recorded $81 of income from its investment in associate [December 31, 2016 – $nil], which has been included in share of loss from and provision in equity accounted investments on the consolidated statements of operations.

19th Capital Group LLC

On December 30, 2016, the Company acquired a 49.99% interest in 19th Capital Group LLC ["19th Capital"], a joint venture involved in the leasing of highway tractors and trucks in the U.S. The Company contributed $963,378 in finance receivables and related assets and liabilities, and received loans receivable of $829,108 and net equity of $134,270.

The aggregate balances of the loans receivable from the joint venture was $775,898 as at December 31, 2017, and have a weighted average fixed interest rate of 5.60% [December 31, 2016 – $829,108 at 5.28% interest rate]. The loans consist of [a] term loans of $752,427 that have a weighted average fixed interest rate of 5.56% [December 31, 2016 – $829,108 at 5.28%], with a latest maturity of December 31, 2023 and are secured by highway tractors and related leases; and [b] a revolving line of credit for working capital of $23,471 at 7.00% [December 31, 2016 – $nil]. The remaining available for draw on the line of credit was U.S. $nil [December 31, 2016 – U.S. $16,630].

The loans outstanding to 19th Capital represent 6.8% [December 31, 2016 - 6.7%] of the carrying value of the Company’s net investment in finance receivables and represents a concentration of credit risk. The Company has concluded that the estimated future cash flows from these loans will be sufficient to recover the principal and interest at a return equal to the original contractual interest rates. Therefore, there is currently no allowance for credit loss recognized in relation to these loans. Significant judgment was required when assessing the need for an impairment loss in relation to these loans, specifically regarding the amount and timing of 19th Capital’s future cash flows. As part of the assessment, the Company has considered 19th Capital’s business plan, which included assumptions regarding highway tractor utilization, lease rates, maintenance costs and the ability of the joint venture to raise third-party financing for new tractor purchases in 2019 and beyond. The Company has agreed to modifications in the term loan repayments to address the amount and timing of 19th Capital's cash flows. Such modifications aggregated to $23,537 as at December 31, 2017 and were principally made in the last three months of the year ended December 31, 2017. The Company also believes that the full recovery of its loans as described above will require further interim modification of principal payments on the term loans before utilization rates improve. The Company currently estimates the interim modification of principal payments will be approximately $60 million over the next 5 years. The Company believes that the impairment assessment on the 19th Capital loans and the related assumptions reflect a reasonable estimate of the recoverability of these loans. However, if these assumptions are inaccurate, the Company may be exposed to impairment losses in future periods.

For the year ended December 31, 2017, the Company has recorded $121,063 of non-cash losses from its investment in 19th Capital [year ended December 31, 2016 – $nil], which has been included in share of loss from and provision in equity accounted investments on the consolidated statements of operations. Included in the Company's non-cash losses from its investment in 19th Capital are $41,377 of operating losses and $50,665 of losses on certain assets recognized in the joint ventures financial statements for the year ended December 31, 2017. In addition, the Company has provided a net reserve of $29,021 to reflect its assessment of the current fair value of its equity investment based on an internally generated discounted cash flow model developed with the assistance of external advisors. That model's significant inputs and assumptions are consistent with those considered as part of the debt recovery assessment addressed above. All of the key inputs used in the Company's fair value estimate were from Level 3 of the fair value hierarchy discussed in Note 25 - Fair Value Measurements.

Subsequent to the year ended December 31, 2017, the Company purchased a portfolio of heavy duty trucks from 19th Capital for $9,821, and these were added to Element's heavy duty truck portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

The Company's interest in 19th Capital is accounted for using the equity method in the consolidated financial statements. The following is a summary of financial information of the joint venture and a reconciliation with carrying amount of the investment in the consolidated financial statements:

Summarized statement of financial position of 19th Capital:	December 31, 2017	December 31 2016
Current assets	**69,814**	119,351
Non-current assets	**1,069,757**	1,354,204
Current liabilities	**(13,956)**	(15,659)
Long term liabilities	**(1,055,180)**	(1,189,355)
Net assets	**70,435**	268,541
The Company's share of equity in the joint venture	**35,218**	134,271
Impairment	**(29,021)**	—
Foreign exchange translation and other	**3,803**	1,575
Carry amount of the Company's investment	**10,000**	135,846

Summarized statement of operations of 19th Capital:	Year ended December 31, 2017
Revenues	**208,587**
Salaries, general and administration expenses	**(71,821)**
Earnings before interest expense, depreciation and income taxes	**136,766**
Interest expense	**59,147**
Earnings before depreciation and income taxes	**77,619**
Depreciation on equipment under operating leases	**160,374**
Operating income (losses)	**(82,755)**
Loss on disposal and impairment on equipment held for sale	**101,329**
Net income and total comprehensive income	**(184,084)**
The Company's share of net income	**(92,042)**
Provision for impairment	**(29,021)**
Share of loss and provision in joint venture	**(121,063)**

As at December 31, 2017, included in the long term liabilities above is $775,898 payable to the Company [2016 - $829,108].

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

7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2017					
	Leasehold improvements	**Computer equipment**	**Office equipment**	**Land and buildings**	**Vehicles**	**Total**
	$	$	$	$	$	$
Continuing operations						
COST						
As at January 1, 2017	**8,245**	**47,218**	**8,058**	**22,983**	**7,821**	**94,325**
Additions	**268**	**5,589**	**503**	**—**	**4,304**	**10,664**
Disposals	**(9)**	**(5,488)**	**(154)**	**—**	**(5,590)**	**(11,241)**
Foreign exchange rate adjustments	**(205)**	**(2,117)**	**(326)**	**(1,469)**	**(194)**	**(4,311)**
As at December 31, 2017	**8,299**	**45,202**	**8,081**	**21,514**	**6,341**	**89,437**
ACCUMULATED DEPRECIATION						
As at January 1, 2017	**1,439**	**5,047**	**3,519**	**1,212**	**2,366**	**13,583**
Disposals	**63**	**(34)**	**(309)**	**—**	**(2,180)**	**(2,460)**
Depreciation charge for the year	**1,016**	**7,447**	**854**	**783**	**1,607**	**11,707**
Foreign exchange rate adjustments	**(57)**	**(431)**	**(126)**	**(100)**	**(88)**	**(802)**
As at December 31, 2017	**2,461**	**12,029**	**3,938**	**1,895**	**1,705**	**22,028**
Net carrying amount - Continuing operations	**5,838**	**33,173**	**4,143**	**19,619**	**4,636**	**67,409**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

	2016					
	Leasehold improvements	**Computer equipment**	**Office equipment**	**Land and buildings**	**Vehicles**	**Total**
	$	$	$	$	$	$
Continuing Operations						
COST						
As at January 1, 2016	7,400	8,657	7,291	23,644	8,920	55,912
Additions	2,918	36,652	1,366	44	4,315	45,295
Business acquisition *[note 22]*	—	2,692	—	—	—	2,692
Disposals	(1,892)	(642)	(432)	—	(4,925)	(7,891)
Foreign exchange rate adjustments	(181)	(141)	(167)	(705)	(489)	(1,683)
As at December 31, 2016	8,245	47,218	8,058	22,983	7,821	94,325
ACCUMULATED DEPRECIATION						
As at January 1, 2016	908	2,862	2,264	413	2,122	8,569
Disposals	(638)	(349)	(267)	—	(1,781)	(3,035)
Depreciation charge for the year	1,186	2,570	1,550	802	2,054	8,162
Foreign exchange rate adjustments	(17)	(36)	(28)	(3)	(29)	(113)
As at December 31, 2016	1,439	5,047	3,519	1,212	2,366	13,583
Net carrying amount - Continuing Operations	6,806	42,171	4,539	21,771	5,455	80,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

