

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. Accordingly, these securities may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States of America. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Element Financial Corporation by sending a written request to 161 Bay Street, Suite 4600, Toronto, Ontario, M5J 2S1, telephone (416) 386-1067, and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

June 11, 2014

ELEMENT FINANCIAL CORPORATION



\$825,052,500

64,710,000 Subscription Receipts, each representing the right to receive one Common Share

and

\$300,000,000

5.125% Extendible Convertible Unsecured Subordinated Debentures

and

\$125,000,000

5,000,000 6.40% Cumulative 5-Year Rate Reset Preferred Shares, Series E

This short form prospectus qualifies the distribution of: (i) 64,710,000 subscription receipts (the "Subscription Receipts") of Element Financial Corporation (the "Corporation" or "Element") at a price of \$12.75 per Subscription Receipt for aggregate gross proceeds to the Corporation of \$825,052,500; (ii) \$300,000,000 aggregate principal amount of 5.125% extendible convertible unsecured subordinated debentures of the Corporation (the "Debentures"); and (iii) 5,000,000 6.40% Cumulative 5-Year Rate Reset Preferred Shares, Series E of the Corporation (the "Series E Shares" and, together with the Subscription Receipts and the Debentures, the "Securities") (the "Offering").

Pursuant to a Stock Purchase Agreement (as hereinafter defined) dated June 2, 2014 between the Corporation and PHH Corporation ("PHH"), the Corporation has agreed to purchase (the "Acquisition") PHH's fleet management services business, which business includes fleet leasing services, fleet management, maintenance services, accident management services, fuel card programs, data warehousing, information management and online systems support and access, for a purchase price of approximately US\$1.4 billion, subject to the adjustments set forth therein (the "Purchase Price"). Pursuant to the Acquisition, the Corporation shall also assume, subject to certain conditions, certain financing programs and securitizations of PHH related to the business. The closing of the Acquisition (the "Acquisition Closing") is expected to occur on or before July 31, 2014. See "Details of the Acquisition".

Subscription Receipts

Each Subscription Receipt will evidence the holder's right to receive, upon the Acquisition Closing and without payment of additional consideration or further action, one (1) common share in the capital of the Corporation (a "Common Share"). If the Acquisition Closing occurs prior to or concurrently with the closing date of the Offering (the "Offering Closing"), investors in the Offering will receive Common Shares on Offering Closing instead of Subscription Receipts, in which case this short form prospectus will qualify for distribution those Common Shares. See "Description of Share Capital—Common Shares".

The gross proceeds from the sale of the Subscription Receipts, net of half of the Underwriters' Fee for Subscription Receipts (as hereinafter defined) (the "Escrowed Funds"), will be held by Computershare Trust Company of Canada, as subscription receipt agent (the "Subscription Receipt Agent"), and invested in either an interest-bearing account with a Schedule I Canadian bank or the Subscription Receipt Agent's non-interest bearing trust account, pending receipt of the Acquisition Notice (as hereinafter defined), all pursuant to the terms of a subscription receipt agreement (the "Subscription Receipt Agreement") to be entered into on the Offering Closing among Element, the Subscription Receipt Agent and BMO Nesbitt Burns, Inc. ("BMO"), on its own behalf and for and on behalf of each of CIBC World Markets Inc. ("CIBC"), GMP Securities L.P. ("GMP"), Barclays Capital Canada Inc. ("Barclays"), National Bank Financial Inc. ("NBF"), TD Securities Inc. ("TD"), Credit Suisse Securities (Canada) Inc. ("CSS"), RBC Dominion Securities Inc. ("RBC"), Scotia Capital Inc. ("Scotia"), Cormark Securities Inc. ("Cormark") and Manulife Securities Incorporated ("MSI") (collectively, the "Subscription Receipt Underwriters").

Provided that the Acquisition Notice is delivered on or before 5:00 p.m. (Toronto time) on the Subscription Termination Date (as hereinafter defined), the Escrowed Funds and the interest earned thereon (the "Earned Interest") (less the remaining portion of the Underwriters' Fee for Subscription Receipts to be paid) will be released to Element and each holder of a Subscription Receipt will receive one Common Share in exchange for each Subscription Receipt held, without payment of additional consideration or further action. See "Description of the Subscription Receipts". Element will utilize the Escrowed Funds to pay a portion of the Purchase Price. See "Use of Proceeds".

If: (i) the Acquisition Closing does not occur prior to 5:00 p.m. (Toronto time) on December 31, 2014; (ii) the Stock Purchase Agreement is terminated at an earlier time; or (iii) if Element advises the Subscription Receipt Agent and BMO, on behalf of the Subscription Receipt Underwriters, or announces to the public by way of a news release that it does not intend to proceed with the Acquisition (each such case being a "Subscription Termination Event"), the Subscription Receipt Agent and Element will return to holders of Subscription Receipts an amount per Subscription Receipt equal to the offering price of the Subscription Receipts plus a pro rata share of the Earned Interest and their pro rata share of the interest that would have otherwise been earned on the 50% of the Underwriters' Fee for Subscription Receipts as if such an amount had been held in escrow as part of the Escrowed Funds and not paid to the Subscription Receipt Underwriters on the Offering Closing (the "Deemed Interest"), net of any applicable withholding taxes. See "Description of the Subscription Receipts".

Debentures

The Debentures bear interest at an annual rate of 5.125% payable semi-annually, not in advance, on the last day of June and December in each year (an "Interest Payment Date") commencing on December 31, 2014. The maturity date (the "Maturity Date") for the Debentures will initially be the Debenture Termination Date (as hereinafter defined) (the "Initial Maturity Date"). If the Acquisition Closing occurs prior to the occurrence of the Debenture Termination Date, the Maturity Date for the Debentures will automatically be extended from the Initial Maturity Date to 5:00 p.m. (Toronto time) on June 30, 2019 (the "Final Maturity Date"). In the event that the Acquisition Closing does not occur prior to the Debenture Termination Date, the Debentures will mature on the Initial Maturity Date, pursuant to the terms of the Indenture (as defined herein) to be entered into on the Offering Closing among Element and the Indenture Trustee (as defined herein). See "Description of the Debentures—General".

Debenture Conversion Privilege

Each Debenture will be convertible into freely tradeable Common Shares at the option of the holder of a Debenture at any time after the Acquisition Closing and prior to 5:00 p.m. (Toronto time) on the Final Maturity Date, at a conversion price of \$17.85 per Common Share (the "Conversion Price"), representing a conversion rate of approximately 56.0224 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in accordance with the Indenture. Holders converting their 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 Debentures to, but excluding, the date of conversion. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price, are set out under "Description of the Debentures—Conversion Privilege".

The Debentures may not be redeemed by the Corporation before June 30, 2017, except in certain limited circumstances following a Change of Control (as defined herein). On or after June 30, 2017 and prior to the Final Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon, provided that the Current Market Price (as defined herein) of the Common Shares on the date on which notice of redemption is given exceeds 125% of the Conversion Price. See "Description of the Debentures—Redemption and Purchase".

Subject to required regulatory approvals and provided that there is not a current Debenture Event of Default (as defined herein), the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering freely-tradeable Common Shares to the holders of the Debentures. Payment would be satisfied by delivering that number of freely-tradeable Common Shares obtained by dividing the principal amount of the Debentures to be redeemed or that have matured, as the case may be, by 95% of the Current Market Price of the Common Shares on the Redemption Date (as defined herein) or Maturity Date, as applicable. Any accrued and unpaid interest will be paid in cash. The Corporation will not be entitled to issue Common Shares to satisfy its payment obligations on the Initial Maturity Date. Further particulars of the interest, redemption, repurchase and maturity provisions of the Debentures are set out under "Description of the Debentures—Payment upon Redemption or Maturity".

Series E Shares

The holders of the Series E Shares will be entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Corporation's board of directors (the "Board of Directors") for the initial period from and including the Offering Closing up to but excluding September 30, 2019 (the "Initial Fixed Rate Period") payable quarterly on the last Business Day (as defined herein) of March, June, September and December in each year at an annual rate of \$1.60 per share. The initial dividend, if declared, will be payable on September 30, 2014 and will be \$0.45589 per Series E Share, based on the anticipated Offering Closing of June 18, 2014. See "Description of the Series E Shares".

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series E Shares will be entitled to receive fixed, 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, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by \$25.00. The Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period will be equal to the Government of Canada Yield (as defined herein) on the 30th day prior to the first day of such Subsequent Fixed Rate Period, plus 4.72%. See "Description of the Series E Shares".

Option to Convert Series E Shares Into Series F Shares

Subject to the Corporation's right to redeem Series E Shares, the holders of Series E Shares will have the right, at their option, to convert their Series E Shares into Cumulative Floating Rate Preferred Shares, Series F (the "Series F Shares"), subject to certain conditions, on September 30, 2019 and on September 30 every five years thereafter. The holders of Series F Shares will be 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 initial quarterly dividend period and each subsequent quarterly dividend period is referred to as a "Quarterly Floating Rate Period"), in the amount per share determined by multiplying the applicable Quarterly Floating Dividend Rate (as defined herein) by \$25.00. The Quarterly Floating Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 4.72% (calculated on the basis of the actual number of days in the applicable Quarterly Floating Rate Period divided by 365) determined as of the 30th day prior to the first day of the applicable Quarterly Floating Rate Period. See "Description of the Series F Shares".

Subject to the provisions described under "Description of the Series E Shares – Restrictions on Dividends and Retirement of Shares", on September 30, 2019, and on September 30 every five years thereafter, the Corporation may, at its option, redeem all or any part of the then outstanding Series E Shares by the payment of an amount in cash for each Series E Share so redeemed of \$25.00 plus all accrued and unpaid dividends up to, but excluding, the date fixed for redemption. See "Description of the Series E Shares – Redemption".

The Series E Shares and Series F Shares do not have a fixed maturity date and, other than as described herein, are not redeemable at the option of the holders thereof. See "Risk Factors".

Offering Price: \$12.75 per Subscription Receipt

Offering Price: \$1,000 per Debenture

Offering Price: \$25.00 per Series E Share

| | Price to the Public ⁽¹⁾ | Underwriters' Fee ⁽²⁾⁽³⁾⁽⁴⁾ | Net Proceeds to the Corporation ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ |
|---|------------------------------------|--|---|
| Per Subscription Receipt | \$12.75 | \$0.51 | \$12.24 |
| Total Subscription Receipts | \$825,052,500 | \$33,002,100 | \$792,050,400 |
| Per Debenture | \$1,000 | \$37.50 | \$962.50 |
| Total Debentures | \$300,000,000 | \$11,250,000 | \$288,750,000 |
| Per Series E Shares | \$25.00 | \$0.75 | \$24.25 |
| Total Series E Shares | \$125,000,000 | \$3,750,000 | \$121,250,000 |
| Aggregate Subscription Receipts, Debentures and Series E Shares | \$1,250,052,500 | \$48,002,100 | \$1,202,050,400 |

- (1) The Corporation has granted to: (i) the Subscription Receipt Underwriters an over-allotment option to purchase on the same terms up to 9,706,500 additional Subscription Receipts (or Common Shares, as the case may be) (the “Subscription Receipt Over-Allotment Option”); (ii) BMO, CIBC, GMP, NBF, TD, Barclays, CSS, RBC, Scotia, Cormark and MSI (collectively, the “Debenture Underwriters”) an over-allotment option to purchase on the same terms up to an additional \$45,000,000 aggregate principal amount of Debentures (the “Debenture Over-Allotment Option”); and (iii) BMO, CIBC, GMP, NBF, TD, RBC, Scotia, Cormark and MSI (collectively the “Preferred Shares Underwriters”) an over-allotment option to purchase on the same terms up to 750,000 additional Series E Shares (the “Series E Over-Allotment Option, and together with the Subscription Receipt Over-Allotment Option and the Debenture Over-Allotment Option, the “Over-Allotment Options”). The Subscription Receipt Over-Allotment Option and the Debenture Over-Allotment Option are exercisable at any time until the earlier of the date that is 30 days following the Offering Closing and the occurrence of any of the following: (x) the Acquisition failing to close by 5:00 p.m. (Toronto time) on December 31, 2014, (y) the Stock Purchase Agreement being terminated at any earlier time, or (z) the Corporation advising the Underwriters or announcing to the public by way of a news release that it does not intend to proceed with the Acquisition (an “Underwriting Termination Event”). The Series E Over-Allotment Option is exercisable at any time until the date that is 30 days following the Offering Closing. If each of the Over-Allotment Options are exercised in full, the total “Price to the Public”, “Underwriters’ Fee” and “Net Proceeds to the Corporation”, before deducting expenses of the Offering, would be \$1,437,560,375, \$55,202,415 and \$1,382,357,960, respectively. This short form prospectus qualifies the grant of the Over-Allotment Options, as well as the distribution of the Subscription Receipts (or Common Shares, as the case may be), the Debentures and the Series E Shares issuable upon exercise of the Over-Allotment Options. A purchaser who acquires any of the Subscription Receipts (or Common Shares, as the case may be), Debentures or Series E Shares forming part of the Underwriters’ over-allocation position acquires such Subscription Receipts (or Common Shares, as the case may be), Debentures or Series E Shares under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Options or secondary market purchases. See “Plan of Distribution”.
- (2) Element has agreed to pay the Subscription Receipt Underwriters a fee equal to \$0.51 per Subscription Receipt (the “Underwriters’ Fee for Subscription Receipts”). The Underwriters’ Fee for Subscription Receipts is payable as to 50% upon the Offering Closing and 50% on the release of the Escrowed Funds to Element. If the Acquisition is not completed, the Underwriters’ Fee for Subscription Receipts will consist solely of the amount payable upon the Offering Closing and excluding interest accrued on the Escrowed Funds accruing to Element, if any.
- (3) Element has agreed to pay the Debenture Underwriters a fee equal to \$37.50 per Debenture (the “Underwriters’ Fee for Debentures”). The Underwriters’ Fee for Debentures is payable in full upon the Offering Closing.
- (4) Element has agreed to pay a fee equal to \$0.75 per Series E Share (the “Underwriters’ Fee for Series E Shares”). The Underwriters’ Fee for Series E Shares is payable in full upon the Offering Closing.
- (5) Before deduction of expenses of the Offering payable by the Corporation, estimated at \$5,000,000, which will be paid from the general funds of Element.