8. INTANGIBLE ASSETS

	Computer software			Customer relationships			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$	$	$
January 1, 2017 - continuing operations	**104,216**	**(8,746)**	**95,470**	**890,647**	**(105,697)**	**784,950**	**880,420**
Additions	**46,833**	**—**	**46,833**	**—**	**—**	**—**	**46,833**
Amortization	**—**	**(4,269)**	**(4,269)**	**—**	**(55,823)**	**(55,823)**	**(60,092)**
Foreign exchange rate adjustments	**(5,342)**	**(197)**	**(5,539)**	**(49,852)**	**7,538**	**(42,314)**	**(47,853)**
December 31, 2017 - continuing operations	**145,707**	**(13,212)**	**132,495**	**840,795**	**(153,982)**	**686,813**	**819,308**
January 1, 2016 - continuing operations	73,189	(6,318)	66,871	914,643	(43,472)	871,171	938,042
Additions	38,770	—	38,770	—	—	—	38,770
Amortization	—	(2,915)	(2,915)	—	(62,472)	(62,472)	(65,387)
Disposals/write-offs	(5,286)	291	(4,995)	—	—	—	(4,995)
Foreign exchange rate adjustments	(2,457)	196	(2,261)	(23,996)	247	(23,749)	(26,010)
December 31, 2016 - continuing operations	104,216	(8,746)	95,470	890,647	(105,697)	784,950	880,420

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9. GOODWILL

	2017	2016
	$	$
Balance, beginning of year	**1,282,643**	**1,280,171**
Additions from new acquisitions *[note 22]*	—	**42,527**
Distributed in separation transaction	—	**(7,890)**
Foreign exchange rate adjustments	**(73,299)**	**(32,165)**
Balance, end of year	**1,209,344**	**1,282,643**

Goodwill has been allocated to the Fleet Management CGU as at December 31, 2017 and 2016. For the purpose of impairment testing, the recoverable amount of the Fleet Management CGU has been determined based on its value in use. The value in use method is based on estimated future cash flows over a five-year period referenced to the most recent financial forecasts approved by management and actual historic results, discounted to a present value. Beyond the initial five-year period cash flows were estimated to grow at perpetual annual rates of up to 4%. The discount rates the Company applied in determining the recoverable amount was 13.2%, which comprised a risk-free rate, equity risk premium, size premium and company-specific risk premium. The risk-free rate, equity risk premium and size premium were based on data from external sources, whereas the company-specific risk premium was based on factors considered by management to be specific to the business. The assumptions used were consistent with those observed in the Company's recent arm's-length business acquisitions.

In considering the sensitivity of the key assumptions discussed above, management determined that there is no reasonable possible change in any of the above that would result in the carrying value of the Fleet Management CGU to exceed its recoverable value.

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December 31, 2017

10. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	December 31, 2017			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Term notes, in amortization period	**2,150,569**	**2.34**	**2,270,101**	**49,189**
Term notes, in revolving period	**4,022,080**	**2.07**	**4,245,634**	**41,428**
Variable-funding notes	**3,027,353**	**2.35**	**3,201,050**	**32,195**
Vehicle management asset-backed debt	**9,200,002**	**2.23**	**9,716,785**	**122,812**
Term senior credit facility (2)	**3,168,087**	**2.77**	**—**	**—**
	12,368,089	**2.36**	**9,716,785**	**122,812**
Deferred financing costs	**(60,216)**			
Total secured borrowings	**12,307,873**			

	December 31, 2016			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Term notes, in amortization period	3,001,980	1.52	3,207,420	63,987
Term notes, in revolving period	2,260,838	2.03	2,377,640	29,446
Variable-funding notes	4,786,118	1.70	5,113,658	58,037
Other	2,123	4.62	2,123	—
Vehicle management asset-backed debt	10,051,059	1.72	10,700,841	151,470
Term senior credit facility (2)	2,978,122	2.56	—	—
	13,029,181	1.91	10,700,841	151,470
Deferred financing costs	(45,646)			
Secured borrowings of continuing operations	12,983,535			

(1) Represents the weighted average stated interest rate of outstanding debt at year end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.
(2) The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2017 and 2016.

Vehicle management asset-backed debt

Vehicle management asset-backed debt includes term notes and variable-funding notes.

Term notes provide a fixed funding amount at the time of issuance.

For term notes, in amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: [i] 125 to 132 months following the commencement of the amortization period; or [ii] when the respective series of notes are paid in full. As at December 31, 2017, term notes, in amortization period had a weighted average interest rate of 2.34%, which ranged from 1.88% to 4.35% with expected maturities in 2019 [December 31, 2016 - the weighted average interest was 1.52%, which ranged from 1.19% to 2.57%].

Term notes, in revolving period, contain provisions that allow the outstanding debt to revolve for a specified period of time. During the revolving period, the monthly collection of lease payments allocable to each outstanding series creates availability to fund the acquisition of vehicles and/or equipment to be leased to customers. Upon expiration of the revolving period, notes begin amortizing. As at December 31, 2017, term notes, in revolving period had a weighted average floating interest rate of 2.07%, which ranged from 1.87% to 3.71% with expected maturities from 2020 to 2021 [December 31, 2016 - the weighted average interest was 2.03%, which ranged from 1.77% to 4.35%].

Variable-funding notes provide a committed capacity that may be drawn upon as needed during a commitment period, which is primarily one to two years in duration. Similar to revolving term notes, the monthly collection of lease payments creates availability to fund the acquisition of vehicles and/or equipment to be leased to customers. Available committed capacity under variable-funding notes may be used to fund growth in net investment in fleet leases during the term of the commitment. Upon expiration of the commitment period, variable-funding notes begin amortizing. As at December 31, 2017, variable-funding notes had a weighted average floating interest rate of 2.35%, which ranged from 1.95% to 3.51% with expected maturities in 2019 to 2022 [December 31, 2016 - the weighted average interest was 1.70%, which ranged from 1.40% to 2.79%].

The notes are secured by either a security interest and/or legal ownership in direct financing leases and the Company is also required to maintain certain cash reserves as credit enhancements.

As at December 31, 2017, the Company has access to $3,366,224 [December 31, 2016 - $4,156,828] of available financing under its vehicle management asset-backed debt facilities.

Term senior credit facility

The term senior credit facility is a $4,399,150 senior revolving facility that has been syndicated to a group of 19 Canadian, US and international banks. The facility was amended on October 31, 2017 and the maturity date was extended to November 2, 2020. As at December 31, 2017, $3,168,087 was drawn on this facility

[December 31, 2016 - $2,978,122]. This facility bears interest at the prime rate plus 0.20% or 1-month bankers' acceptance rate plus 1.20% per annum on outstanding Canadian dollar denominated balances [December 31, 2016 - 0.20% and 1.20% per annum, respectively] and US base rate plus 0.20% per annum or 1-month LIBOR rate plus 1.20% per annum on outstanding US dollar denominated balances [December 31, 2016 - 0.20% and 1.20% per annum, respectively]. Additionally, the facility bears interest at the 1-month Bank Bill Swap Bid Rate plus 1.20% per annum on outstanding Australian dollar denominated balances and the 1-month Bank Bill Reference Rate plus 1.20% per annum on outstanding New Zealand dollar denominated balances [December 31, 2016 - 1.20% and 1.20% per annum, respectively] . The term senior credit facility is secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property.

As at December 31, 2017, the Company had access to $1,231,063 [December 31, 2016 - $1,721,328] of available financing from the term senior credit facility.

Restricted funds

Restricted funds include [i] cash reserves of $122,812 as at December 31, 2017 [December 31, 2016 - $151,470], which represent collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of $357,398 as at December 31, 2017 [December 31, 2016 - $452,421], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

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

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Contractual maturity of secured borrowings

The contractual maturity of the secured borrowings gross of interest costs outstanding as at December 31, compared to the maturity of the gross investment in finance receivables and future minimum payments received on equipment under operating leases, is as follows:

	2017			2016		
	Secured borrowings gross of interest costs (1)	Finance receivables and equipment under operating leases (2)		Secured borrowings gross of interest costs (1)(3)	Finance receivables and equipment under operating leases (2)(3)	
Maturity	$	$	%	$	$	%
Within 1 year	**3,045,858**	**5,407,312**	**56.3%**	4,080,977	5,136,197	79.5%
In 1 to 3 years	**5,607,966**	**6,386,816**	**87.8%**	5,059,730	6,974,083	72.6%
In 3 to 5 years	**867,959**	**1,483,457**	**58.5%**	1,179,961	1,844,303	64.0%
After 5 years	**—**	**460,395**	**—%**	—	428,942	—%
	9,521,783	**13,737,980**	**69.3%**	10,320,668	14,383,525	71.8%
Interest costs	**(321,781)**			(269,609)		
Net of interest costs	**9,200,002**			10,051,059		
Revolving senior credit facility	**3,168,087**			2,978,122		
	12,368,089			13,029,181		

(1) Maturity schedule for secured borrowings gross of interest costs has been calculated based on interest expense rates as at the respective period ends and excludes the impact of hedging, and assumes the interest rate remains unchanged for the remaining life of the debt, including floating rate credit facilities.

(2) Maturity schedule for finance receivables is based on the gross investment balance. For equipment under operating leases, the schedule is based on the existing contractual future minimum lease payments.

(3) Presented on debt and assets from continuing operations.

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11. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	December 31, 2017						
	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**	**13.76**	**5.125**	**345,000**	**(3,860)**	**(11,590)**	**329,550**
Issued on May 29, 2015	**June 30, 2020**	**18.35**	**4.250**	**575,000**	**(12,402)**	**(16,230)**	**546,368**
				920,000	**(16,262)**	**(27,820)**	**875,918**

	December 31, 2016						
	Final maturity date	Conversion price per share	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value
		$	%	$	$	$	$
Issued on June 18, 2014	June 30, 2019	14.18	5.125	345,000	(6,253)	(18,626)	320,121
Issued on May 29, 2015	June 30, 2020	18.91	4.250	575,000	(17,092)	(22,341)	535,567
				920,000	(23,345)	(40,967)	855,688

(1) Stated interest rate on principal face value.
(2) The conversion price was adjusted on December 28, 2017, the ex-dividend date for dividends to be paid on January 15, 2018, to $13.76317 for the June 18, 2014 issuance and $18.35089 for the May 29, 2015 issuance.

May 29, 2015 Issuance

On May 29, 2015, the Company closed an offering of $575,000, 4.25% extendible convertible unsecured subordinated debentures [the "2015 Debentures"]. To determine the initial amount of the respective debt and equity components of the 2015 Debentures issued on May 29, 2015, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 5.50%, which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $519,886 [net of transaction costs of $23,757] and the equity component was assigned a value of $30,356 [net of after-tax transaction costs of $1,002, and before the impact of deferred taxes].

The 2015 Debentures bear interest at an annual coupon rate of 4.25% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2015. The maturity date for the 2015 Debentures was initially December 31, 2015 and was extended to June 30, 2020 on the closing of the acquisition of GE Capital's fleet operations *[note 22]*.

Each 2015 Debenture is convertible into common shares at the option of the holder of a Debenture at any time prior to 5:00 p.m. (Toronto time) on June 30, 2020, initially at a conversion price of $23.80 per common share [the "2015 Conversion Price"], subject to adjustment in accordance with the indenture agreement. As a result of the separation transaction, the conversion price was adjusted to $19.10317, and subsequently adjusted to $18.35089 for cumulative dividends paid on common shares on December 28, 2017. Holders converting their 2015 Debentures will be entitled to receive, in addition to the applicable number of common shares to be received on conversion, accrued and unpaid interest thereon in cash for the period from the last interest payment date on their 2015 Debentures to, but excluding, the date of conversion.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2018 and prior to June 30, 2020, in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2015 Conversion Price.

Subject to required regulatory approvals and provided that there is not a current 2015 Debenture event of default, the Company may, at its option and with notice, elect to repay, in whole or in part, the principal amount of the 2015 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2015 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2015 Debentures to be redeemed or that have matured, by 95% of the current market price of the common shares on the redemption date or maturity date. Any accrued and unpaid interest will be paid in cash.

June 18, 2014 Issuance

On June 18, 2014, the Company closed an offering of $345,000, 5.125% extendible convertible unsecured subordinated debentures [the "2014 Debentures"]. To determine the initial amount of the respective debt and equity components of the 2014 Debentures issued on June 18, 2014, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 7.5%, which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $299,264 [net of transaction costs of $11,660] and the equity component was assigned a value of $33,135 [net of after-tax transaction costs of $941, and before the impact of deferred taxes].

The 2014 Debentures bear interest at an annual coupon rate of 5.125% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2014. The maturity date for the 2014 Debentures was initially December 31, 2014 and was extended to June 30, 2019 on the closing of the acquisition of PHH Corporation's fleet management business on July 7, 2014.

Each 2014 Debenture is convertible into common shares at the option of the holder of a 2014 Debenture at any time after July 7, 2014 and prior to 5:00 p.m. (Toronto time) on June 30, 2019, initially at a conversion price of $17.85 per common share [the "2014 Conversion Price"], subject to adjustment in accordance with the indenture agreement. As a result of the separation transaction, the conversion price was adjusted to $14.32737, and subsequently adjusted to $13.76317 for cumulative dividends paid on common shares on December 28, 2017. Holders converting their 2014 Debentures will be entitled to receive, in addition to the applicable number of common shares to be received on conversion, accrued and unpaid interest thereon in cash for the period from the last interest payment date on their 2014 Debentures to, but excluding, the date of conversion.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2017 and prior to June 30, 2019, in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the current market price of the common shares on the date on which notice of redemption is given exceeds 125% of the 2014 Conversion Price.

Subject to required regulatory approvals and provided that there is not a current 2014 Debenture event of default, the Company may, at its option and with notice, elect to repay, in whole or in part, the principal amount of the 2014 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2014 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2014 Debentures to be redeemed or that have matured, by 95% of the current market price of the common shares on the redemption date or maturity date. Any accrued and unpaid interest will be paid in cash.

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12. SHARE CAPITAL

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

	Common shares	
	Shares	**Amount**
	#	$
Balance, December 31, 2016	**387,116,660**	**2,803,336**
Exercise of options	**2,253,776**	**17,518**
Shares repurchased	**(9,014,600)**	**(65,318)**
Balance, December 31, 2017	**380,355,836**	**2,755,536**
Balance, December 31, 2015	386,134,550	4,229,848
Exercise of options	982,110	6,436
Share issue costs, adjustment	—	11,500
Distribution dividend (allocated share capital)	—	(1,444,448)
Balance, December 31, 2016	387,116,660	2,803,336

Shares repurchased

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid [the "NCIB"]. The NCIB allows the Company to repurchase on the open market [or as otherwise permitted], at its discretion during the period commencing on June 12, 2017 and ending on the earlier of June 11, 2018 and the completion of purchases under the NCIB, up to 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the year ended December 31, 2017, 9,014,600 common shares have been repurchased for cancellation for $78,917 at a volume weighted average price of $8.75 per common share.

Common share dividends

During the year ended December 31, 2017, the Company paid $96,518 in common share dividends $0.25 per common share [December 31, 2016 - $38,644 or $0.10 per common share].