The following table sets forth the number of Subscription Receipts, Debentures and Series E Shares that may be offered by the Corporation pursuant to the Over-Allotment Options:

| <u>Underwriters’ Position</u> | <u>Maximum Size</u> | <u>Exercise Period</u> | <u>Exercise Price</u> |
|--|---|--|--|
| Subscription Receipt Over-Allotment Option | Option to acquire up to an additional 9,706,500 Subscription Receipts or Common Shares (as the case may be) | Commencing on the Offering Closing and ending not later than the earlier of (i) the 30 th day following the Offering Closing and (ii) the occurrence of an Underwriting Termination Event | \$12.75 per Subscription Receipt or Common Shares (as the case may be) |
| Debenture Over-Allotment Option | Option to acquire up to an additional \$45,000,000 principal amount of Debentures | Commencing on the Offering Closing and ending not later than the earlier of (i) the 30 th day following the Offering Closing and (ii) the occurrence of an Underwriting Termination Event | \$1,000 per Debenture |
| Series E Shares Over-Allotment Option | Option to acquire up to an additional 750,000 Series E Shares | Commencing on the Offering Closing and ending on the 30 th day following the Offering Closing | \$25.00 per Series E Share |

The outstanding Common Shares are listed on the Toronto Stock Exchange (the “TSX”) under the trading symbol “EFN”. On June 2, 2014, the last full day of trading before the announcement of the Offering, the closing price of the Common Shares on the TSX was \$13.30. On June 10, 2014, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was \$12.89. Element’s outstanding Cumulative 5-Year Rate Reset Preferred Shares, Series A (the “Series A Shares”) and Cumulative 5-Year Rate Reset Preferred Shares, Series C (the “Series C Shares”) are listed on the TSX under the symbols “EFN.PR.A” and “EFN.PR.C”, respectively. The closing price of the Series A Shares and the Series C Shares on the TSX on June 2, 2014, the last full day of trading before the announcement of the Offering, was \$25.14 and \$25.00, respectively. On June 10, 2014, the last trading day prior to the filing of this short form prospectus, the closing price of the Series A Shares and the Series C Shares on the TSX was \$25.30 and \$25.17, respectively.

The TSX has conditionally approved the listing of the Securities (including the Securities forming part of the Over-Allotment Options). Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 3, 2014. The offering price of the Subscription Receipts, Debentures and Series E Shares offered hereunder was determined by negotiation between Element and BMO on behalf of the Subscription Receipt Underwriters, the Debenture Underwriters and the Preferred Shares Underwriters (collectively, the “Underwriters”).

There is currently no market through which the Subscription Receipts, Debentures and Series E Shares may be sold and purchasers may not be able to resell Subscription Receipts, Debentures and Series E Shares purchased under this short form prospectus. This may affect the pricing of the Subscription Receipts, the Debentures and the Series E Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts, the Debentures and the Series E Shares and the extent of issuer regulation. See “Risk Factors – Risks Relating Specifically to the Securities – Market for Securities”.

The Underwriters, as principals, conditionally offer the Subscription Receipts, Debentures and Series E Shares, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under “Plan of Distribution”, and subject to approval of certain legal matters on behalf of the Corporation by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Wildeboer Dellelce LLP. See “Plan of Distribution”. In connection with the Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Subscription Receipts and Debentures at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See “Plan of Distribution”.

Purchasers will have the option of subscribing for Subscription Receipts, Debentures, Series E Shares or a combination thereof. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Offering Closing will occur on June 18, 2014 or on such earlier or later date as the Corporation and BMO, on behalf of the Underwriters, may agree, but in any event no later than June 27, 2014.

The Subscription Receipts, Debentures and Series E Shares will be represented in either certificated or uncertificated form registered in the name of CDS Clearing and Depository Services Inc. (“CDS”) or its nominee and held by, or on behalf of, CDS, as depository for the participants of CDS. A purchaser of the Subscription Receipts, Debentures or Series E Shares will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the Securities are purchased. See “Description of the Subscription Receipts - Book-Entry, Delivery and Form of Debentures and Common Shares”, “Description of the Debentures - Book-Entry, Delivery and Form of Subscription Receipts and Common Shares” and “Description of the Series E Shares - Book-Entry, Delivery and Form of Series E Shares”.

The Underwriters propose to offer the Subscription Receipts, the Debentures and the Series E Shares initially at the offering prices specified above. After a reasonable effort has been made to sell all of the Subscription Receipts, the Debentures and the Series E Shares at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Subscription Receipts, the Debentures and the Series E Shares remaining unsold. Any such reduction will not affect the proceeds received by Element. See “Plan of Distribution”.

Investors should rely only on the information contained in or incorporated by reference in this short form prospectus. The Corporation has not authorized anyone to provide investors with different information. The Corporation is not offering the Securities in any jurisdiction in which the offer is not permitted. Investors should not assume that the information contained in this short form prospectus is accurate as of any date other than the date of this short form prospectus.

The net proceeds from the Offering will be used to fund a portion of the Purchase Price. If the Acquisition does not proceed, the net proceeds from the issuance and sale of the Series E Shares will be used to originate and finance, directly or indirectly, finance assets and for general corporate purposes. See “Use of Proceeds”, “Description of the Series E Shares” and “Risk Factors”.

The Corporation’s *pro forma* earnings coverage ratio for the twelve-month period ended December 31, 2013 and the twelve-month period ended March 31, 2014 was less than one-to-one. See “Earnings Coverage Ratio”.

An investment in the Securities is subject to certain risks. The risk factors included or incorporated by reference in this short form prospectus should be carefully reviewed and considered by purchasers in connection with an investment in the Securities. See “Note Regarding Forward-Looking Statements” and “Risk Factors” in this short form prospectus and in the AIF (as defined herein).

BMO is an affiliate of a Canadian Schedule I bank (i) that is a member of the lending syndicate to the Corporation under a US\$600 million bridge credit facility (the “Bridge Credit Facility”); (ii) that is a member of the lending syndicate to the Corporation under a US\$585 million revolving credit facility (the “Revolving Credit Facility”); (iii) that is a lender to a U.S. affiliate of the Corporation under a U.S. securitization funding facility; (iv) that, through an affiliate, is the lender to or investor or counterparty in separate Canadian securitization funding facilities pursuant to which the Corporation or its affiliates have transferred and will transfer financial assets and related property or interests therein under an established securitization platform; (v) that is a proposed member of the lending syndicate to the Corporation under the proposed Amended and Restated Revolving Credit Agreement (as defined herein); and (vi) that is anticipated to be the lender of any amounts advanced to the Corporation under the proposed Bridge Agreement (as defined herein). Such Canadian securitization funding facilities under the securitization platform are established with a Canadian asset backed conduit administered by BMO. In addition, each of CIBC, CSS, RBC and TD are affiliates of Canadian chartered banks that

are members of each of the lending syndicates to the Corporation under the Bridge Credit Facility and the Revolving Credit Facility. In addition, Barclays is an affiliate of a Canadian chartered bank that is a member of the lending syndicate to the Corporation under the Revolving Credit Facility. MSI is an affiliate of a Canadian life insurance company that is a lender to the Corporation under the Term Funding Facility (as defined herein). In addition, NBF is an affiliate of a Canadian Schedule I bank (i) that is a member of the lending syndicate to the Corporation under the Bridge Credit Facility and the Revolving Credit Facility, and (ii) that is an investor or a counterparty under the Amortizing TLS Syndication Pool (as defined herein). Further, each of Barclays, CIBC, CSS, NBF and TD are proposed members of the lending syndicate under the proposed Amended and Restated Revolving Credit Agreement. Consequently, the Corporation may be considered a “connected issuer” to each of BMO, Barclays, CIBC, CSS, MSI, NBF, RBC and TD within the meaning of National Instrument 33-105 - *Underwriting Conflicts*. See “Relationship between Element and Certain Underwriters”.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus and the documents incorporated by reference herein contain certain forward-looking statements and forward-looking information which are based upon Element's current internal expectations, estimates, projections, assumptions and beliefs. In some cases, words such as "plan", "expect", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur are intended to identify forward-looking statements and forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. In addition, this short form prospectus and the documents incorporated by reference herein may contain forward-looking statements and information attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements and information in this short form prospectus speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference herein.

Forward-looking statements and information in this short form prospectus and the documents incorporated by reference herein include, but are not limited to, statements with respect to:

- Element's expectations regarding its revenue, expenses and operations;
- Element's anticipated cash needs and its needs for additional financing;
- Element's intended use of proceeds from the Offering;
- Element's expectation regarding completion of, and timing for completion of, the Acquisition;
- Element's anticipated effect of the Acquisition on the financial performance of the Corporation;
- Element's ability to achieve the expected benefits of the Acquisition;
- Element's plans for and timing of expansion of its services;
- Element's future growth plans (including growth resulting from acquisitions);
- Element's expectations regarding its origination volumes;
- Element's ability to attract new customers and vendor relationships and develop and maintain relationships with existing customers;
- Element's anticipated delinquency rates and credit losses;
- Element's ability to attract and retain personnel;
- Element's expectations regarding its reduced reliance on third-party brokers for originations;
- Element's expectations regarding growth in certain verticals in which it operates;
- Element's competitive position and its expectations regarding competition; and
- anticipated trends and challenges in Element's business and the markets in which it operates.

Although Element believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Neither Element nor the Underwriters can guarantee future results, levels of activity, performance or achievements. Moreover, neither Element, the Underwriters nor any other person assumes responsibility for the accuracy or completeness of the forward-looking statements and information. Some of the risks and other factors, some of which are beyond Element's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this short form prospectus and the documents incorporated by reference herein include, but are not limited to:

- credit risks that may lead to unexpected losses;
- concentration of leases and loans to small and mid-sized companies that may carry more inherent risks;
- the concentration of leases and loans within a particular industry or region that may negatively impact Element's financial condition;
- risks relating to the integration of the Fleet Business (as hereinafter defined) with Element's existing business;
- Element's provision for credit losses that may prove inadequate;
- the collateral securing a loan or a lease that may not be sufficient;
- lack of funding that may limit Element's ability to originate leases;
- the concentration of debt financing sources that may increase Element's funding risks;
- global financial markets and general economic conditions that may adversely affect Element's results;

- Element’s credit facilities that may limit its operational flexibility;
- changes in interest rates that may adversely affect Element’s financial results;
- an unexpected increase in Element’s borrowing costs that may adversely affect its earnings;
- a competitive business environment that may limit the growth of Element’s business;
- competition for vendor equipment finance that may affect Element’s relationships with vendors;
- loss of key personnel that may significantly harm Element’s business;
- inability to realize benefits from growth (including growth related to acquisitions) that may harm Element’s financial condition;
- the Corporation may redeem the Series E Shares and the Series F Shares;
- the Series E Shares and the Series F Shares do not have a fixed maturity date, may not be redeemed at the holder’s option and may be liquidated by the holder only in limited circumstances;
- dividend rates on the Series E Shares and the Series F Shares will reset;
- investments in the Series F Shares, given their floating interest component, entail risks not associated with investments in the Series E Shares;
- the Series E Shares and the Series F Shares may be converted or redeemed without the holders’ consent in certain circumstances;
- declaration of dividends on the Series E Shares and the Series F Shares is at the discretion of the Board of Directors and subject to applicable law;
- holders of the Series E Shares and the Series F Shares do not have voting rights except under limited circumstances;
- Element’s ability to successfully compete in the U.S. equipment financing or U.S. fleet leasing marketplace;
- complications in managing acquisitions that may negatively affect Element’s operating results;
- Element has a brief operating history and Element has incurred losses in the past and may not achieve profitability in future periods;
- the market for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors;
- Element’s quarterly net finance income and results of operations are difficult to forecast and may fluctuate substantially;
- litigation may negatively impact Element’s financial condition; and
- the other factors considered under “Risk Factors” in this short form prospectus and in the AIF, which is incorporated by reference herein.

Readers are cautioned that the foregoing list of factors is not exhaustive. **The forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Neither Element nor the Underwriters are under any duty to update any of the forward-looking statements after the date of this short form prospectus to conform such statements to actual results or to changes in Element’s expectations except as otherwise required by applicable legislation.**

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com or on request without charge from the Corporate Secretary of Element at 161 Bay Street, Suite 4600, Toronto, Ontario, M5J 2S1, telephone: (416) 386-1067.

The following documents of Element, filed with the various provincial securities commissions or similar authorities in Canada, are specifically incorporated into and form an integral part of this short form prospectus:

- (a) the template version of the term sheet for the Subscription Receipts offered pursuant to the Offering dated June 2, 2014 (the “Subscription Receipt Marketing Materials”);
- (b) the template version of the term sheet for the Debentures offered pursuant to the Offering dated June 2, 2014 (the “Debenture Marketing Materials”);
- (c) the template version of the term sheet for the Series E Shares offered pursuant to the Offering dated June 2, 2014 (the “Series E Shares Marketing Materials” and together with the Subscription Receipt Marketing Materials and the Debenture Marketing Materials, the “Initial Marketing Materials”);

- (d) the revised version of the term sheet for the Subscription Receipts offered pursuant to the Offering dated June 3, 2014 (the “Revised Subscription Receipt Marketing Materials”);
- (e) the revised version of the term sheet for the Debentures offered pursuant to the Offering dated June 3, 2014 (the “Revised Debenture Marketing Materials”);
- (f) the revised version of the term sheet for the Series E Shares offered pursuant to the Offering dated June 3, 2014 (the “Revised Series E Shares Marketing Materials” and together with the Revised Subscription Receipt Marketing Materials and the Revised Debenture Marketing Materials, the “Revised Marketing Materials”);
- (g) the investor presentation of Element entitled “Investor Presentation – June 2014” (the “Investor Presentation”);
- (h) the annual information form of Element for the financial year ended December 31, 2013 dated March 28, 2014 (the “AIF”);
- (i) the audited financial statements of Element and the notes thereto as at and for the financial year ended December 31, 2013, together with the report of the auditors thereon;
- (j) the management’s discussion and analysis of financial condition and results of operations of Element for the financial year ended December 31, 2013, dated February 20, 2014 (the “Annual MD&A”);
- (k) the interim financial statements of Element and the notes thereto for the three months ended March 31, 2014;
- (l) the management’s discussion and analysis of financial condition and results of operations of Element for the three months ended March 31, 2014, dated May 13, 2014;
- (m) the business acquisition report of Element dated August 6, 2013 relating to the acquisition by Element of the existing Canadian vehicle fleet portfolio and the operational resources required to service such portfolio from General Electric Capital Canada and GE Vehicle and Equipment Leasing (the “GE Fleet Portfolio Acquisition”) and the financial statements contained therein;
- (n) the business acquisition report of Element dated May 27, 2014 relating to the Trinity Vendor Program (as hereinafter defined) and the financial statements contained therein;
- (o) the management information circular of Element dated May 13, 2014 in connection with the annual meeting of the shareholders of Element to be held on June 26, 2014; and
- (p) the material change report of Element dated June 5, 2014 relating to the Offering and the Acquisition.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including those types of documents referred to above and press releases issued by Element referencing incorporation by reference into this short form prospectus, if filed by Element with the provincial securities commissions or similar authorities in Canada after the date of this short form prospectus and before the distribution of securities being qualified hereunder, are deemed to be incorporated by reference in this short form prospectus.