As at December 31, 2017, un-accrued common share dividends were $28,527 or $0.075 per common share [December 31, 2016 - $9,678 or $0.025 per common share].

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	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Preferred Shares, Series G		Preferred Shares, Series I	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	#	$	#	$	#	$	#	$	#	$
Balance, December 31, 2016	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	—	—	—	—	—	—	—	—	6,000,000	146,756
Balance, December 31, 2017	**4,600,000**	**110,375**	**5,126,400**	**124,744**	**5,321,900**	**129,994**	**6,900,000**	**168,543**	**6,000,000**	**146,756**

Preferred shares

On May 5, 2017, the Company issued, through a public offering, 6,000,000 5.75% Cumulative 5-Year Rate Reset Preferred Shares, Series I ["Series I shares"] at a price of $25.00 per preferred share for gross proceeds of $150,000. The issuance included pre-tax transaction costs of $4,423 [or after-tax transaction costs of $3,244].

For each five-year period, holders of the Series I shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.64%, provided that, in any event, the annual fixed dividend rate shall not be less than 5.75%. The Company will have the right to redeem the Series I shares on June 30, 2022, and on June 30 every five years thereafter for $25 per Series I share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series I shares, the holders of the Series I shares will have the right on June 30, 2022, and on June 30 every five years thereafter, to convert all or any of the Series I shares into Series J shares, on the basis of one Series J share for each Series I share converted. Holders of Series J shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.64%.

On May 29, 2015, the Company issued, through a public offering, 6,900,000 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series G ["Series G shares"] at a price of $25.00 per preferred share for gross proceeds of $172,500. The issuance included pre-tax transaction costs of $5,551 [or after-tax transaction costs of $3,957].

For each five-year period, holders of the Series G shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 5.34%. The Company will have the right to redeem the Series G shares on September 30, 2020, and on September 30 every five years thereafter for $25 per Series G share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series G shares, the holders of the Series G shares will have the right on September 30, 2020, and on September 30 every five years thereafter, to convert all or any of the Series G shares into Series H shares, on the basis of one Series H share for each Series G share converted. Holders of Series H shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 5.34%.

On June 18, 2014, the Company issued, through a public offering, 5,000,000 6.40% Cumulative 5-Year Rate Reset Preferred Shares, Series E ["Series E shares"] at a price of $25.00 per preferred share for gross proceeds of $125,000. On July 8, 2014, the underwriters to the prospectus offering exercised their over-allotment option that resulted in the issuance of 321,900 Series E preferred shares at a price of $25 per share for gross proceeds of $8,048. The issuance included pre-tax transaction costs of $4,146 [or after-tax transaction costs of $3,054].

For each five-year period, holders of the Series E shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.72%. The Company will have the right to redeem the Series E shares on September 30, 2019, and on September 30 every five years thereafter for $25 per Series E share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series E shares, the holders of the Series E shares will have the right on September 30, 2019, and on September 30 every five years thereafter, to convert all or any of the Series E shares into Series F shares, on the basis of one Series F share for each Series E share converted. Holders of Series F shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.72%.

On March 7, 2014, the Company issued, through a public offering, 5,126,400 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series C ["Series C shares"] at a price of $25.00 per preferred share for gross proceeds of $128,160. The issuance included pre-tax transaction costs of $4,639 [or after-tax transaction costs of $3,416].

For each five-year period, holders of the Series C shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.81%. The Company will have the right to redeem the Series C shares on June 30, 2019, and on June 30 every five years thereafter for $25 per Series C share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series C shares, the holders of the Series C shares will have the right on June 30, 2019, and on June 30 every five years thereafter, to convert all or any of the Series C shares into Series D shares, on the basis of one Series D share for each Series C share converted. Holders of Series D shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.81%.

On December 17, 2013, the Company issued, through a public offering, 4,600,000 6.60% Cumulative 5-Year Rate Reset Preferred Shares, Series A ["Series A shares"] at a price of $25.00 per preferred share for gross proceeds of $115,000. The issuance included pre-tax transaction costs of $6,281 [or after-tax transaction costs of $4,613].

For each five-year period, holders of the Series A shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.71%. The Company will have the right to redeem the Series A shares on December 31, 2018, and on December 31 every five years thereafter for $25 per Series A share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series A shares, the holders of the Series A shares will have the right on December 31, 2018, and on December 31 every five years thereafter, to convert all or any of the Series A shares into Series B shares, on the basis of one Series B share for each Series A share converted. Holders of Series B shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.71%.

Preferred share dividends

During the year ended December 31, 2017, the Company paid $39,145 in preference share dividends [December 31, 2016 – $35,648].

As at December 31, 2017, the un-accrued cumulative preference share dividends were $122 [December 31, 2016 – $98].

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

December 31, 2017

13. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the year ended December 31:

	2017	**2016**
	$	$
[a] Stock options	**12,574**	16,020
[b] Deferred share units	**3,218**	3,062
[c] Performance share units	**(1,164)**	24,772
[d] Restricted share units	**4,282**	429
	18,910	44,283

Allocated as:		
Share-based compensation (1)	**19,930**	22,485
Transaction and integration costs	**2,884**	21,797
Other revenue (2)	**(3,904)**	—
	18,910	44,282

(1) Excluded in the year ended December 31, 2016 is $4,346 of stock option expenses and $2,627 of PSU expenses, respectively, for share-based compensation recognized in the net income from distributed operations.

(2) During the year ended December 31, 2017, a PSU liability expired without vesting for a participant from ECN Capital Corp. The original expense for this PSU was recognized in discontinued operations and was not included as share-based compensation in the statement of operations of the Company. As a result, the reversal of the liability was recorded to other revenue.

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

December 31, 2017

[a] Stock options

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

	Number of options #	Weighted average exercise price (2) $
Outstanding, December 31, 2015	22,353,854	12.31
Granted	4,083,574	12.18
Forfeited	(404,797)	14.52
Expired	(64,190)	11.75
Exercised (1)	(1,230,879)	5.22
Outstanding, December 31, 2016	24,737,562	10.37
Granted	**963,639**	**12.73**
Forfeited	**(262,773)**	**12.81**
Expired	**(391,808)**	**12.38**
Exercised (1)	**(3,678,327)**	**7.39**
Outstanding, December 31, 2017	**21,368,293**	**10.92**

(1) Weighted average share price of options exercised during the year ended December 31, 2017 was $12.63 [year ended December 31, 2016 – $14.25].

(2) On October 3, 2016, upon the Separation, the exercise price of an Element Fleet option was adjusted to approximately 79.4% of the original exercise price. At the time of the Separation there were 22,556,684 options outstanding with a weighted average strike price of $12.61, and the weighted average share price on these options was adjusted to $10.02.

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 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.

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

The fair value of the options granted during the year ended December 31 was determined using the Black‑Scholes option valuation model with inputs to the model as follows:

	Unit	2017	2016
Weighted average share price	$	**12.73**	13.17
Average term to exercise	Years	**7.0**	7.0
Share price volatility	%	**29.0**	33.1
Weighted average expected annual dividend	$	**0.30**	0.10
Risk-free interest rate	%	**1.40**	1.21
Forfeiture rate	%	**1.02**	1.02

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

		Options outstanding		
Range of exercise prices	**Weighted average remaining life [in years]**	**Vested** #	**Unvested** #	**Total** #
$0.00 to $5.00	**1.26**	**1,571,332**	**—**	**1,571,332**
$5.01 to $10.00	**2.17**	**3,453,945**	**72,125**	**3,526,070**
$10.01 to $15.00	**4.31**	**10,543,408**	**5,543,283**	**16,086,691**
$15.01 and over	**3.20**	**144,199**	**40,001**	**184,200**
	3.72	**15,712,884**	**5,655,409**	**21,368,293**

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

[b] Deferred share units, performance share units and restricted share units

	Deferred share units	Performance share units	Performance share units referenced to ECN Capital Corp.	Restricted share units
	#	#	#	#
Outstanding, December 31, 2015	1,450,521	2,222,952	—	—
Granted	210,115	141,922	—	636,352
Issued on Separation	379,641	—	1,386,576	—
Forfeited	—	(48,187)	(2,206)	—
Redeemed	(335,266)	(984,916)	(57,418)	—
Outstanding, December 31, 2016	1,705,011	1,331,771	1,326,952	636,352
Granted	**143,076**	**272,640**	**3,699**	**816,695**
Forfeited	—	**(249,187)**	**(248,176)**	—
Redeemed	**(454,100)**	**(1,086,290)**	**(1,082,475)**	**(197,632)**
Outstanding, December 31, 2017	**1,393,987**	**268,934**	—	**1,255,415**

[i] Deferred share units ["DSU"]

Subsequent to the distribution to the shareholders of the distributed operations, Element DSUs were adjusted such that the underlying share applicable to each Element DSU 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, 379,641 units were issued to effect the distribution.

As at December 31, 2017, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $13,243 [December 31, 2016 – $21,244].

[ii] Performance share units ["PSU"]

Subsequent to the distribution to the shareholders of the distributed operations, Element PSUs were adjusted such that for each Element PSU outstanding, the PSU is referenced to an Element Fleet common share ["EFN PSU"], and an additional PSU was issued and referenced to an ECN Capital common share ["ECN PSU"], such that the aggregate value immediately following the distribution is equal to the aggregate value of the Element PSUs immediately prior to the distribution, 1,386,576 ECN PSUs were issued to effect the distribution.

As at December 31, 2017, 268,934 EFN PSUs and nil ECN Capital PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $1,746 [December 31, 2016 – 1,331,771 EFN PSUs and 1,326,952 ECN Capital PSUs and $18,770 of liabilities]. Certain PSUs issued during 2017 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2017, 2018 and 2019.

[iii] Restricted share units ["RSU"]

As at December 31, 2017, 1,255,415 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $2,667 [December 31, 2016 – 636,352 RSUs and $376 of liabilities]. The RSUs outstanding will vest over one, two and three years.

[iv] Hedging of DSUs, PSUs and RSUs

As at December 31, 2017, the Company has hedged 2,361,032 Element Fleet referenced share units and nil ECN Capital referenced share units, with net derivative liabilities of $5,030, which will be applied to the settlement of PSU, RSU and DSU awards [December 31, 2016 – 1,399,652 EFN and 1,326,953 ECN Capital referenced share units hedged and net derivative liabilities of $2,078 for PSU and RSU awards].

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

14. REVENUES

Service and other revenue, includes fuel cards, accident management services and maintenance services revenues. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third party lessor. The comparative periods have been adjusted to reflect removing internal expenses related to service delivery from service and other revenue to salaries, wages and benefits, and general and administrative expenses to be consistent with the current period presentation. The comparative period has also been adjusted to reflect removing external costs related to certain service contracts from service and other revenue, to direct costs of fixed rate service contracts. The adjustment for internal expenses and external costs were $61,802 and $39,905 for the year ended December 31, 2016, respectively.

Interest income, net consists of the following for the years ended December 31:

	2017	2016
	$	$
Interest income	**629,562**	663,760
Provision for (recovery of) credit losses *[note 4]*	**(921)**	(3,834)
Interest income, net	**630,483**	667,594

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

December 31, 2017

15. INCOME TAXES

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

	2017 $	2016 $
Consolidated statements of operations		
Current income tax expense	**49,394**	45,342
Deferred income tax benefit		
Origination and reversal of temporary differences	**(29,319)**	(45,660)
Income tax expense (benefit) reported in the consolidated statements of operations	**20,075**	(318)
Income tax benefit reported in the consolidated statements of changes in shareholders' equity	**818**	963

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

	2017 $	2016 $
Income before income taxes	**174,719**	189,946
Combined statutory Canadian federal and provincial tax rate	**26.64%**	26.64%
Income tax expense based on statutory rate	**46,545**	50,602
Income taxes adjusted for the effect of:		
Non-deductible and non-taxable items	**(32,440)**	(42,715)
Foreign rate differential	**(11,051)**	(15,862)
Impact of U.S. income tax reform	**16,307**	
Adjustments of prior year taxes and other	**714**	7,657
Total income tax expense (benefit)	**20,075**	(318)

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

[c] Deferred taxes:

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

	2017	2016
	$	$
Deferred tax assets		
Shares and special warrants issuance and tax costs	**13,996**	23,555
Finance receivables	**(802,213)**	(815,566)
Tax loss carry forwards	**953,305**	889,666
Transaction and integration costs	**35,521**	65,136
Ontario Corporate Minimum Tax Credit carry forwards	—	—
Capital assets, intangibles, and other	**(8,171)**	16,277
Deferred share units	**10,772**	5,899
Unrealized gain or loss on foreign exchange and derivatives	**4,882**	8,042
Convertible debentures	**(7,411)**	(10,914)
Intangibles assets arising from acquisitions	**(23,079)**	(25,200)
	177,602	156,895
Deferred tax liabilities		
Finance receivables	**15,795**	13,178
Tax loss carry forwards	**(2,555)**	(39)
Transaction and integration costs	—	(3,308)
Capital assets, intangibles and other	**17,087**	9,930
	30,327	19,761
Net deferred tax asset (liability) position	**147,275**	137,134

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

	2017	2016
	$	$
Balance, beginning of year	**137,134**	91,807
Tax benefit/(expense) recognized in profit or loss	**29,320**	45,660
Tax benefit/(expense) recognized through shareholders' equity	**(10,736)**	(12,392)
Tax benefit/(expense) recognized through OCI	**(8,443)**	(16,427)
Tax benefit/(expense) recognized due to distributed operations	—	28,486
Balance, end of year	**147,275**	137,134

Management has concluded the deferred tax asset of $177,602 meets the relevant recognition criteria under IFRS. Management's conclusion is supported by embedded profits in existing finance receivables and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax asset.

[iii] The Company has incurred capital losses for tax purposes of $125,908 [2016 - $189,710], which are available to reduce future capital gains. No deferred income tax asset has been recognized in respect of the loss carryforwards of the capital losses.

There are no other unused tax losses and temporary differences that have not been recognized for the year ended December 31, 2017.

16. SUBSIDIARIES

[a] List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly-owned:

	Principal place of business
Element Fleet Management (US) Corp. (Formerly Element Financial (US) Corp.)	US
Element Vehicle Management Services LLC	US
Element Fleet Corporation	US
Element Transportation LLC	US
CEI Group Inc.	US
Chesapeake Finance Holdings II LLC	US
Chesapeake Funding II LLC	US
Chesapeake Funding III LLC	US
Element Fleet Management Inc.	Canada
Element Fleet Lease Receivable LP	Canada
FLR LP Inc.	Canada
Element SPV Limited	Ireland
Element Fleet Technology Limited	Ireland
EFN (Netherlands) Cooperatief U.A.	Netherlands
EFN (Netherlands) B.V.	Netherlands
Element Fleet Services Australia PTY Ltd.	Australia
EFN (Australia) Pty Limited	Australia
EFN (New Zealand) Limited	New Zealand
Custom Fleet NZ	New Zealand
Element Fleet Management Corporation Mexico S.A. de C.V.	Mexico

[b] Subsidiaries with restrictions

The Company's continuing operations have restrictions on its ability to access or use its assets and settle its liabilities in Chesapeake Finance Holdings II LLC, Chesapeake Funding II LLC, Chesapeake Funding III LLC, and Element Fleet Lease Receivable LP. These subsidiaries facilitate the transfer of financial assets and related property or interests, in connection with funding facilities, and the activities of these entities are governed by their constituting agreements and debt agreements. Assets held as collateral by these subsidiaries for such funding facilities are not available to satisfy the claims of creditors of the Company. The carrying amounts of assets and liabilities in these subsidiaries as at December 31, 2017 were $10,799,035 and $9,266,784, respectively [December 31, 2016 - $11,673,122 and $10,078,309, respectively].