Documents referenced in any of the documents incorporated by reference in this short form prospectus but not expressly incorporated by reference therein or herein and not otherwise required to be incorporated by reference therein or in this short form prospectus are not incorporated by reference in this short form prospectus.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of

the circumstances in which it is made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

MARKETING MATERIALS

Any “template version” of any “marketing materials” (as such terms are defined under applicable Canadian securities laws) that are utilized by the Underwriters in connection with the Offering are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. The Initial Marketing Materials have been modified by the Revised Marketing Materials to reflect the upside of the Offering from an aggregate total offering amount of \$1,100,018,750 to \$1,250,052,500. The Corporation has prepared the Revised Marketing Materials, which have been blacklined against the Initial Marketing Materials to reflect these modifications, and can be viewed under the Corporation’s SEDAR profile at www.sedar.com. The Investor Presentation can be viewed under the Corporation’s SEDAR profile at www.sedar.com.

Any template version of any marketing materials that has been, or will be, filed on SEDAR after the date of this short form prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this short form prospectus.

CURRENCY AND EXCHANGE RATE INFORMATION

This short form prospectus contains references to the Canadian dollar and the United States dollar. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as “US dollars” or “US\$”. The following table reflects the high, low and average rates of exchange in Canadian dollars for one United States dollar for the periods noted, based on the Bank of Canada noon spot rate of exchange.

| | <u>Three months ended</u> <u>March 31, 2014</u> | <u>Twelve months ended</u> <u>December 31, 2013</u> | <u>Twelve months ended</u> <u>December 31, 2012</u> |
|---------|--|--|--|
| High | 1.0614 | 0.9839 | 0.9710 |
| Low | 1.1251 | 1.0697 | 1.0418 |
| Average | 1.1033 | 1.0299 | 0.9996 |

On June 10, 2014, the noon buying rate as reported by the Bank of Canada was US\$1.00 = CDN\$1.0915 or CDN\$1.00 = US\$0.9162.

ELEMENT FINANCIAL CORPORATION

Element Financial Corporation was incorporated on May 11, 2007 under the *Business Corporations Act* (Ontario) (the “OBCA”). On December 15, 2011, Element filed Articles of Amalgamation under the OBCA, giving effect to the amalgamation of Element and Mira II Acquisition Corp. (“Mira”), a capital pool company listed on the TSX Venture Exchange. The entity continuing from the amalgamation was “Element Financial Corporation”. On December 16, 2011, the Common Shares were listed and posted for trading on the TSX under the trading symbol “EFN”. The Series A Shares and Series C Shares are currently listed on the TSX under the trading symbol “EFN.PR.A” and “EFN.PR.C”, respectively, and commenced trading on the TSX on December 17, 2013 and March 7, 2014, respectively.

The head and registered office of Element is located at 161 Bay Street, Suite 4600, Toronto, ON M5J 2S1.

SUMMARY DESCRIPTION OF THE BUSINESS

Element is an independent financial services company that originates, co-invests in and manages asset-based financings with operations in both Canada and the United States. Element originates the financing of a broad range of equipment and capital assets by way of secured loans, financial leases, conditional sales contracts and operating leases. Element originates the vast majority of its equipment financings through relationships with equipment vendors. Element distinguishes itself from traditional lenders such as banks and finance companies in that it:

- offers select, asset-based financing services rather than providing full-service lending;
- originates primarily through vendor relationships with equipment manufacturers; and
- funds its activities through commitments from institutional investors rather than accepting deposits from the public.

Element currently operates in two distinct segments of the asset-based finance market: (i) commercial finance, and (ii) corporate finance.

Overview of Asset-Based Finance Industry

Commercial Finance

The commercial finance segment of the asset-based finance market involves the provision of direct and indirect financing for the acquisition of commercial equipment. This segment of the asset-based finance market involves financing the sale of equipment from the manufacturer, distributor or dealer to the ultimate end-user of the equipment. Asset-based financing within the commercial finance segment of the market is provided by a wide variety of market participants, including banks, captive finance companies and independent finance companies.

The commercial finance segment of the market has experienced strong growth in recent years as a result of increased capital and infrastructure spending, increased machinery and equipment expenditures and the continuing trend of consolidation in the industry as larger participants build market share through acquisitions and the outsourcing by equipment manufacturers, dealers and distributors of their asset-based financing requirements. Within the commercial finance market, the Corporation is focusing its activities on establishing formal vendor finance programs as a basis for originating asset finance business.

Vendor finance programs are agreements with equipment manufacturers, dealers, distributors and professional organizations (collectively, “vendors”) which provide a finance company with preferred access to financing transactions relating to a vendor’s equipment. These financings are generally offered to: (i) the ultimate end-user of the equipment; and (ii) the vendor’s dealers and distributors through inventory or “floorplan” financing. Vendor finance arrangements provide a steady, reliable flow of new business with lower costs of origination than asset-based financings marketed directly to end-users. Vendors often provide various forms of support to the finance company under these programs, including credit support and equipment repurchase and remarketing arrangements. Vendor finance programs can also take the form of a referral relationship which is less formal and typically does not include credit support from the vendor. For vendors, these programs are attractive because the financing is tailored to the vendor’s particular product line and industry, thereby helping to promote equipment sales. The close relationship between credit sources and the vendor allows the vendor to maintain contact with the customer. These programs are often a less expensive alternative to a vendor maintaining its own captive finance company.

Element generally operates vendor finance programs in the transportation and construction finance, commercial and industrial finance, healthcare equipment finance, office products and technology, franchise finance and golf equipment finance markets across North America. As part of its growth strategy, Element is focusing its activities on establishing vendor finance programs as its main origination channel.

Corporate Finance

The corporate finance segment of the asset-based finance market generally involves large structured asset finance transactions. Financing in this market is required by corporations, institutions and government acquiring capital assets such as rotary and fixed-wing aircraft, railway rolling stock and transportation fleets. Element competes in the corporate finance segment of the asset based finance market through its Aviation Finance vertical. The corporate finance segment of the asset-based finance market is characterized by transactions that are generally of a higher value, longer duration and more complex in their structure, underwriting, funding and

management than transactions originated in the commercial finance segment of the market. Funding is usually provided by banks, other private market lenders such as life insurance companies and through public capital markets. The principal intermediaries in the corporate finance market are investment bankers. Most transactions involve syndications, whereby several institutional investors participate in the financing.

The corporate finance market has experienced strong growth over the past several years. This growth is the result of: (i) the extended aging of existing equipment stocks that were not replaced as planned following the 2008 financial crisis, and (ii) corporate and institutional borrowers seeking to diversify their sources of debt capital by dealing directly with asset-based lenders.

Overview of Element's Business Verticals

Element has organized its activities and operations around four core verticals: (i) Commercial and Vendor Finance (formerly Element Finance), (ii) Aviation Finance (formerly Element Capital), (iii) Fleet Management (formerly Element Fleet) and (iv) Rail Finance.

Commercial and Vendor Finance

Commercial and Vendor Finance is Element's vertical servicing the mid-ticket finance segment of the equipment finance industry. The mid-ticket finance segment involves financing for the acquisition of equipment ranging in value from approximately \$10,000 to over \$5.0 million. The equipment financing industry is the second largest provider of debt financing to business customers and consumers after banks and credit unions. In general, the Canadian and U.S. equipment finance industry is served by three main industry participants: independent lease finance companies like Element (including U.S.-based commercial leasing companies), captive finance companies owned by manufacturers and distributors, and banks.

Element has identified three key objectives for the development of its equipment financing business: (i) target specific segments of the equipment finance market and establish separate business units to cover each segment; (ii) as Element's market presence grows, expand its vendor finance business by increasing the number of its vendor relationships; and (iii) expand Element's equipment finance origination capabilities through targeted organic and acquisitive growth.

Element primarily originates its equipment finance assets directly through its relationships with equipment vendors. Unlike many of its competitors, Element does not rely on third-party brokers to originate its business due to the higher incidence of losses from this type of business. To further assure the quality of its equipment finance assets, Element emphasizes the creditworthiness of the ultimate lessee or borrower, the value of the financed assets and the creditworthiness of the vendor. The Commercial and Vendor Finance segment has assembled an industry-leading sales force, and has employees covering Canada and the United States with offices in Toronto, Montreal, Calgary and Horsham, Pennsylvania.

Element serves the Commercial and Vendor Finance market through its five specialized business unit platforms:

- Transportation and Construction Finance – provides vendor finance in the transportation, construction and material handling markets;
- Commercial and Industrial Finance – provides vendor finance in the commercial and industrial markets;
- Healthcare Finance – provides vendor finance and direct end-user financing products designed to service the healthcare sector seeking financing for equipment, business acquisition and working capital;
- Office Products and Technology Finance – provides vendor finance in the office products and technology equipment markets; and
- Franchise Finance – provides finance arrangements to assist franchisee networks fund the cost of equipment related to capital campaigns, re-model costs and re-imaging programs.

Element believes that the diversification of its existing business unit platforms will reduce its exposure to economic cycles and provide a more predictable and stable source of revenue.

Aviation Finance

The Aviation Finance segment originates large aviation financing and leasing transactions that range in size from \$5.0 million to over \$150.0 million with a duration ranging from 36 to 120 months. These transactions typically apply to the financing of high-value assets such as a corporate jets or helicopters. Element originates these larger, longer-duration aviation financing transactions through its teams of knowledgeable aviation finance specialists who have established networks of contacts with both manufacturers and end-users of various types of equipment.

In the Aviation Finance vertical, all significant transactions presently originated by it require the formation of a funding syndicate that is purpose-built for each financing transaction. In addition to Element, these syndicates are typically comprised of one or more other institutional funding partners or multiple partners participating in various funding tranches each with varying characteristics in terms of relative risk and return.

Aviation Finance contributes to the Corporation's revenue and earnings by earning: (i) interest income on the portion of its own equity that is contributed to the funding syndicate for each transaction that it originates; (ii) spread income over the cost of funds that it pays to its institutional funding partners; (iii) fee income from the borrower for underwriting and funding the transaction; and (iv) fee income from the other syndicate participants for administering the transaction on their behalf over the term of the investment.

In terms of the allocation of any credit losses in these syndicated transactions, syndication participants purchase on a *pari passu* basis a portion of the initial transaction. Similarly, credit losses are attributable to the owner of the transaction on a *pari passu* basis reflecting their actual contribution in the transaction. Element therefore only assumes credit losses for its own assets and provides no credit enhancements to the syndication participants.

As its transactions are larger and require longer lead times to close (relative to those in Element's other business units), Aviation Finance's contribution to the Corporation's reported origination volumes from quarter to quarter are expected to be asymmetrical until the transaction flows from this business vertical normalize on a percentage basis, relative to the origination volumes from the Corporation's other business verticals.

On December 19, 2013, Element acquired finance assets consisting of lease and loan arrangements secured by 57 individual helicopters primarily located in the United States for US\$242.7 million (the "Helicopter Assets Purchase") from, inter alia, General Electric Capital Corporation ("GE Capital") and Path Air L.L.C., a division of GE Capital. The Helicopter Assets Purchase represented a diversification of the assets in Aviation Finance's existing portfolio through further expansion into the United States (with an expanded customer base presenting new opportunities) and continued expansion into an attractive segment of the aviation finance market. This portfolio acquisition and associated customer list acquisition added further scale and scope to Aviation Finance's position in the civil aviation equipment financing and leasing marketplace.

Fleet Management

Fleet Management's core business is providing vehicle fleet leasing and management solutions and related service programs to Canadian companies, including service cards, remarketing, maintenance management and accident services. Fleet Management was established as a new business vertical following the completion of the acquisition of Transportation Lease Systems Inc. ("TLSI") on June 29, 2012 ("TLSI Acquisition"). At the time of the TLSI Acquisition, TLSI was Canada's fourth largest fleet leasing company (originally established in 1980) and provided Element with a portfolio of more than \$430.0 million of lease assets. The TLSI Acquisition accelerated Element's growth through the addition of its established origination platform and through the creation of cross-selling opportunities for Element's existing clients. Element's extensive familiarity with the fleet management business, gained through senior management's prior involvement with Newcourt Fleet Management, assisted Element in integrating this new vertical. On June 28, 2013, the Corporation completed the GE Fleet Portfolio Acquisition. At the time of the acquisition, the GE Portfolio provided Element with a portfolio of more than \$480 million of lease and loan assets in addition to Fleet Management's then existing portfolio. In addition, the Corporation entered into a strategic alliance agreement with GE Capital Fleet Services. As a result of this acquisition, Fleet Management now manages close to \$1.0 billion in finance assets and is now the largest vehicle fleet leasing business in Canada. Fleet Management has a national focus with offices in Mississauga, Montréal, Edmonton, Calgary, Vancouver and a presence in Winnipeg.

Fleet Management enhances the diversification of Element's operations by providing a low-risk earnings stream that is complemented by significant fee based revenue, including cost management and fleet optimization services. The vehicle fleet leasing industry is traditionally characterized by a number of attractive industry fundamentals. Traditionally, there has been a high barrier to entry, as a national service network is difficult to replicate while the value-added service offerings help reinforce strong customer relationships. Furthermore, as the recent economic downturn has caused customers to keep their fleet vehicles for longer periods of time, a significant growth opportunity is expected to emerge as customers replace and upgrade their aging fleets.

Rail Finance

Rail Finance provides railcar leasing through its relationships with railcar manufacturers and vendors. Rail Finance was launched in December 2013 when the Corporation established a new vendor finance program (the “Trinity Vendor Program”) with Trinity Industries Inc. to enter into lease financing transactions with Trinity Industries Leasing Company and/or affiliates (“Trinity”) over a two year period. Under the terms of the Trinity Vendor Program, Element will be presented with preferred opportunities to enter into lease financings (“Leases”) for railcars manufactured by Trinity (“Railcars”, and together with the underlying Leases, the “Railcar Assets”) over the period of the Trinity Vendor Program. In connection with the Trinity Vendor Program, Element has acquired approximately US\$619.3 million of existing Railcars under Leases to a diversified Trinity customer base under a US\$105.3 million tranche closing completed on December 19, 2013, a US\$396 million second tranche closing completed on January 28, 2014, and a US\$118 million third tranche closing completed on March 27, 2014. The Leases assumed by Element are consistent with the diversification criteria established by Element at the time of entering into the Trinity Vendor Program.

Railcar leasing is characterized by leases and assets that have longer term and lessees with strong credit quality. In addition, the strategic alliance with Trinity enables the Corporation to enter the railcar financing segment with limited investment in overhead and a low operating expense base required to grow and manage the portfolio.

RECENT DEVELOPMENTS

Securitization of Railcar Assets

On April 17, 2014, the Corporation’s rail finance business unit issued a series of asset-backed notes secured by a portion of the Railcar Assets. The asset-backed notes are comprised of three classes, A-1, A-2 and B-1, and have an aggregate principal amount of US\$340 million and generated net proceeds of \$327.5 million. The asset-backed notes have a weighted average effective interest rate of 3.9%, a weighted average expected life of 6.10 years, and are secured by a portion of the Railcar Assets. Proceeds from the asset-backed notes were used to repay the Bridge Credit Facility.