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

17. RELATED PARTY TRANSACTIONS

Notes Receivable

The notes receivable of $19,670 as at December 31, 2017 [December 31, 2016 – $22,078] 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 for the years ended December 31:

	2017	2016
	$	$
Notes receivable, beginning of period	**22,078**	50,819
Additions	—	6,060
Interest income	**556**	1,236
Repayments [interest and principal]	**(2,964)**	(5,176)
Transferred to ECN Capital Corp. on separation	—	(30,861)
Notes receivable, end of period	**19,670**	22,078

Compensation of directors and key management

The remuneration of directors and key management personnel of the Company were as follows for the years ended December 31:

	2017	2016
	$	$
Salaries, bonuses and benefits	**8,709**	33,241
Share-based compensation	**9,101**	10,292
	17,810	43,533

The above amounts for the year ended December 31, 2016 include compensation expense that have been allocated to distributed operations, through both corporate overhead or direct allocation. Included in salaries, bonuses and benefits for the year ended December 31, 2016, are accrued liabilities of $24,900 [representing the Company's portion under the separation agreement] for employment arrangements for former Element Financial Corporation executives, who became ECN Capital Corp. executives as a result of the separation.

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

18. EARNINGS PER SHARE

Basic earnings per share are as follows for the year ended December 31:

		2017		2016
Net income from continuing operations attributable to shareholders	**$**	**154,644**	$	190,264
Cumulative dividends on preferred shares	**$**	**(41,301)**	$	(35,648)
Net income from continuing operations available to common shareholders	**$**	**113,343**	$	154,616
Net income from distributed operations attributable to common shareholders	**$**	**—**	$	223,075
Total net income attributable to common shareholders	**$**	**113,343**	$	377,691
Weighted average number of common shares outstanding – basic [number]		**385,420,010**		386,525,125
Basic earnings per share from continuing operations	**$**	**0.29**	$	0.40
Basic earnings per share from distributed operations	**$**	**—**	$	0.58
Total basic earnings per share	**$**	**0.29**	$	0.98

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

Diluted earnings per share is as follows for the year ended December 31:

		2017		2016
Net income from continuing operations available to common shareholders adjusted for the effects of dilution	**$**	**113,343**	$	154,616
Net income from distributed operations available to common shareholders adjusted for the effects of dilution	**$**	**—**	$	223,075
Total net income available to common shareholders adjusted for the effects of dilution	**$**	**113,343**	$	377,691
Weighted average number of common shares outstanding – basic [number]		**385,420,010**		386,525,125
Dilutive stock options and warrants [number]		**2,422,018**		6,206,132
Weighted average number of common shares outstanding – diluted [number]		**387,842,028**		392,731,257
Diluted earnings per share from continuing operations	**$**	**0.29**	$	0.39
Diluted earnings per share from distributed operations	**$**	**—**	$	0.57
Total diluted earnings per share	**$**	**0.29**	$	0.96

Instruments outstanding as at December 31, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 14,947,272 stock options for the year ended December 31, 2017 [year ended December 31, 2016 – 5,957,609 stock options, respectively].

In addition, the convertible debentures *[note 11]* were excluded from the diluted earnings per share calculation as these were anti-dilutive for the year ended December 31, 2017 and 2016.

19. 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 years ended December 31:

	2017	2016
	$	$
Foreign exchange agreements recorded in other revenues	**(15,383)**	(32,360)
Fair value changes recorded in other comprehensive income (loss)	**(36,608)**	69,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

Notional amounts and fair values of derivative instruments

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

	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	December 31, 2017	December 31, 2016
	$	$	$	$	$	$
Notional principal						
Derivative assets						
Interest rate contracts	**2,094,936**	**2,542,973**	**431,714**	**32,041**	**5,101,664**	3,981,063
Foreign exchange agreements	**385,668**	—	—	—	**385,668**	553,394
Derivative assets	**2,480,604**	**2,542,973**	**431,714**	**32,041**	**5,487,332**	4,534,457
Derivative liabilities						
Interest rate contracts	**2,486,835**	**1,946,647**	**262,328**	—	**4,695,810**	3,271,452
Foreign exchange agreements	**364,637**	—	—	—	**364,637**	385,843
Total return swaps	**27,492**	—	—	—	**27,492**	24,128
Derivative liabilities	**2,878,964**	**1,946,647**	**262,328**	—	**5,087,939**	3,681,423
Fair values						
Restricted funds - collateral					**4,070**	2,570
Derivative assets						
Interest rate contracts	**11,971**	**15,345**	**3,589**	**292**	**31,197**	27,298
Foreign exchange agreements	**829**	—	—	—	**829**	39,940
Derivative assets	**12,800**	**15,345**	**3,589**	**292**	**32,026**	67,238
Derivative liabilities						
Interest rate contracts	**11,672**	**13,260**	**1,798**	—	**26,730**	24,173
Foreign exchange agreements	**1,582**	—	—	—	**1,582**	1,281
Total return swaps	**5,030**	—	—	—	**5,030**	2,078
Derivative liabilities	**18,284**	**13,260**	**1,798**	—	**33,342**	27,532

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

December 31, 2017

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, as at December 31:

	2017	2016
	$	$
Interest rate contracts	**4,467**	3,125
Foreign exchange agreements	**(753)**	38,659
Total return swaps	**(5,030)**	(2,078)
	(1,316)	39,706

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

December 31, 2017

Offsetting of derivative assets and liabilities

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

				Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	$	$	$	$	$	$
As at December 31, 2017						
Derivative financial instrument assets	**32,026**	**—**	**32,026**	**18,503**	**—**	**13,523**
Derivative financial instrument liabilities	**33,342**	**—**	**33,342**	**18,503**	**4,070**	**10,769**
As at December 31, 2016						
Derivative financial instrument assets	67,238	—	67,238	21,770	—	45,468
Derivative financial instrument liabilities	27,532	—	27,532	21,770	2,570	3,192

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

20. 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, as at:

	December 31, 2017	December 31, 2016
	$	$
Secured borrowings	**12,307,873**	12,983,535
Convertible debentures	**875,918**	855,688
Total debt	**13,183,791**	13,839,223
Shareholders' equity	**3,740,083**	3,981,354
	16,923,874	17,820,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

21. SEGMENTED INFORMATION

[A] Operating Segments

Post Separation, certain assets have remained with or acquired by Element that are not considered pure fleet assets and/or typical earnings assets in a pure fleet management company. Assets have remained from Separation for various commercial and structuring reasons, and the related strategy for each is dependent upon many factors including, but not limited to, cross-selling opportunities with core fleet services, current and expected market conditions related to valuation, and overall risk relative to the size of the Company.

Due to the differing characteristics of these assets and operations from pure fleet management, the Company amended its internal management reporting process during fiscal 2017, resulting in the Company moving from a single segment to two operating and reporting segments consisting of [a] the Fleet Management segment and, [b] the Non-Core segment. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, adjusted operating income, return on tangible equity and leverage.

Segmented Operating Results

	Year ended December 31, 2017			Year ended December 31, 2016		
	Fleet Management	**Non-Core**	**Total**	Fleet Management	Non-Core	Total
	$	**$**	**$**	$	$	$
Net revenue						
Service and other revenue	**547,707**	**35,993**	**583,700**	535,388	40,070	575,458
Interest and rental revenue, net	**663,635**	**81,783**	**745,418**	645,001	126,369	771,370
	1,211,342	**117,776**	**1,329,118**	1,180,389	166,439	1,346,828
Interest expense	**334,509**	**42,582**	**377,091**	306,728	41,740	348,468
Net revenue	**876,833**	**75,194**	**952,027**	873,661	124,699	998,360
Operating Expenses						
Salaries, wages and benefits	**315,489**	**3,381**	**318,870**	292,640	1,719	294,359
General and administrative expenses	**148,236**	**2,343**	**150,579**	160,510	6,514	167,024
Depreciation and amortization	**15,976**	**—**	**15,976**	11,077	—	11,077
	479,701	**5,724**	**485,425**	464,227	8,233	472,460
Net segment operating income (before tax)	**397,132**	**69,470**	**466,602**	409,434	116,466	525,900
Share of loss from joint venture	**—**	**121,063**	**121,063**	—	—	—
Net segment income (before tax)	**397,132**	**(51,593)**	**345,539**	409,434	116,466	525,900
Share-based compensation			**19,930**			22,485
Amortization of convertible debenture synthetic discount			**13,147**			12,314
Business acquisition and separation costs			**137,824**			301,155
Provision for (recovery) income taxes			**20,075**			(318)
Net income for the period from continuing operations			**154,563**			190,264

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

Segmented Financial Position

	As at December 31, 2017			As at December 31, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	$	$	$	$	$	$
Select balance sheet information						
Finance receivables	**11,904,630**	**863,503**	**12,768,133**	12,555,776	898,235	13,454,011
Equipment under operating leases	**1,599,423**	**—**	**1,599,423**	1,421,637	—	1,421,637
Investment in joint venture (1)	**—**	**10,000**	**10,000**	—	135,846	135,846
Other earning assets (1)	**—**	**122,285**	**122,285**	—	170,889	170,889
Goodwill and intangible assets	**2,028,652**	**—**	**2,028,652**	2,163,063	—	2,163,063
Total select segment assets	**15,532,705**	**995,788**	**16,528,493**	16,140,476	1,204,970	17,345,446
Corporate assets			**1,041,140**			1,075,218
Total assets			**17,569,633**			18,420,664

(1) Included in accounts receivable and other assets on the consolidated statements of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

[B] Geographic information

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

Geographic information is as follows:

	December 31, 2017				December 31, 2016			
	Canada	**US**	**Other**	**Total**	Canada	US	Other	Total
For the year ended	**$**	**$**	**$**	**$**	$	$	$	$
Net revenue excluding interest expense from continuing operations	**146,849**	**927,831**	**254,438**	**1,329,118**	124,167	941,124	281,537	1,346,828
Interest expense from continuing operations				**(377,091)**				(348,468)
Net revenue from continuing operations				**952,027**				998,360

	December 31, 2017				December 31, 2016			
	Canada	**US**	**Other**	**Total**	Canada	US	Other	Total
As at	**$**	**$**	**$**	**$**	$	$	$	$
Select assets								
Finance receivables	**1,460,381**	**10,865,466**	**442,286**	**12,768,133**	1,474,411	11,550,828	428,772	13,454,011
Equipment under operating leases	**—**	**—**	**1,599,423**	**1,599,423**	—	—	1,421,637	1,421,637
Goodwill and intangible assets (1)	**199,078**	**1,797,079**	**32,496**	**2,028,653**	203,362	1,932,035	27,666	2,163,063
Property, equipment and leasehold improvements	**5,528**	**50,528**	**11,352**	**67,408**	8,559	55,373	16,810	80,742
	1,664,987	**12,713,073**	**2,085,557**	**16,463,617**	1,686,332	13,538,236	1,894,885	17,119,453

(1) December 31, 2016 has been retrospectively adjusted to reflect finalization of purchase price allocation, including segment allocation for the acquisition of CEI Capital Group, Inc.

Geographic net revenue, excluding interest expense is based on the location of customers, and select assets are based on the location of the assets.

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

22. BUSINESS ACQUISITION

Prior year acquisitions

Acquisition of the CEI Capital Group, Inc. ["CEI Group"]

On December 30, 2016, the Company completed the acquisition of the CEI Group a business that is engaged in providing professional auto claims outsourcing services and fleet management services.

The Company completed the transaction for cash consideration of $41,720. The purchase price was funded from cash and the existing senior facility.

The following table summarizes the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

	December 30, 2016 $
Assets acquired	
Accounts receivables and other	**17,966**
Property, equipment and leasehold improvements	**2,692**
Goodwill (1)	**42,527**
	63,185
Liabilities assumed	
Accounts payable and accrued liabilities	**24,157**
	39,028
Source of financing	
Cash, net of cash acquired of $2,692 (1)	**39,028**

(1) December 30, 2016 balances have been adjusted to reflect finalization of the purchase price allocation relating to the acquisition.

The excess purchase consideration over the estimated net fair value of assets acquired of $42,527 has been allocated to goodwill.

Transaction, strategic review and integration costs

As at December 31, 2017, $4,871 of transaction and integration costs related to the GE Fleet Transaction remain payable and are included in accounts payable and accrued liabilities on the consolidated statements of financial position [2016 - $40,411], excluding accrued PSU liabilities.

Included in transaction, strategic review and integration costs for the year ended December 31, 2017, was compensation costs of $15,022 [December 31, 2016 - $33,839].

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

December 31, 2017

23. COMMITMENTS

The Company leases its head office and its regional offices under operating leases expiring on various dates through 2025. As at December 31, the remaining future minimum lease payments are as follows:

	2017	**2016**
	$	$
Within one year	**9,844**	10,794
After one year but not more than five years	**38,863**	33,056
More than five years	**19,938**	19,790
	68,645	63,640

The Company enters into commitments to extend credit and provide lease or loan financing to its customers in the ordinary course of business, or commits to purchase equipment for leases. The funding of these commitments is subject to the customer satisfying various conditions and contractual requirements prior to funding. As a result, the total commitments outstanding do not necessarily reflect actual future cash flow requirements. As at December 31, 2017, the Company had $322,300 of commitments outstanding to provide financing or purchase equipment, and expire or settle on various dates through to December 31, 2018.

24. FINANCIAL INSTRUMENT RISKS

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans. Counterparty limits are established by the use of both external and internal credit risk classification systems, which assign each counterparty a risk rating. The Company also manages credit risk through the existence of asset collateral held against both direct financing leases and loans. The Company maintains insurance coverage over these assets to further mitigate risk of loss. In situations where the Company takes possession of collateral under the terms of the direct finance lease or loan agreement, the asset is sold and a gain or loss on disposal is recognized.

The Company also monitors the diversification of its lending across asset class, geography and transaction size. As a result of transaction sizes and collateral arrangements, no individual customer represents a significant credit risk to the Company.

The Company's maximum exposure to credit risk for components of the consolidated statements of financial position as at December 31, 2017 and 2016 is the carrying amounts as disclosed on the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the Company's liquidity to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due and sustain and grow its assets and operations under both normal and stress conditions.

The most significant exposure to liquidity risk relates to the repayment of secured borrowings *[note 10]*. This exposure is managed as the cash flows generated by the Company's net investment in leases and loans, and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company structures its secured borrowing arrangements to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving loan facilities and the interest received on the underlying finance receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances, the Company enters into interest rate swaps in order to align the interest rate variability.