ACQUISITION OF THE PHH FLEET BUSINESS

Pursuant to the Stock Purchase Agreement dated June 2, 2014 between the Corporation and PHH, the Corporation has agreed to purchase PHH’s fleet management services business, which business includes fleet leasing services, fleet management, maintenance services, accident management services, fuel card programs, data warehousing, information management and online systems support and access, and the assumption of existing securitization financing programs for the business (collectively, the “Fleet Business”) for a purchase price of approximately US\$1.4 billion, subject to the adjustments set forth therein. Pursuant to the Acquisition, the Corporation shall also assume, subject to certain conditions, certain financing programs and securitizations of PHH related to the business.

Fleet Business of PHH Corporation

PHH Corporation was incorporated in 1953 as a Maryland corporation. For periods between April 30, 1997 and February 1, 2005, PHH was a wholly owned subsidiary of Cendant Corporation (now known as Avis Budget Group, Inc.) and its predecessors that provided mortgage banking services, facilitated employee relocations and provided vehicle fleet management and fuel card services. On February 1, 2005, PHH began operating as an independent, publicly traded company pursuant to its spin-off from Cendant.

PHH is a leading outsource provider of mortgage and fleet management services. PHH provides mortgages banking services to a variety of clients, including financial institutions and real estate brokers, throughout the U.S. PHH’s mortgage banking activities include originating, purchasing, selling and servicing mortgage loans through its wholly owned subsidiary, PHH Mortgage Corporation and its subsidiaries.

PHH provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada through its wholly owned subsidiary, PHH Vehicle Management Services Group LLC (“PHH VMS”). PHH VMS is a fully integrated provider of fleet management services with a broad range of product offerings, including managing and leasing vehicle fleets and providing other fee-based services for our clients’ vehicle fleets.

The Fleet Business primarily focuses on clients with fleets of greater than 75 vehicles. It provides its clients fleet leasing services and additional services and products including fleet management, maintenance services, accident management services and fuel card

programs. Open-end leases represent 98% of the Fleet Business' lease portfolio, under which its clients bear substantially all of the residual value risk of vehicles under lease.

The Fleet Business differentiates itself from its competitors in the fleet industry through the breadth of its product offering, customer service, and technology. The Fleet Business' data warehousing, information management and online systems support its clients with their evaluation of overall fleet performance and costs, to allow them to better monitor and manage their corporate fleets.

Services

The Fleet Business principally generates revenue through the amounts earned on operating leasing agreements and fee income earned on additional services and products provided to its fleet management customers. Fee-based services consist primarily of the following:

- management services to the Fleet Business clients including fleet policy analysis and recommendations, benchmarking, vehicle recommendations, ordering and purchasing vehicles, arranging for vehicle delivery and administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims and remarketing used vehicles. The Fleet Business receives revenue for management services as a component of the total lease payments, and the management fee revenue is recognized over the lease term;
- maintenance service cards are used to facilitate payment for vehicle repairs and maintenance, provide access to the Fleet Business' supplier network and service discounts and offer support services including managerial oversight and reporting of their maintenance programs, fleet performance and related costs. The Fleet Business receives a fixed monthly fee for these services from its clients as well as additional fees from service providers in its third-party network for individual maintenance services;
- fuel card programs facilitate the payment, monitoring and control of fuel purchases, including access to a variety of fuel brands and consolidated reporting on purchases and transaction monitoring to assist clients with evaluation of their fleet performance and costs. The Fleet Business receives both monthly fees from its fuel card clients and additional fees from fuel partners and providers;
- accident management services provide clients with immediate assistance upon receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), an organized vehicle appraisal and repair process through a network of third-party preferred repair and body shops and coordination and negotiation of potential accident claims. The Fleet Business receives fees from its clients for these services as well as additional fees from service providers in its third-party network for individual incident services; and
- driver safety training services are offered to clients and include classroom and behind the wheel training for small groups or individual drivers taught by professional driving instructors. The Fleet Business receives fees from its clients for these services.

Investment in Leases

The Fleet Business' net investment in fleet leases includes:

- open-end leases are a form of lease in which the client bears substantially all of the vehicle's residual value risk. These leases typically have a minimum term of 12 months and can be continued after that at the lessee's election for successive monthly renewals. Upon return of the vehicle by the lessee, the Fleet Business typically sells the vehicle into the secondary market and the client receives a credit or pays the difference between the sale proceeds and the vehicle's book value. Open-end leases may be classified as operating or direct financing depending upon the nature of the residual guarantee. As of December 31, 2013, open-end leases represented 98% of the Fleet Business lease portfolio; and
- closed-end leases are a form of lease in which the Fleet Business retains the residual risk of the value of the vehicle at the end of the lease term and may be classified as operating or direct financing based on the terms of the individual contracts. As of December 31, 2013, closed-end leases represented 2% of the Fleet Business' lease portfolio.

Funding Arrangements

The Fleet Business funds itself primarily through securitization programs in the U.S. and Canada. Under the U.S securitization program, Chesapeake Funding LLC (“Chesapeake”) issues notes to finance the purchase of certain lease assets originated by the Fleet Business in the United States. As at March 31, 2014, Chesapeake and related entities had approximately US\$3.3 billion of assets and US\$2.9 billion of liabilities. The Canadian securitization program operates through Fleet Leasing Receivables Trust (“FLRT”). FLRT issues notes to finance the purchase of certain lease assets originated by the Fleet Business in Canada. As at March 31, 2014, FLRT and related entities had approximately US\$618 million in assets and US\$570 million in liabilities.

Under the Stock Purchase Agreement, Element has, subject to required amendments and approvals, agreed that PHH’s obligations under the Chesapeake and FLRT securitization programs will be assumed by Element and that the outstanding debt under the Chesapeake and FLRT securitization programs will remain outstanding.

Outlook and Trends

The fleet management industry has continued to be influenced by the current condition of the U.S. economy and the levels of corporate spending and capital investment which has resulted in corporate cost-reduction initiatives, increasing fleet operating costs, including increasing vehicle acquisition costs, maintenance costs and fuel prices. In recent years, the mix of the Fleet Business’ net investment in leases has changed to include more truck and service-type vehicles that have a higher initial capitalized cost, which has offset declines in its leased units. Growth in the fleet management services is driven principally by increased market share in fleets greater than 75 units and increased fee-based services.

Element’s Key Considerations for Evaluating the Acquisition

The following considerations were relevant to Element’s evaluation of the Acquisition:

- at March 31, 2014, the Fleet Business reported more than US\$4.6 billion in total assets, of which approximately US\$4.0 billion represented net investment in fleet leases (including net accounts receivables of US\$373 million);
- the Fleet Business generated annual origination volumes of approximately US\$1.7 billion during 2013;
- on a pro forma basis, after giving effect to the Acquisition, Element expects to have combined total assets of approximately \$10 billion by the end of 2014;
- the Acquisition is expected to be more than 10 percent accretive to Element’s shareholders in 2015 and 2016 on an adjusted operating and cash earnings per share basis;
- the Acquisition and related financing arrangements are expected to increase Element’s tangible leverage to approximately four to one on the Acquisition Closing;
- as a result of a step-up in basis of the assets acquired, the Acquisition is expected to allow Element to defer taxes up to US\$600 million in aggregate over time;
- the Fleet Business is led by a strong management team which will join Element following the Acquisition;
- Element will assume the established, efficient securitization funding programs related to the Fleet Business in both the United States and Canada; and
- the Fleet Business has seen increased profitability since the 2007/2008 financial credit crisis driven by increased fee income, service revenue and lower funding costs, with revenues growing to US\$1.642 billion, and pre-tax income growing to US\$88 million, in 2013 (the latter reflecting a compound annual growth rate of approximately 13% since 2009).

Rationale for the Acquisition

Element believes that the Acquisition will accelerate Element's strategy and growth for the following reasons:

- the Acquisition will provide Element with a fleet leasing and management presence in both the United States and Canada, enabling it to better serve customers operating on a North America-wide basis using a single technology platform;
- the Acquisition is complementary to Element's existing equipment finance and fleet management business, enhancing its existing Canadian Fleet Management vertical;
- Element's continued expansion into the fleet leasing industry complements its other three business verticals and represents a natural extension of its core business of providing equipment financing to businesses across Canada and throughout the United States;
- the Acquisition, and the concurrent expanded financing arrangements, is expected to transform Element's balance sheet, resulting in improved economics for each of the Corporation's business verticals in the future;
- the Acquisition provides Element with access to the Fleet Business' global alliance, a non-fee-based referral arrangement with counterparties worldwide, including South America, Europe, Asia, Africa and Australia;
- the Acquisition, and the integration of the Fleet Business with Element's existing fleet management vertical, is expected to have a positive impact on Element's pro forma growth, as well as its targeted levels of financial leverage, with Element assuming approximately US\$3.5 billion of debt on the Acquisition Closing and increasing its tangible leverage from 1.8X to 4.0X at that time; and
- the Acquisition will allow Element to access the growing capital equipment spending market in the United States, where the equipment finance industry segment has seen consistent growth since the 2007/2008 financial crisis with compound annual growth rates since 2008 in excess of 7%, and which are estimated to continue until at least 2015.

DETAILS OF THE ACQUISITION

Stock Purchase Agreement

The following is a summary of certain terms of the stock purchase agreement entered into between Element and PHH on June 2, 2014 (the "Stock Purchase Agreement"). This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to the provisions of the Stock Purchase Agreement, a copy of which has been filed with Canadian securities regulatory authorities on SEDAR at www.sedar.com.

Transferred Entities

Element has agreed, under the Stock Purchase Agreement, to acquire from PHH all of the outstanding shares of capital stock of each of the PHH subsidiaries operating the Fleet Business. The U.S. operations of the Fleet Business will be acquired by a U.S. subsidiary of Element, and the Canadian operations of the Fleet Business will be acquired separately by a Canadian subsidiary of Element.

Purchase Price

The purchase price for all of the outstanding shares of capital stock of each of the holding companies for the Fleet Business is approximately US\$1.4 billion, which amount is subject to both a pre-closing and post-closing adjustment, based on the Fleet Business' net assets on the Acquisition Closing, in accordance with the terms and conditions of the Stock Purchase Agreement.

Representation and Warranties

The Stock Purchase Agreement includes representations and warranties customary for an arm's length acquisition agreement, including representations and warranties made by PHH with respect to: (i) organization, standing and corporate power; (ii) capitalization; (iii) authority and noncontravention; (iv) governmental approvals; (v) financial statements and undisclosed liabilities; (vi) absence of certain changes; (vii) legal proceedings; (viii) compliance with laws and permits; (ix) tax matters; (x) employee benefits matters; (xi) employee and labour matters; (xii) environmental matters; (xiii) intellectual property; (xiv) property; (xv) contracts; (xvi) opinion of financial adviser; (xvii) brokers and other advisers; (xviii) insurance; (xix) financing programs; and (xx) PHH Funding, LLC.

The Stock Purchase Agreement also contains representations and warranties of the Corporation with respect to: (i) organization, standing and corporate power; (ii) authority and noncontravention; (iii) governmental approvals; (iv) the Investment Canada Act; (v) brokers and other advisers; and (vi) financial capability.

Covenants

The Stock Purchase Agreement contains customary covenants of PHH and Element commencing on the date of the Stock Purchase Agreement and ending upon the earlier to occur of the Acquisition Closing and the termination of the Stock Purchase Agreement.

These include covenants of PHH that, among other things, until the Acquisition Closing, PHH will, except as otherwise provided or consented to by Element, conduct the Fleet Business in all material respects in the ordinary course consistent with past practice and use reasonable best efforts to preserve intact its present lines of business (including financings), maintain its rights and franchises and preserve satisfactory relationships with governmental authorities, employees, customers and suppliers.

PHH also agreed not to, directly or indirectly, (i) solicit, knowingly encourage or knowingly facilitate any inquiry, proposal or offer from any person to purchase or otherwise acquire, in a single transaction or series of related transactions, all or any material portion of the Fleet Business, including a sale of PHH in a manner that precludes the consummation of the Acquisition or the making or consummation thereof, (ii) enter into, or otherwise participate in any discussions or negotiations with any person regarding, or furnish to any person (any information or access in connection with, any such inquiry, proposal or offer, or (iii) enter into any agreement, arrangement or understanding (whether written or unwritten) with respect to any such inquiry, proposal or offer or the making or consummation thereof.

The Stock Purchase Agreement provides that Element and PHH shall each use their respective reasonable best efforts to, among other things, cause the Acquisition to be consummated as soon as practicable, make promptly any required submissions and filings under applicable antitrust laws with respect to the Acquisition, promptly furnish information required in connection with such submissions and filings under such antitrust laws, keep the other parties reasonably informed with respect to the status of any such submissions and filings under antitrust laws, and obtain all actions or non-actions, approvals, consents, waivers, registrations, permits, authorizations and other confirmations from any governmental authority or third party necessary, proper or advisable to consummate the Acquisition and related transactions as soon as practicable. Element and PHH also agreed to use their respective reasonable best efforts to obtain specified third party consents so as to enable the parties to make and give effect to amendments to the Fleet Business' existing financing agreements.

Other covenants of PHH in the Stock Purchase Agreement include that it will: (a) provide Element and its representatives with access to certain access to information on the Fleet Business; (b) provide reasonable cooperation to PHH in connection with the provision of information required under applicable securities laws in connection with the Acquisition; (c) keep confidential all information relating to the Fleet Business, subject to certain exceptions, for a period of 18 months following the Acquisition Closing. The Stock Purchase Agreement also contains certain covenants of the parties in respect of tax filings, refunds and indemnification matters related thereto.

Non-Competition and Non-Solicitation

During the period from the date of the Acquisition Closing until the second anniversary of the Acquisition Closing, PHH shall not, and shall not permit any of its subsidiaries to, directly or indirectly, compete with or engage in the Fleet Business, as currently conducted, within or for the market of North America, subject to certain exceptions. In addition, during such same period, PHH shall not, and shall not permit any of its subsidiaries to, directly or indirectly, solicit, influence, entice or encourage any person who at such time is a director, officer, employee or service provider of Element or the Fleet Business to cease or curtail his or her relationship with such business, subject to certain exceptions, and shall not hire or attempt to hire such persons, also subject to certain exceptions. Element has agreed, until the first anniversary of the Acquisition Closing, to not, and to not permit any of its subsidiaries to, directly or

indirectly, solicit, influence, entice or encourage any person who at such time is a director, officer, employee or service provider of PHH to cease or curtail his or her relationship with such business, subject to certain exceptions, and shall not hire or attempt to hire such persons, also subject to certain exceptions.