The Company does experience short-term interest rate risk on these finance receivables during the period between fixing the contractual rate under the finance contracts with its customers and the locking of the interest rate under its funding facilities. During this time, an upward movement in benchmark rates can negatively impact the spread on the transaction. In order to mitigate this risk, the Company carefully monitors its borrowing costs to ensure its rates reflect appropriate spreads to insulate against sudden unexpected interest rate movements. In order to further mitigate risk, the Company undertakes regular securitizations under its secured borrowing arrangements to ensure its finance contracts are appropriately match-funded by its secured borrowings, which reduces the warehouse period and the likelihood that a significant movement in bond rates will negatively impact the spreads on such transactions. The Company also maintains adequate balance sheet liquidity to allow it flexibility in developing a strategy of holding versus securitizing such finance assets.

After considering the fixed interest rate spread on the secured borrowing programs and high exposure to fixed rate finance receivables described above, the Company's interest rate risk is limited to cash and restricted cash, floating-rate finance receivables that are neither hedged nor part of a match-funded secured borrowing arrangement, senior revolving credit facility, and floating-rate finance receivables that are hedged with interest rate caps and these interest rate caps are out-of-the-money. Based on its exposure as at December 31, 2017, the Company estimates that a 50 basis point increase would decrease net income before taxes by approximately $3,163 and a 50 basis point decrease in interest rates would increase net income before taxes by approximately $2,244.

Foreign currency risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk the exchange rates will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2017, the Company did not have a significant un-hedged exposure to this type of foreign currency risk, which would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and foreign currency exchange rate used to translate the Company's foreign currency denominated net income into Canadian dollar equivalent during each period. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If net income before business acquisition and separation costs and income taxes in fiscal year 2018 is consistent with the results generated in 2017, each one cent increase (decrease) in the average Canadian/foreign currency exchange rates would be expected to increase/decrease net income before business acquisition costs and income taxes for the year by approximately $6,001 in the absence of hedging transactions.

December 31, 2017

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the purposes of fair value disclosures, financial instruments have been separated into the following classes: finance lease receivables, finance loans receivable, secured borrowings on finance receivables, convertible debentures, notes receivable, and derivatives.

Valuation methods and assumptions

Finance lease receivables

The carrying value of finance lease receivables 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 are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model that 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.

Finance loans receivables

The carrying value of finance loans receivables was $855,789 and the estimated fair value was $795,000 to $840,000 as at December 31, 2017 [December 31, 2016 – $888,039 and $888,039, respectively]. Included in the carrying value as at December 31, 2017 is $775,898 related to loans provided to the 19th Capital joint venture, with an estimated fair value of $715,000 to $760,000 [December 31, 2016 – $829,108 and approximately $829,108, respectively]. The fair value of finance loans receivable is determined by discounting the stream of principal and interest at a rate of interest for instruments of similar terms and credit risks as at December 31, 2017. Finance loans receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

December 31, 2017

Secured borrowings on finance receivables

The carrying value of secured borrowings on finance receivables approximates fair value. The assertion that the carrying value of the secured borrowings approximates fair value requires the use of estimates and significant judgment. Secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables securing the borrowings were credit-scored based on an internal model that 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 11. The fair market value of the debt component as at December 31, 2017 was estimated at $902,010 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 19 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.

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

December 31, 2017

26. SUPPLEMENT TO INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow from other non-cash operating assets and liabilities for the years ended:

	December 31, 2017	December 31, 2016
	$	$
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	**(28,631)**	(82,665)
Accounts payable and accrued liabilities	**58,228**	(81,598)
Deferred tax assets	**(20,316)**	(45,087)
Deferred tax liabilities	**11,486**	7,672
Derivative financial instruments	**8,215**	(38,106)
	28,982	(239,784)

The cash flow of ECN Capital prior to the completion of the distribution has been included in the Company's consolidated statements of cash flows as "distributed operations" and comprised the following amounts:

	From January 1, 2016 to October 3, 2016
	$
Cash utilized in operating activities of distributed operations	(45,418)
Cash provided by investing activities of distributed operations	52,542
Cash utilized in financing activities of distributed operations	(61,229)
Net cash utilized in distributed operations	(54,105)
Less: Cash on balance sheet of ECN Capital at period end	47,714
Net cash utilized in distributed operations	(101,819)

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

December 31, 2017

The 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 consolidated statements of cash flows.

	Year ended December 31, 2017
	$
Finance receivables *[note 4]*	
Balance as at December 31, 2016	**13,454,011**
Originations [included in cash flows]	**5,691,246**
Repayments [included in cash flows]	**(4,822,953)**
Assets sold to syndications [included in cash flows]	**(682,791)**
Amortization of deferred lease costs [adjustment to income in cash flows]	**(20,078)**
Impact of non-cash transfers	**34,493**
Provision for credit losses [adjustment to income in cash flows]	**(921)**
Impact of foreign exchange translation [excluded from cash flows]	**(884,874)**
Balance as at December 31, 2017	**12,768,133**
Equipment under operating leases *[note 5]*	
Balance as at December 31, 2016	**1,421,637**
Originations [included in cash flows as investment in equipment under operating leases]	**796,187**
Disposals [included in cash flows]	**(229,429)**
Amounts transferred from inventory	**9,296**
Depreciation of equipment under operating leases [adjustment to income in cash flows]	**(366,531)**
Impact of foreign exchange translation [excluded from cash flows]	**(31,737)**
Balance as at December 31, 2017	**1,599,423**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017

	Year ended December 31, 2017 $
Secured borrowings *[note 10]*	
Balance as at December 31, 2016	**12,983,535**
Net issuance [included in cash flows]	**103,707**
Increase in deferred financing costs [included in cash flows]	**(44,546)**
Amortization of deferred financing costs [adjustment to income in cash flows]	**34,161**
Impact of foreign exchange translation [excluded from cash flows]	**(768,984)**
Balance as at December 31, 2017	**12,307,873**

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

December 31, 2017

27. DISTRIBUTED OPERATIONS

On October 3, 2016, Element completed the separation of its C&V Finance, Aviation Finance and Rail Finance verticals into 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 of $1,710,473 was recorded. The dividend was based on the fair value of the distribution as determined using independent valuators 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.

The operating performance of ECN Capital has been included in the Company's comparative consolidated statements of operations as "distributed operations" and comprised the following amounts:

	From January 1, 2016 to October 3, 2016
	$
Net revenue	152,279
Operating expenses	(57,826)
Business acquisition and separation costs	(37,505)
Provision for income taxes	(5,227)
Net income for the period from distributed operations	51,721

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

The assets and liabilities of distributed of ECN Capital were distributed on October 3, 2016, and the resulting gain on the distribution to the Company's shareholders is as follows as of December 31, 2016:

Fair value of the distribution of assets to common shareholders		**1,710,473**
Carrying amount of the net assets distributed		
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**	
Accounts payable and accrued liabilities	**(78,351)**	
Derivative financial instruments	**(22,724)**	
Secured borrowings	**(4,268,531)**	
Deferred tax liabilities	**(11,410)**	**(1,710,473)**
Other comprehensive income reclassified to the statement of operations		**149,261**
Deferred income taxes on retained assets		**22,093**
Gain on distribution of assets before separation transaction costs		**171,354**
Separation transaction costs (net of taxes of $20,375)		**(56,311)**
Net gain on distribution of assets		**115,043**

Separation transaction costs consist of the following for the year ended December 31:

	2016 **$**
Transaction advisory consultants	**30,608**
ECN Capital executive employment arrangements	**24,900**
Legal	**9,088**
Other	**12,090**
	76,686

At December 31, 2017, no separation costs remain payable [December 31, 2016 - $33,900].

December 31, 2017

28. COMPARATIVE FIGURES

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