Closing Conditions

The completion of the Acquisition and related transactions is subject to the satisfaction of the following mutual conditions for the benefit of Element and PHH: (a) all waiting periods under the Hart-Scott-Rodino Act (United States) and the *Competition Act* (Canada) having been terminated or expired and compliance with the *Competition Act* (Canada) having been obtained; (b) there being no law, injunction, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any governmental authority enjoining, restraining, preventing or prohibiting consummation of the Acquisition and related transactions or making the consummation of the Acquisition and related transactions illegal; (c) certain required third-party consents having been obtained (including under the Chesapeake and FLRT securitization programs); and (d) the transition service agreements having been entered into.

The completion of the Acquisition and related transactions is subject to the satisfaction or waiver of certain conditions for the benefit of the Corporation, including: (a) certain specified fundamental representations and warranties of PHH being true and correct in all respects as of date of the Stock Purchase Agreement and as of the Acquisition Closing, and the other representations and warranties of PHH, disregarding materiality qualification or exceptions, being true and correct as of date of the Stock Purchase Agreement and as of the Acquisition Closing, except in that case where the failure to be true and correct would not have a material adverse effect with respect to the Fleet Business; (b) PHH having performed in all material respects its obligations under the Stock Purchase Agreement; and (c) the Fleet Business having not suffered a material adverse effect since the date of the Stock Purchase Agreement.

The completion of the Acquisition and related transactions is subject to the satisfaction or waiver of certain conditions for the benefit of PHH, including: (a) the representations and warranties of Element, disregarding materiality qualification or exceptions, being true and correct as of date of the Stock Purchase Agreement and as of the Acquisition Closing, except in that case where the failure to be true and correct would not have a material adverse effect with respect to Element; and (b) Element having performed in all material respects its obligations under the Stock Purchase Agreement.

Termination Provisions

The Stock Purchase Agreement may be terminated at any time prior to the Acquisition Closing:

- a) by mutual written consent of the parties;
- b) by either PHH or Element, if (i) the Acquisition has not been consummated on or before September 30, 2014; or (ii) any governmental authority has issued a final and non-appealable order, decree or ruling prohibiting the Acquisition and related transactions;
- c) by Element, if there has been a breach or failure to perform by PHH of any of its representations, warranties, covenants or agreements (other than certain specified covenants) contained in the Stock Purchase Agreement that would result in a failure of a closing condition and which breach cannot be cured by September 30, 2014 or has not been cured within 30 days following receipt of written notice from Element; or
- d) by PHH, if there has been a breach or failure to perform by Element of any of its representations, warranties, covenants or agreements contained in the Stock Purchase Agreement that would result in a failure of a closing condition and which breach cannot be cured by September 30, 2014 or has not been cured within 30 days following receipt of written notice from PHH.

Neither of the parties, as applicable, may terminate the Stock Purchase Agreement pursuant to the termination rights set out in (c) or (d) above if it is then in material breach of any of its representations, warranties, covenants or agreements contained in the Stock Purchase Agreement.

Indemnification

The Stock Purchase Agreement is subject to certain indemnification provisions in favour of all parties involved. PHH has agreed to indemnify, defend and hold harmless Element and its directors, officers, employees, successors, permitted assigns, agents and

representatives from and after the Acquisition Closing from and against any and all claims, losses, damages and expenses incurred or suffered to the extent arising out of or relating to: (a) any breach of any representation or warranty of PHH; (b) any breach of any Fundamental Representation (as hereinafter defined); (c) any breach of any covenant or agreement made or to be performed by PHH; or (d) any liability not assumed by Element.

The representations and warranties of the parties in the Stock Purchase Agreement will generally survive until March 31, 2016, except with respect to breaches of the representations and warranties of PHH with respect to organization and qualification, capitalization, authority and brokers and other advisors (collectively, the “Fundamental Representations”) and tax representations. The Fundamental Representations shall survive until the expiration of the applicable statute of limitations. The tax representations shall survive until 30 days following the expiration of the applicable statute of limitations.

PHH will only have indemnification obligations for damages over approximately US\$14 million in the aggregate (the “Deductible”), and then only to the extent of such excess; any individual claims or expenses where the damages are, subject to certain exceptions, less than US\$100,000 shall not be aggregated for the purposes thereof. Such Deductible shall not apply in the event of any breach or breaches of (i) the Fundamental Representations, or (ii) covenants or agreements of PHH under the Stock Purchase Agreement.

PHH’s maximum liability for all damages under the indemnification provisions in the Stock Purchase Agreement shall not exceed US\$140,250,000 (the “Indemnity Cap”). The Indemnity Cap shall not apply with respect to breaches of the Fundamental Representations, covenants or agreements of PHH under the Stock Purchase Agreement or liabilities not assumed by Element under such agreement, including liabilities related to PHH’s mortgage business and indebtedness. In no event shall PHH be liable for damages resulting from breaches of the Fundamental Representations in excess of the Purchase Price.

Transition Service Agreements

At the Acquisition Closing, Element and PHH will enter into ancillary agreements providing for certain transitional services to be provided, on the one hand, by PHH to Element and, on the other hand, by the Fleet Business to PHH, in each case following the Acquisition Closing (the “Transition Service Agreements”). The Transition Service Agreements will be entered into on terms customary for a transaction of this type.

FINANCING THE ACQUISITION

Element intends to finance the Purchase Price, all Acquisition-related costs and any debt-refinancing costs and fees: (i) from the net proceeds of the Offering (including any proceeds received by the Corporation from the exercise of the Over-Allotment Options, and (ii) by drawing on the proposed Amended and restated Revolving Credit Agreement (as defined below).

Bridge Agreement

In connection with the Acquisition, Element has obtained a commitment letter for a secured non-revolving bridge credit facility of up to US\$1.36 billion pursuant to a non-revolving bridge credit agreement between Element as borrower and Bank of Montreal as sole underwriter (the “Bridge Agreement”). The security under the Bridge Agreement will consist of a first-ranking charge over the assets acquired by Element pursuant to the Acquisition and a second-ranking charge over other assets and interests of Element. The completion of the Offerings will result in a reduction in amounts available under the Bridge Agreement to finance the Acquisition. Element does not expect to draw on the facility under the Bridge Agreement assuming completion of the Offering.

Consolidated Debt Facilities

In conjunction with the Acquisition, Element has received lender commitments to amend and restate its revolving credit agreement for an aggregate commitment exceeding \$1 billion (with a further \$500 million accordion feature) (the “Amended and Restated Revolving Credit Agreement”). The proposed Amended and Restated Revolving Credit Agreement will effectively consolidate Element’s existing Revolving Credit Facility currently having a commitment of up to \$585 million and Element’s existing Bridge Credit Facility currently having a commitment of up to US\$600 million. The borrowing base under the proposed Amended and Restated Revolving Credit Agreement will reflect an expansion of the borrowing base under the Revolving Credit Facility so as to include Element’s railcar assets and related contract balances (the railcar assets constitute the borrowing base under Element’s existing Bridge Credit Facility). The security provided under the current Revolving Credit Facility will be confirmed and will constitute the security under the Amended and Restated Revolving Credit Agreement. The proposed new facility will provide Element with the ability to request a release of the security upon the satisfaction of certain conditions, such as receipt by Element of an investment grade credit rating. The

Amended and Restated Revolving Credit Agreement is proposed to be entered into by, among others, Element as borrower, the financial institutions identified therein as lenders and Bank of Montreal as agent.

EFFECT OF THE ACQUISITION ON THE CORPORATION

Financial Statements

Attached to this short form prospectus are the following financial statements with respect to the Fleet Business: (i) audited combined financial statements as of and for the years ended December 31, 2013 and 2012; and (ii) unaudited combined condensed financial statements as of and for the three months ended March 31, 2014 and 2013.

Attached to this short form prospectus are the following: (i) the unaudited *pro forma* financial statements in respect of the Fleet Business, the GE Fleet Portfolio Acquisition and the Corporation for the year ended December 31, 2013; and (ii) the unaudited *pro forma* financial statements in respect of the Fleet Business and the Corporation as at and for the three months ended March 31, 2014 and 2013.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of Element effective March 31, 2014: (i) prior to giving effect to the Acquisition and the Offering (assuming no exercise of the Over-Allotment Options and including the expenses of the Offering); and (ii) after giving effect to the Acquisition and the Offering (assuming no exercise of the Over-Allotment Options). This table is presented and should be read in conjunction with (i) the Corporation's unaudited condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2014 and the related notes thereto and (ii) the unaudited *pro forma* financial statements of the Corporation included in this short-form prospectus.

| Designation | Outstanding as at March 31, 2014 (\$000s) | Outstanding as at March 31, 2014 after giving effect to the Acquisition and the Offering (\$000s) |
|---|---|--|
| Cash and cash equivalents | 42,093 | 355,143 |
| Debt | | |
| Accounts payable and accrued liabilities..... | 112,590 | 415,590 |
| Convertible debentures ⁽¹⁾ | - | 273,078 |
| Secured borrowings..... | 2,467,016 | 6,630,016 |
| Total Debt..... | 2,579,606 | 7,318,684 |
| Shareholders' Equity | | |
| Common Shares..... | 1,375,639 | 2,154,061 |
| Preferred Shares..... | 235,142 | 355,392 |
| Total shareholders' equity..... | 1,610,781 | 2,509,453 |
| Total capitalization | 4,190,387 | 9,828,137 |

Notes:

(1) For a discussion of the convertible debentures, see "Description of the Debentures".

TRADING PRICE AND VOLUME

Common Shares

The outstanding Common Shares are currently listed on the TSX under the trading symbol “EFN” and commenced trading on the TSX on December 16, 2011. The following table sets forth the reported intraday high and low prices and the trading volume for the Common Shares on the TSX for the 12-month period prior to the date of this short form prospectus.

| <u>Month</u> | <u>High (\$)</u> | <u>Low (\$)</u> | <u>Volume</u> |
|---------------|------------------|-----------------|---------------|
| 2014 | | | |
| June (1 – 10) | 13.66 | 12.81 | 20,049,034 |
| May | 14.20 | 12.92 | 26,709,684 |
| April | 15.49 | 12.97 | 17,774,782 |
| March | 15.50 | 13.85 | 22,016,878 |
| February | 14.30 | 12.19 | 18,564,805 |
| January | 14.17 | 11.89 | 23,207,334 |
| 2013 | | | |
| December | 14.84 | 13.81 | 20,179,001 |
| November | 14.84 | 12.78 | 14,871,859 |
| October | 13.46 | 12.66 | 13,408,682 |
| September | 13.65 | 12.29 | 18,037,805 |
| August | 13.54 | 11.69 | 18,304,040 |
| July | 13.05 | 12.06 | 17,647,661 |
| June | 12.04 | 10.70 | 21,259,127 |

On June 2, 2014, the last full trading day prior to the announcement of the Offering, the closing price of the Common Shares on the TSX was \$13.30. On June 10, 2014, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was \$12.89.

Series A Shares

The Series A Shares are currently listed on the TSX under the trading symbol “EFN.PR.A” and commenced trading on the TSX on December 17, 2013. The following table sets forth the reported intraday high and low prices and the trading volume for the Series A Shares on the TSX since trading commenced.

| <u>Month</u> | <u>High (\$)</u> | <u>Low (\$)</u> | <u>Volume</u> |
|--------------------|------------------|-----------------|---------------|
| 2014 | | | |
| June (1 – 10) | 25.37 | 25.05 | 41,056 |
| May | 25.17 | 25.02 | 195,351 |
| April | 25.20 | 24.88 | 289,298 |
| March | 25.45 | 24.84 | 184,160 |
| February | 25.51 | 24.90 | 178,788 |
| January | 26.49 | 24.83 | 196,618 |
| 2013 | | | |
| December (17 – 31) | 25.17 | 24.65 | 549,724 |

On June 2, 2014, the last full trading day prior to the announcement of the Offering, the closing price of the Series A Shares on the TSX was \$25.14. On June 10, 2014, the last trading day prior to the filing of this short form prospectus, the closing price of the Series A Shares on the TSX was \$25.30.

Series C Shares

The Series C Shares are currently listed on the TSX under the trading symbol "EFN.PR.C" and commenced trading on the TSX on March 7, 2014. The following table sets forth the reported intraday high and low prices and the trading volume for the Series C Shares on the TSX since trading commenced.

| <u>Month</u> | <u>High (\$)</u> | <u>Low (\$)</u> | <u>Volume</u> |
|----------------|------------------|-----------------|---------------|
| <i>2014</i> | | | |
| June (1 – 10) | 25.19 | 24.99 | 70,589 |
| May | 25.25 | 24.95 | 217,224 |
| April | 25.10 | 24.86 | 237,863 |
| March (7 – 31) | 25.00 | 24.77 | 1,058,152 |

On June 2, 2014, the last full trading day prior to the announcement of the Offering, the closing price of the Series C Shares on the TSX was \$25.00. On June 10, 2014, the last trading day prior to the filing of this short form prospectus, the closing price of the Series C Shares on the TSX was \$25.17.

PRIOR SALES

Common Shares

The following table provides details regarding all Common Shares or securities convertible into Common Shares (including Common Shares issued pursuant to the exercise of previously granted stock options under the Corporation's stock option plan), that have been issued by the Corporation during the 12-month period preceding the date of this short form prospectus:

| Date | Number of Common Shares or securities convertible into Common Shares | Issue Price Per Security |
|------------------------------------|--|--------------------------|
| August 12, 2012 to August 12, 2013 | 12,500 ⁽¹⁾ | \$2.50 |
| August 12, 2012 to August 12, 2013 | 14,521 ⁽²⁾ | \$4.20 |
| August 12, 2012 to August 12, 2013 | 19,558 ⁽³⁾ | \$3.23 |
| August 12, 2012 to August 12, 2013 | 562,500 ⁽⁴⁾ | \$4.00 |
| August 12, 2012 to August 12, 2013 | 7,450,198 ⁽⁵⁾ | \$8.92 |
| August 12, 2012 to August 12, 2013 | 672 ⁽⁶⁾ | \$5.32 |
| August 12, 2012 to August 12, 2013 | 87,500 ⁽⁷⁾ | \$2.50 |
| August 12, 2012 to August 12, 2013 | 212,500 ⁽⁸⁾ | \$3.91 |
| August 16, 2013 | 29,612,500 ⁽⁹⁾ | \$10.15 |
| August 21, 2013 | 37,188 ⁽¹⁰⁾ | \$2.50 |
| August 29, 2013 | 27,854 ⁽¹¹⁾ | \$5.40 |
| August 29, 2013 | 5,151 ⁽¹²⁾ | \$10.40 |
| October 8, 2013 | 20,000 ⁽¹³⁾ | \$8.06 |
| November 25, 2013 | 1,667 ⁽¹⁴⁾ | \$5.86 |
| November 25, 2013 | 50,000 ⁽¹⁵⁾ | \$4.20 |
| December 17, 2013 | 33,465,000 ⁽¹⁶⁾ | \$13.75 |
| January 6, 2014 | 20,000 ⁽¹⁷⁾ | \$5.40 |
| February 4, 2014 | 166,173 ⁽¹⁸⁾ | \$5.82 |
| February 6, 2014 | 3,334 ⁽¹⁹⁾ | \$4.20 |
| February 14, 2014 | 255,182 ⁽²⁰⁾ | \$7.40 |
| February 28, 2014 | 1,334 ⁽²¹⁾ | \$5.40 |
| March 6, 2014 | 101,413 ⁽²²⁾ | \$13.98 |
| March 26, 2014 | 20,000 ⁽²³⁾ | \$8.06 |

Notes:

1. Represents 12,500 Common Shares issued on the exercise of options to purchase Common Shares by a former director of the Corporation.
2. Represents 14,521 Common Shares issued on the exercise of options to purchase Common Shares by a former officer of the Corporation.
3. Represents 19,558 Common Shares issued on the exercise of options to purchase Common Shares issued to former directors of Mira and other holders of options to purchase Mira common shares in connection with the amalgamation of Element and Mira.
4. Represents 562,500 Common Shares issued on the exercise of broker warrants to purchase Common Shares.
5. Represents 7,450,198 options to purchase Common Shares issued pursuant to the Corporation's stock option plan.
6. Represents 672 Common Shares issued on the exercise of options to purchase Common Shares by a former employee of the Corporation.
7. Represents 87,500 Common Shares issued on the exercise of options to purchase Common Shares by directors and a former consultant of the Corporation that were due to expire in August, 2013.
8. Represents 212,500 Common Shares issued on the exercise of options to purchase Common Shares by a former director of the Corporation.
9. On June 18, 2013, the Corporation issued, on a private placement basis, 29,612,500 special warrants (the "June 2013 Special Warrants") at a price of \$10.15 per June 2013 Special Warrant. The distribution of the Common Shares underlying the June 2013 Special Warrants was qualified by a prospectus dated August 15, 2013 and the Common Shares underlying such June 2013 Special Warrants were issued on August 16, 2013.
10. Represents 37,188 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
11. Represents 27,854 Common Shares issued on the exercise of options to purchase Common Shares by an employee of the Corporation.
12. Represents 5,151 Common Shares issued on the exercise of options to purchase Common Shares by an employee of the Corporation.
13. Represents 20,000 Common Shares issued on the exercise of options to purchase Common Shares by an employee of the Corporation.
14. Represents 1,667 Common Shares issued on the exercise of options to purchase Common Shares by an employee of the Corporation.
15. Represents 50,000 Common Shares issued on the exercise of options to purchase Common Shares by a former director of the Corporation.
16. On December 17, 2013, the Corporation issued 33,465,000 Common Shares at a price of \$13.75 per Common Share.

17. Represents 20,000 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
18. Represents 166,173 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
19. Represents 3,334 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
20. Represents 255,182 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
21. Represents 1,334 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
22. Represents 101,413 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.
23. Represents 20,000 Common Shares issued on the exercise of options to purchase Common Shares by employees of the Corporation.

Preferred Shares

On December 17, 2013, Element issued 4,000,000 Series A Shares at a price of \$25.00 per Series A Share. On December 23, 2013, Element issued 600,000 Series A Shares at a price of \$25.00 per Series A Share pursuant to the exercise of the over-allotment option.

On March 7, 2014 Element issued 5,000,000 Series C Shares a price of \$25.00 per Series C Share. On March 24, 2014, Element issued 126,400 Series C Shares at a price of \$25.00 per Series C Share pursuant to the exercise of the over-allotment option.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series (the "Preferred Shares") of which, as at the date hereof, there were 189,502,737 Common Shares, 4,600,000 Series A Shares and 5,126,400 Series C Shares issued and outstanding. The following is a summary of the rights, privileges, restrictions and conditions attaching to the Common Shares and the Preferred Shares of the Corporation.

Common Shares

Holders of Common Shares are entitled to one vote per share at meetings of shareholders of Element, to receive dividends if, as and when declared by the board of directors of Element and to receive *pro rata* the remaining property and assets of Element upon its dissolution or winding-up, subject to the rights of shares or other securities having priority over the Common Shares.

Preferred Shares

Holders of Preferred Shares are entitled to preference over the Common Shares with respect to payment of dividends and the distribution of assets in the event of a liquidation, dissolution or winding up of Element, whether voluntary or involuntary, and rank on a parity with the Preferred Shares of every other series. If any amount of cumulative dividends (whether or not declared) or declared non-cumulative dividends or any amount payable on any such distribution of assets constituting a return of capital in respect of the Preferred Shares of any series is not paid in full, the Preferred Shares of such series shall participate ratably with the Preferred Shares of every other series in respect of all such dividends and amounts.

USE OF PROCEEDS

The net proceeds from the issue and sale of the Securities will amount to approximately \$1,197,050,400, assuming no exercise of the Over-Allotment Options, and approximately \$1,377,357,960 if the Over-Allotment Options are exercised in full and, in both cases, after deducting the Underwriters' Fee (as hereinafter defined) and estimated expenses of the Offering. The Purchase Price payable by the Corporation at the Acquisition Closing will be approximately US\$1.4 billion.

The net proceeds from the Offering, together with funds to be advanced pursuant to cash on hand and a drawdown under the Bridge Agreement, as determined by Element, will be used to finance the Purchase Price. See "Financing the Acquisition". The Escrowed Funds will be held in escrow pending the Acquisition Notice being delivered. See "Description of the Subscription Receipts". If the Acquisition does not proceed, the net proceeds from the issuance and sale of the Series E Shares will be used to originate and finance, directly or indirectly, finance assets and for general corporate purposes. If the Acquisition does not proceed, a Debenture Termination Event will occur and, the Debentures will mature on the Initial Maturity Date which, for greater certainty, shall be the Debenture Termination Date. "See Description of the Debentures."

EARNINGS COVERAGE RATIO

Earnings coverage is equal to income before interest expense on all long-term debt, debentures, and income taxes, divided by interest expense on all long-term debt and debentures. The following earnings coverage ratios are calculated on a consolidated basis for the

twelve month periods ended December 31, 2013 and March 31, 2014 and are derived from the audited and unaudited consolidated financial information of the Corporation incorporated by reference in this short form prospectus.

Before giving effect to the issuance of the Securities and the Acquisition, the Corporation's dividend requirements and borrowing costs for the twelve month periods ended December 31, 2013 and March 31, 2014 was \$49.9 million and \$67.4 million, respectively, and its profit or loss before deducting borrowing costs and income taxes was \$54.4 million for the twelve month period ended December 31, 2013, with its income before deducting borrowing costs and income taxes being \$80.7 million for the twelve month period ended March 31, 2014. For the twelve month periods ended December 31, 2013 and March 31, 2014, this results in an earnings coverage ratio of approximately 1.1 times and 1.2 times the Corporation's borrowing cost requirements, respectively.

After giving *pro forma* effect to the issuance of the Securities (excluding any exercise of the Over-Allotment Options) to be distributed under this short form prospectus, the offering of Series C Shares in March 2014 (with respect to the twelve month period ended December 31, 2013) but excluding the Acquisition, the Corporation's *pro forma* dividend requirements and borrowing cost requirement for the twelve month periods ended December 31, 2013 and March 31, 2014 was approximately \$89.2 million and approximately \$103.2 million, respectively, and its profit or loss before deducting borrowing costs and income taxes was approximately \$54.4 million for the twelve month period ended December 31, 2013, and its income before deducting borrowing costs and income taxes was approximately \$80.7 million for the twelve month period ended March 31, 2014. These result in a coverage of approximately 0.6 times the Corporation's *pro forma* borrowing cost requirement for the twelve month period ended December 31, 2013, and coverage of approximately 0.8 times the Corporation's *pro forma* borrowing cost requirement for March 31, 2014. The incremental dollar amount of income before borrowing costs required to achieve an earnings coverage ratio of one-to-one for the twelve month periods ended December 31, 2013 and March 31, 2014 would be approximately \$34.8 million and approximately \$22.5 million, respectively.

After giving *pro forma* effect to the issuance of the Securities (excluding any exercise of the Over-Allotment Options) to be distributed under this short form prospectus, the offering of Series C Shares in March 2014 (with respect to the twelve month period ended December 31, 2013) and the Acquisition (and therefore including the amounts drawn down on the Bridge Agreement), the Corporation's *pro forma* dividend requirements and borrowing cost requirement for the twelve month periods ended December 31, 2013 and March 31, 2014 was approximately \$103.2 million and approximately \$117.2 million, respectively, and its profit or loss before deducting borrowing costs and income taxes was approximately \$54.4 million for the twelve month period ended December 31, 2013, and its income before deducting borrowing costs and income taxes was approximately \$80.7 million for the twelve month period ended March 31, 2014. These result in a coverage of approximately 0.5 times the Corporation's *pro forma* borrowing cost requirement for the twelve month period ended December 31, 2013, and coverage of approximately 0.7 times the Corporation's *pro forma* borrowing cost requirement for March 31, 2014. The incremental dollar amount of income before borrowing costs required to achieve an earnings coverage ratio of one-to-one for the twelve month periods ended December 31, 2013 and March 31, 2014 would be approximately \$48.8 million and approximately \$36.5 million, respectively.

DESCRIPTION OF THE SUBSCRIPTION RECEIPTS

The following is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to the terms of the Subscription Receipt Agreement.

Escrowed Funds

The Escrowed Funds will be delivered to and held by the Subscription Receipt Agent and invested in an interest-bearing account with a Schedule I Canadian bank as directed in writing jointly by the Corporation and BMO (on behalf of itself and the other Subscription Receipt Underwriters), pending the earlier of the receipt of the Acquisition Notice and the occurrence of a Subscription Termination Event. If at any time the Escrowed Funds include cash that is not invested and the Subscription Receipt Agent has not been provided with directions, such amounts shall remain in the Subscription Receipt Agent's non-interest bearing trust account. Provided that the Acquisition Notice is provided prior to the Subscription Termination Date, the Escrowed Funds, together with Earned Interest, will be released to the Corporation and the Common Shares will be issued to holders of Subscription Receipts who will receive, without payment of additional consideration or further action, one (1) Common Share for each Subscription Receipt held, plus any additional amounts as described below.

Terms of Subscription Receipts

If the satisfaction or waiver of all conditions precedent to the Acquisition in accordance with the terms of the Stock Purchase Agreement, without amendment or waiver materially adverse to the Corporation, but for the payment of the Purchase Price and other

amounts under the Stock Purchase Agreement to be satisfied in part by the release of the Escrowed Funds occurs prior to the date on which a Subscription Termination Event occurs (the “Subscription Termination Date”), the Corporation will forthwith (and in any event no later than the date of the Acquisition Closing) execute and deliver a notice (the “Acquisition Notice”) thereof to the Subscription Receipt Agent and BMO, on behalf of the Subscription Receipt Underwriters. At this time, the Subscription Receipts shall be deemed to be automatically exchanged for no additional consideration and without further action for one (1) Common Share for each Subscription Receipt then outstanding. As soon as practicable following the sending of the Acquisition Notice, the Corporation will issue a press release disclosing that the Acquisition has been completed, the automatic exchange of the Subscription Receipts and that the Common Shares have been issued. At such time, the holders of Subscription Receipts will receive, without payment of additional consideration or further action, one (1) Common Share for each Subscription Receipt. Forthwith upon the Acquisition Notice being delivered to the Subscription Receipt Agent, the Escrowed Funds, together with any Earned Interest, less 50% of the Underwriters’ Fee for Subscription Receipts and any applicable withholding taxes will be released to the Corporation and 50% of the Underwriters’ Fee for Subscription Receipts will be remitted to, or at the direction of, BMO on behalf of the Subscription Receipt Underwriters.

In the event that the Acquisition Closing occurs prior to or concurrently with the Offering Closing, investors in the Offering will receive Common Shares on the date of the Offering Closing instead of Subscription Receipts, in which case this short form prospectus will qualify for distribution those Common Shares.

If the Acquisition Notice has not been received by the Subscription Receipt Agent prior to 5:00 p.m. (Toronto time) on the Subscription Termination Date or if the Corporation declares bankruptcy or becomes insolvent, the subscription evidenced by each Subscription Receipt will be automatically terminated and cancelled and each Subscription Receipt will entitle the holder thereof to receive an amount equal to the full subscription price and its pro rata share of any Earned Interest and Deemed Interest, less applicable withholding taxes, if any, within five business days of the Subscription Termination Date. For greater certainty, despite the fact that 50% of the Underwriters’ Fee for Subscription Receipts will be paid by the Corporation to the Subscription Receipt Underwriters upon the Offering Closing, the Corporation will nonetheless, following a Subscription Termination Event, be responsible to ensure that each holder of a Subscription Receipt receives an amount equal to the full subscription price and his or her pro rata share of any Earned Interest and Deemed Interest, less applicable withholding taxes, if any, as described above.

Contractual Right of Rescission

Under the Subscription Receipt Agreement, a purchaser of Subscription Receipts to whom the short form prospectus was sent or delivered and who was the original purchaser of the Subscription Receipts (collectively, the “Original Purchasers”), will have a non-assignable contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares, as applicable, if the short form prospectus and any amendment contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario), provided such remedy for rescission is exercised within 180 days of the date of the Offering Closing. This contractual right of rescission shall be subject to the defences, limitations and other provisions described under part XXIII of the *Securities Act* (Ontario), and is in addition to any other right or remedy available to original purchasers of Subscription Receipts under section 130 of the *Securities Act* (Ontario) or otherwise at law. For greater certainty, this contractual right of rescission under the Subscription Receipt Agreement is only in connection with a misrepresentation (within the meaning of the *Securities Act* (Ontario)) and is not a right to withdraw from an agreement to purchase securities within two business days as provided in securities legislation in certain provinces and territories of Canada. In no event shall the Corporation be liable if the Original Purchaser purchased the Subscription Receipts with knowledge of the misrepresentation.

Amendments, Modifications or Alterations

From time to time while the Subscription Receipts are outstanding, the Corporation and the Subscription Receipt Agent, without the consent of the holders of the Subscription Receipts, may amend or supplement the Subscription Receipt Agreement for certain purposes, including making any change that, in the opinion of the Subscription Receipt Agent, does not prejudice the rights of the holders of Subscription Receipts. The Subscription Receipt Agreement provides for other modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term “extraordinary resolution” is defined in the Subscription Receipt Agreement to mean a resolution passed by the affirmative votes of the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts represented and voting at a meeting of Subscription Receipt holders holding, in the aggregate, not less than 25% of the total number of Subscription Receipts then outstanding or an instrument or instruments in writing signed by the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts.

Book-Entry, Delivery and Form of Subscription Receipts and Common Shares

The Subscription Receipts may be represented in either certificated or uncertificated form registered in the name of CDS or its nominee and held by, or on behalf of, CDS, as depository of the Subscription Receipt certificates for the participants of CDS (a “CDS-Registered Subscription Receipt Certificate”).

Each purchaser acquiring a beneficial interest in a Subscription Receipt represented by a CDS-Registered Subscription Receipt Certificate will receive a customer confirmation of purchase from the Underwriter from whom the beneficial interest is purchased in accordance with the practices and procedures of the selling Underwriter. Registration of ownership and transfers of Subscription Receipts represented by a CDS-Registered Subscription Receipt Certificate may be effected through the book-based system administered by CDS or its nominees (with respect to interests of participants of CDS) and on the records of participants of CDS (with respect to interests of persons other than participants of CDS). The ability of an owner of a beneficial interest in a Subscription Receipt represented by a CDS-Registered Subscription Receipt Certificate to pledge such Subscription Receipt or otherwise take action with respect to such owner’s interest in such Subscription Receipt (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Common Shares issued upon the exchange of the Subscription Receipts will be delivered electronically through the non-certificated inventory (“NCI”) system of CDS. On the date of the Acquisition Closing, the Corporation, via its transfer agent, will electronically deliver the Common Shares registered to CDS or its nominee. Transfers of ownership of Common Shares in Canada must be effected through a CDS participant, which includes securities brokers and dealers, banks and trust companies. All rights of shareholders who hold Common Shares in CDS must be exercised through, and all payments or other property to which such shareholders are entitled, will be made or delivered by CDS or the CDS participant through which the shareholder holds such Common Shares. A holder of a Common Share participating in the NCI system will not be entitled to a certificate or other instrument from the Corporation or the Corporation’s transfer agent evidencing that person’s interest in or ownership of Common Shares, nor, to the extent applicable, will such holder be shown on the records maintained by CDS, except through an agent who is a CDS participant. The ability of a beneficial owner of Common Shares to pledge such Common Shares or otherwise take action with respect to such owner’s interest in such Common Shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Holders of Subscription Receipts are Not Shareholders

Holders of Subscription Receipts are not shareholders of the Corporation and will not have any voting or pre-emptive rights or other rights as shareholders, including any direct or indirect entitlement whatsoever relating to or arising from any dividends declared or paid on the Common Shares prior to the Acquisition. From and after the date of the Acquisition Closing, the former holders of Subscription Receipts will be entitled as holders of Common Shares to receive dividends from the Corporation, to vote and to all other rights available to holders of Common Shares.

DESCRIPTION OF THE DEBENTURES

The Debentures will be issued under an indenture (the “Indenture”) between the Corporation and Computershare Trust Company of Canada, as debenture trustee (the “Debenture Trustee”). The following description of the Debentures is a summary of their material attributes and characteristics which does not purport to be complete and is qualified in its entirety by reference to the Indenture. The following summary uses words and terms which will be defined in the Indenture. For full particulars, reference is made to the Indenture.

General

The Debentures will be issued under and pursuant to the provisions of the Indenture to be entered into between the Corporation and the Debenture Trustee. The Debentures will be limited to an aggregate principal amount of \$300,000,000 (or \$345,000,000 if the Over-Allotment Options are exercised in full).

The Debentures will be dated as of the date of the Offering Closing (or, as applicable, the date or dates of closing of the exercise of the Over-Allotment Options). The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof. If: (i) the Acquisition Closing does not occur by 5:00 p.m. (Toronto time) on December 31, 2014; (ii) the Stock Purchase Agreement is terminated at an earlier time than (i); or (iii) the Corporation advises BMO (on behalf of the Debenture Underwriters) or announces to the public by way of a news release that it does not intend to proceed with the Acquisition at an earlier time than (i) (in each such case, a “Debenture Termination Event” and the date upon which such event occurs being the “Debenture Termination Date”), the Debentures will mature on the Initial Maturity Date which, for greater certainty, shall be the Debenture Termination Date.

If the Acquisition Closing takes place on or prior to the Debenture Termination Date, then the Maturity Date will be automatically extended from the Initial Maturity Date to the Final Maturity Date, being 5:00 p.m. (Toronto time) on June 30, 2019. If a Debenture Termination Event occurs, the Debentures mature on the Initial Maturity Date and holders of the Debentures will receive, on the second business day following the Initial Maturity Date, an amount equal to the issue price of the Debentures, plus the accrued and unpaid interest thereon up to, but excluding, the Initial Maturity Date.

At the Offering Closing, the Debentures will be available for delivery only in book-entry form through the facilities of CDS. Holders of beneficial interests in the Debentures will not have the right to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under “Description of the Debentures — Book-Entry, Delivery and Form of Debentures and Common Shares”.

The Debentures will bear interest from the date of issue at 5.125% per annum, which will be payable semi-annually on the last day of June and December in each year, commencing on December 31, 2014, computed on the basis of a 360-day year composed of twelve 30-day months. The first payment will represent accrued interest for the period from the date of the Offering Closing up to, but excluding December 31, 2014. Interest on the Debentures will be payable in lawful money of Canada as specified in the Indenture. Subject to any required regulatory approval and provided no Debenture Event of Default has occurred and is continuing, the Corporation will have the option, after the Acquisition Closing, to pay such interest by delivering a number of Common Shares to the Debenture Trustee for sale, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest owed from the proceeds of the sale of the requisite number of Common Shares by the agent. See “Description of the Debentures — Interest Payment Election” below. The Indenture will not contain a requirement for the Corporation to increase the amount of interest or other payments to holders of Debentures should the Corporation become required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts.

Principal on the Debentures will be payable in lawful money of Canada or, at the Corporation’s option and subject to applicable regulatory approval, by delivery of freely tradeable Common Shares to satisfy in whole or in part the Corporation’s obligation to repay principal under the Debentures, as further described under “Description of the Debentures — Payment upon Redemption or Maturity” and “Description of the Debentures — Redemption and Purchase”.

The Debentures will be the Corporation’s direct obligations and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to the Corporation’s other liabilities, as described under “Description of the Debentures — Subordination”. The Indenture will not restrict the Corporation from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Debentures will be transferable, and may be presented for conversion, at the principal offices of the Debenture Trustee in Toronto, Ontario.

Conversion Privilege

The Debentures will be convertible at the holder’s option into fully paid, non-assessable and freely tradeable Common Shares at any time after the Acquisition Closing and prior to the close of business on the earlier of the Final Maturity Date and the last business day immediately preceding the date specified by the Corporation for redemption of the Debentures, at the Conversion Price of \$17.85, representing a ratio of approximately 56.0224 Common Shares per \$1,000 principal amount of Debentures. Holders converting their 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 Debentures to, but excluding, the date of conversion.

Holders converting their Debentures will become holders of record of Common Shares on the date of conversion provided that, if a Debenture is surrendered for conversion on a day on which the register of Common Shares is closed, the person entitled to receive Common Shares shall become the holder of record of such Common Shares as at the date on which such register is next reopened. Notwithstanding the foregoing, no Debentures may be converted on an Interest Payment Date or during the five business days preceding an Interest Payment Date, as the registers of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of the outstanding Common Shares; (ii) the issuance of Common Shares or securities convertible into Common Shares by way of stock dividend or otherwise; (iii) the issuance of options, rights or warrants to all or substantially all the holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then Current Market Price of the Common Shares; and (iv) the distribution to all holders of Common Shares of any cash dividend or distribution or other property or assets distributed in lieu of cash dividends paid in the ordinary course.

“Current Market Price” means the volume-weighted average trading price per Common Share for the 20 consecutive trading days ending on the fifth trading day preceding the date of determination on the TSX (or, if the Common Shares are not listed thereon, on such stock exchange on which the Common Shares are listed as may be selected for such purpose by or at the direction or on behalf of the directors of the Corporation and approved by the Debenture Trustee, or if the Common Shares are not listed on any stock exchange, then on the over-the-counter market). The volume-weighted average trading price shall be determined by dividing the aggregate sale price of all Common Shares sold on the said exchange or market, as the case may be, during the said 20 consecutive trading days by the total number of Common Shares, as the case may be, so sold.

There will be no adjustment of the Conversion Price in respect of any event described in (ii), (iii) or (iv) above if, subject to prior regulatory approval (if required), the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date.

The Corporation will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%. However, any adjustments that are less than 1% of the Conversion Price will be carried forward and taken into account when determining subsequent adjustments.

In the case of: (i) any reclassification, capital reorganization or change (other than a change resulting only from consolidation or subdivision) of the Common Shares; (ii) the Corporation’s amalgamation, arrangement, consolidation or merger with or into any other entity; (iii) any sale, transfer or other disposition of the Corporation’s properties and assets as, or substantially as, an entirety to any other entity; or (iv) the Corporation’s liquidation, dissolution or winding-up, the terms of the conversion privilege will be adjusted so that each Debenture will, after such reclassification, capital reorganization, change, amalgamation, arrangement, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding-up, be exercisable for the kind and amount of the Corporation’s securities or property, or of such continuing, successor or purchaser entity, as the case may be, which the holder thereof would have been entitled to receive as a result of such reclassification, capital reorganization, change, amalgamation, arrangement, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding-up if on the effective date thereof it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date thereof.

No fractional Common Shares will be issued upon conversion of the Debentures; in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the relevant fraction of the Current Market Price of a whole Common Share.

Redemption and Purchase

The Debentures may not be redeemed by the Corporation before June 30, 2017 (except in certain limited circumstances following a Change of Control). See “Description of the Debentures — Repurchase upon a Change of Control” below. On or after June 30, 2017 and prior to the Final Maturity Date, the Debentures may be redeemed by the Corporation in whole or in part from time to time at the Corporation’s option on not more than 60 days’ and not less than 30 days’ prior written notice at a redemption price equal to their principal amount plus accrued and unpaid interest thereon, provided that the Current Market Price of the Common Shares on the date on which notice of redemption is given exceeds 125% of the Conversion Price.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis or in such other manner as the Debenture Trustee deems equitable, subject to the consent of the TSX.

The Corporation or any of its affiliates will have the right to purchase Debentures in the market, by tender or by private contract, provided however, that if a Debenture Event of Default has occurred and is continuing, the Corporation or any of its affiliates will not have the right to purchase Debentures by private contract.

Payment upon Redemption or Maturity

On the date of redemption of the Debentures (the “Redemption Date”) or on the Initial Maturity Date or Final Maturity Date, as applicable, the Corporation will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon.

The Corporation may, at its option, on not more than 60 days’ and not less than 40 days’ prior notice and subject to any required regulatory approvals, unless a Debenture Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering freely-tradeable Common Shares to the holders of the Debentures. Payment would be satisfied by delivering that number of freely-

tradeable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price of the Common Shares on the Redemption Date or Final Maturity Date, as applicable. Any accrued and unpaid interest will be paid in cash. The Corporation will not be entitled to issue Common Shares to satisfy its payment obligations on the Initial Maturity Date.

No fractional Common Shares will be issued upon redemption or maturity of the Debentures; in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the relevant fraction of the Current Market Price of a whole Common Share.

Cancellation

All Debentures converted, redeemed or purchased will be cancelled and may not be reissued or resold.

Subordination

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, in the circumstances referred to below and more particularly as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Corporation. "Senior Indebtedness" will be defined in the Indenture to mean the principal of and interest on and other amounts in respect of Borrowed Money and indebtedness of the Corporation (whether outstanding at the date of the Indenture or thereafter created, incurred, assumed or guaranteed), other than Borrowed Money or indebtedness which, by the terms of the contract or instrument creating or evidencing the Borrowed Money or such indebtedness, or pursuant to which the Borrowed Money or such indebtedness is outstanding, is expressed to be *pari passu* with, or subordinate in right of payment to, the Debentures. The Debentures will not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its real or personal property or properties to secure any indebtedness.

"Borrowed Money" will be defined in the Indenture to mean, in respect of the Corporation, all of the Corporation's indebtedness, obligations and liabilities in respect of: (i) borrowed money; (ii) bonds, debentures, notes or other similar instruments; (iii) commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, including reimbursement obligations in respect thereof; and (iv) guarantees, indemnities and other assurances in respect of any of the foregoing.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Corporation, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Corporation, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Corporation, all creditors entitled to Senior Indebtedness will receive payment in full before the holders of the Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon.

The Indenture will also provide that the Corporation will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (i) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (ii) at any time when a default or event of default has occurred under the Senior Indebtedness and is continuing and which permits the holders of such Senior Indebtedness to accelerate the maturity thereof, unless the Senior Indebtedness have been repaid in full.

Repurchase upon a Change of Control

Within 30 days following the occurrence of a Change of Control, the Corporation will be required to make a cash offer to purchase all of the Debentures (the "Debenture Offer") at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (the "Offer Price"). A Change of Control shall occur upon: (i) an acquisition by a person or group of persons acting jointly or in concert (within the meaning of Multilateral Instrument 62-104 - *Take-Over Bids and Issuer Bids* and, in Ontario, the *Securities Act* (Ontario) and Ontario Securities Commission Rule 62-504 - *Take-Over Bids and Issuer Bids*) of ownership of, or voting control or direction over, 50% or more of the issued and outstanding Common Shares; or (ii) the sale or other transfer of all or substantially all of the Corporation's consolidated assets, excluding a sale, merger, reorganization or other similar transaction if the previous holders of the Common Shares hold at least 50% of the voting control in such merged reorganized or other continuing entity (each, a "Change of Control").

The Indenture will contain notification and repurchase provisions requiring the Corporation to give written notice to the Debenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Debenture

Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with copy of the Debenture Offer to repurchase all outstanding Debentures.

If Debentures representing 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control are tendered for purchase following a Change of Control (other than Debentures held at the date of the take-over bid by or on behalf of the offeror, associates or affiliates of the offeror or any one acting jointly or in concert with the offeror), the Corporation will have the right to redeem all remaining Debentures on the purchase date at the Offer Price. Notice of such redemption must be given to the Debenture Trustee by the Corporation within ten (10) days following expiry of the right of the holders of the Debentures to require repurchase after the Change of Control and, as soon as possible thereafter by the Debenture Trustee to the holders of Debentures not tendered for purchase.

The Corporation will comply with the requirements of Canadian securities laws and regulations to the extent such laws and regulations are applicable in connection with the repurchase of Debentures in the event of a Change of Control.

Cash Change of Control

In addition to the requirement for the Corporation to make a Debenture Offer in the event of a Change of Control, if a Change of Control occurs on or before the Final Maturity Date in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of: (i) cash (other than cash payments for fractional Common Shares and cash payments made in respect of dissenters' appraisal rights); (ii) trust units, limited partnership units or other participating equity securities of a trust, limited partnership or similar entity; (iii) equity securities that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or (iv) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange, then subject to regulatory approvals, during the period beginning ten (10) trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Debenture Offer is delivered, holders of Debentures will be entitled to convert their Debentures, subject to certain limitations, and receive, subject to and upon completion of the Change of Control, in addition to the number of Common Shares they would otherwise be entitled to receive as set out under "Description of the Debentures Conversion Privilege" above, an additional number of Common Shares per \$1,000 principal amount of Debentures as set out below.

The number of additional Common Shares per \$1,000 principal amount of Debentures constituting the make-whole premium will be determined by reference to the table below and is based on the date on which the Change of Control becomes effective (the "Effective Date") and the price (the "Stock Price") paid per Common Share in the transaction constituting the Change of Control. If holders of Common Shares receive (or are entitled and able in all circumstances to receive), only cash in the transaction, the Stock Price will be the cash amount paid per Common Share. Otherwise, the Stock Price will be equal to the Current Market Price of the Common Shares immediately preceding the Effective Date of such transaction.

The following table shows what the make-whole premium would be for each hypothetical Stock Price and Effective Date set out below, expressed as additional Common Shares per \$1,000 principal amount of Debentures. For greater certainty, the Corporation will not be obliged to pay the make-whole premium other than by issuance of Common Shares upon conversion subject to the provision relating to adjustment of the Conversion Price in certain circumstances and following the completion of certain types of transactions described under "Description of the Debentures — Conversion Privilege" above.

| <u>Stock Price</u> | <u>Effective Date</u> | | | | | |
|--------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|
| | June 30, 2014 | June 30, 2015 | June 30, 2016 | June 30, 2017 | June 30, 2018 | June 30, 2019 |
| \$12.75 | 22.4090 | 22.4090 | 22.4090 | 22.4090 | 22.4090 | 22.4090 |
| \$13.00 | 21.4351 | 20.9007 | 20.9007 | 20.9007 | 20.9007 | 20.9007 |
| \$13.50 | 19.8219 | 18.6725 | 18.0517 | 18.0517 | 18.0517 | 18.0517 |
| \$14.00 | 18.3316 | 17.0900 | 15.9167 | 15.4062 | 15.4062 | 15.4062 |
| \$14.50 | 16.9823 | 15.6868 | 14.4409 | 13.5511 | 12.9431 | 12.9431 |
| \$15.00 | 15.8172 | 14.4287 | 13.0550 | 12.0986 | 10.9363 | 10.6443 |

| <u>Stock Price</u> | <u>Effective Date</u> | | | | | |
|--------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|
| | June 30, 2014 | June 30, 2015 | June 30, 2016 | June 30, 2017 | June 30, 2018 | June 30, 2019 |
| \$16.00 | 13.7298 | 12.2593 | 10.7293 | 9.6595 | 8.2791 | 6.4776 |
| \$17.00 | 12.0269 | 10.4850 | 8.8555 | 7.6695 | 6.2274 | 2.8011 |
| \$18.00 | 10.6575 | 9.0482 | 7.3218 | 6.0141 | 4.6888 | 0.0000 |
| \$20.00 | 8.5154 | 6.8888 | 5.0324 | 3.3955 | 2.5172 | 0.0000 |
| \$22.00 | 7.0020 | 5.4203 | 3.5745 | 1.4840 | 1.0990 | 0.0000 |
| \$25.00 | 5.4582 | 4.0323 | 2.3065 | 0.2451 | 0.2129 | 0.0000 |
| \$30.00 | 3.9743 | 2.8033 | 1.4532 | 0.1180 | 0.1180 | 0.0000 |
| \$35.00 | 3.1265 | 2.1775 | 1.1166 | 0.0979 | 0.0978 | 0.0000 |
| \$40.00 | 2.5681 | 1.7897 | 0.9274 | 0.0827 | 0.0827 | 0.0000 |
| \$50.00 | 1.8561 | 1.3032 | 0.6839 | 0.0615 | 0.0615 | 0.0000 |

The actual Stock Price and Effective Date may not be set out in the table, in which case:

- (i) if the actual Stock Price on the Effective Date is between two Stock Prices in the table or the actual Effective Date is between two Effective Dates in the table, the make-whole premium will be determined by a straight line interpolation between the make-whole premiums set out for the two Stock Prices and the two Effective Dates in the table based on a 365-day year, as applicable;
- (ii) if the Stock Price on the Effective Date exceeds \$50.00 per Common Share, subject to adjustment as described below, the make-whole premium will be zero; and
- (iii) if the Stock Price on the Effective Date is less than \$12.75 per Common Share, subject to adjustment as described below, the make-whole premium will be zero.

The Stock Prices set out in the table above will be adjusted as of any date on which the Conversion Price of the Debentures is adjusted. The adjusted Stock Prices will equal the Stock Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Conversion Price as so adjusted and the denominator of which is the Conversion Price immediately prior to the adjustment giving rise to the Stock Price adjustment. The number of additional Common Shares set out in the table above will be adjusted in the same manner as the Conversion Price as set out above under “Description of the Debentures — Conversion Privilege”, other than by operation of an adjustment to the Conversion Price by adding the make-whole premium as described above.

Interest Payment Election

Unless a Debenture Event of Default has occurred and is continuing, the Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the Debentures (the “Interest Obligation”), on an Interest Payment Date occurring after the Acquisition Closing by delivering sufficient Common Shares to the Debenture Trustee for sale, to satisfy the Interest Obligation on the Interest Payment Date, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares (the “Common Share Interest Payment Election”).

The Indenture will provide that, upon the Corporation making a Common Share Interest Payment Election, the Debenture Trustee will: (i) accept delivery from the Corporation of Common Shares; (ii) accept bids with respect to, and consummate sales of such

Common Shares, each as the Corporation shall direct in its absolute discretion through investment banks, brokers or dealers identified by the Corporation; (iii) invest the proceeds of such sales in securities issued or guaranteed by the Government of Canada which mature prior to the applicable Interest Payment Date, and use the proceeds received from investment in such permitted government securities, together with any additional cash provided by the Corporation, to satisfy the Interest Obligation; and (iv) perform any other action necessarily incidental thereto.

The Indenture will set out the procedures to be followed by the Corporation and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive a cash payment equal to the interest owed on the Debentures held by such holder from the Debenture Trustee out of the proceeds of the sale of Common Shares (plus any amount received by the Debenture Trustee from the Corporation) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Corporation in respect of the Interest Obligation.

Notwithstanding the foregoing, neither the Corporation making the Common Share Interest Payment Election nor the consummation of sales of Common Shares will: (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (ii) entitle or require such holders to receive any Common Shares in satisfaction of the Interest Obligation. The Common Share Interest Payment Election will not be available for interest payable on or prior to the Initial Maturity Date.

Modification

The rights of the holders of Debentures may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which make binding on all holders of Debentures, resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the then-outstanding Debentures present at the meeting or represented by proxy of which not less than 25% of the principal amount of the Debentures then outstanding are present in person or by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the then-outstanding Debentures. Under the Indenture, certain amendments of a technical nature or which are not prejudicial to the rights of the holders of the Debentures may be made to the Indenture without the consent of the holders of the Debentures.

Consolidation, Mergers or Sales of Assets

The Indenture will provide that the Corporation may not, without the consent of the holders of the Debentures, consolidate or amalgamate with or merge into any person or sell, convey, transfer or lease all or substantially all of the Corporation's properties and assets to another person (other than the Corporation's direct or indirect wholly-owned subsidiaries) unless:

- (i) the resulting, surviving, continuing or transferee person is organized under the laws of Canada or a province or territory thereof and expressly assumes all of the Corporation's obligations under the Debentures and Indenture;
- (ii) if such resulting, surviving, continuing or transferee person is organized otherwise than under the laws of Ontario, it attorns to the jurisdiction of the courts of Ontario;
- (iii) the Debentures will be valid and binding obligations of the resulting, surviving, continuing or transferee person entitling the holders thereof, as against such person, to all the rights of holders of Debentures under the Indenture;
- (iv) both before and after giving effect to the transaction, no Debenture Event of Default, and no event that, after notice or lapse of time, of both, would become a Debenture Event of Default, will exist;
- (v) such transaction shall, to the satisfaction of the Debenture Trustee and in the opinion of counsel, be on such terms as substantially to preserve and not to impair any of the rights and powers of the Debenture Trustee or of the holders of Debentures; and
- (vi) other conditions described in the Indenture are met.

For certainty, the sale, conveyance, transfer or lease (in a single transaction or a series of transactions) of the properties or assets of one or more of the Corporation's subsidiaries (other than to the Corporation or another direct or indirect wholly-owned subsidiary) which, if such properties or assets were directly owned by the Corporation, would constitute all or substantially all of the

Corporation's properties and assets on a consolidated basis, will be deemed to be a sale, conveyance, transfer or lease of all or substantially all of the Corporation's properties and assets.

Upon the assumption of the Corporation's obligations by a successor in such circumstances, subject to certain exceptions, the Corporation will be discharged from all of its obligations under the Debentures and Indenture. Although such transactions are permitted under the Indenture, certain of the foregoing transactions could constitute a Change of Control, which would require the Corporation to offer to purchase the Debentures as described above. An assumption of the Corporation's obligations under the Debentures and Indenture by a successor might be deemed for Canadian federal income tax purposes to be an exchange of the Debentures for new Debentures by the holders thereof, resulting in recognition of gain or loss for such purpose and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Events of Default

The Indenture will provide that an event of default ("Debenture Event of Default") in respect of the Debentures will occur if certain events described in the Indenture occur, including if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at maturity, upon redemption, by declaration or otherwise (whether such payment is due in cash, Common Shares or other securities or property or a combination thereof); (iii) the Corporation's bankruptcy, insolvency or reorganization under bankruptcy or insolvency laws; (iv) default in the delivery, when due, of any Common Shares or other consideration, including any make-whole premium, payable upon conversion with respect to the Debentures, which default continues for 15 days; and (v) default in the observance or performance of any covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 60 days after notice in writing has been given by the Debenture Trustee or from holders of not less than 25% of the aggregate principal amount of the outstanding Debentures specifying such default and requiring the Corporation to rectify same.

If a Debenture Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and will, upon the request of holders of not less than 25% in principal amount of the then outstanding Debentures declare the principal of (and premium, if any) and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of outstanding Debentures may, on behalf of the holders of all outstanding Debentures, waive any Debenture Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made for the Debentures which is a take-over bid for Debentures within the meaning of Multilateral Instrument 62-104 *-Take-Over Bids and Issuer Bids* and in Ontario, the *Securities Act* (Ontario) and Ontario Securities Commission Rule 62-504 *-Take-Over Bids and Issuer Bids*, if the Debentures were considered equity securities, and not less than 90% of the principal amount of the then outstanding Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by those who did not accept the offer on the terms offered by the offeror.

Book-Entry, Delivery and Form of Debentures and Common Shares

The Debentures may be represented in either certificated or uncertificated form registered in the name of CDS or its nominee and held by, or on behalf of, CDS, as depository of the Debenture certificates for the participants of CDS (the "CDS-Registered Debenture Certificate").

If CDS notifies the Corporation that it is unwilling or unable to continue as depository in connection with the CDS-Registered Debenture Certificate, or if at any time CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation and the Debenture Trustee are unable to locate a qualified successor, or if the Corporation elects, in its sole discretion, to terminate the book-entry system, with the consent of the Debenture Trustee, or if under certain circumstances described in the Indenture, a Debenture Event of Default has occurred, beneficial owners of Debentures represented by the CDS-Registered Debenture Certificate at such time will receive Debentures in registered and definitive form (the "Definitive Debentures").

Each purchaser acquiring a beneficial interest in Debentures represented by the CDS-Registered Debenture Certificate will receive a customer confirmation of purchase from the Underwriter from whom the beneficial interest is purchased in accordance with the practices and procedures of the selling Underwriter.

Registration of ownership and transfers of Debentures represented by the CDS-Registered Debenture Certificate may be effected through the book-based system administered by CDS or its nominees (with respect to interests of participants of CDS) and on the records of participants of CDS (with respect to interests of persons other than participants of CDS). The ability of an owner of a beneficial interest in Debentures represented by the CDS-Registered Debenture Certificate to pledge such Debentures or otherwise take action with respect to such owner's interest in such Debentures (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Common Shares issued upon the conversion, redemption or maturity of the Debentures will be delivered electronically through the NCI system of CDS. Transfers of ownership of Common Shares in Canada must be effected through a CDS participant, which includes securities brokers and dealers, banks and trust companies. All rights of shareholders who hold Common Shares in CDS must be exercised through, and all payments or other property to which such shareholders are entitled, will be made or delivered by CDS or the CDS participant through which the shareholder holds such Common Shares. A holder of a Common Shares participating in the NCI system will not be entitled to a certificate or other instrument from the Corporation or the Corporation's transfer agent evidencing that person's interest in or ownership of Common Shares, nor, to the extent applicable, will such holder be shown on the records maintained by CDS, except through an agent who is a CDS participant. The ability of a beneficial owner of Common Shares to pledge such Common Shares or otherwise take action with respect to such owner's interest in such Common Shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Payments

Payments of interest and principal on each CDS-Registered Debenture Certificate will be made to CDS or its nominee, as the case may be, as the registered holder of the CDS-Registered Debenture Certificate. As long as CDS or its nominee is the registered owner of the CDS-Registered Debenture Certificate, CDS or its nominee, as the case may be, will be considered the sole legal owner of the CDS-Registered Debenture Certificate for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Indenture and Debentures. Interest payments on the CDS-Registered Debenture Certificate will be made by electronic funds transfer or by cheque on the day interest is payable and delivered to CDS or its nominee, as the case may be.

The Corporation understands that CDS or its nominee, upon receipt of any payment of interest or principal in respect of a CDS-Registered Debenture Certificate, will credit CDS participants' accounts, on the date on which interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such CDS-Registered Debenture Certificate as shown on the records of CDS or its nominee. The Corporation also understands that payments of interest and principal by CDS participants to the owners of beneficial interests in such CDS-Registered Debenture Certificate held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such CDS participants. The Corporation's responsibility and liability in respect of payments on Debentures represented by the CDS-Registered Debenture Certificate is limited solely and exclusively, while the Debentures are registered in CDS-Registered Debenture Certificate form, to making payment of any interest and principal due on such CDS-Registered Debenture Certificate to CDS or its nominee.

If Definitive Debentures are issued instead of or in place of CDS-Registered Debenture Certificate, payments of interest on each Definitive Debenture will be made by electronic funds transfer, if agreed to by the holder of the Definitive Debenture, or by cheque dated the Interest Payment Date and mailed to the address of the holder appearing in the register maintained by the registrar for the Debentures at least one business day prior to the applicable Interest Payment Date. Payment of principal at maturity will be made at the principal office of the paying agent in Toronto (or in such other city or cities as may from time to time be designated by the Corporation) against surrender of the Definitive Debentures, if any.

Contractual Right of Rescission

Original purchasers of Debentures will have a non-assignable contractual right of rescission, exercisable against the Corporation following the issuance of Common Shares to such purchaser upon the conversion of the Debentures, to receive the amount paid for such Debentures upon surrender of the Common Shares if this short form prospectus or any amendment thereto contains a misrepresentation (as such term is defined in the *Securities Act* (Ontario)), provided such remedy for rescission is exercised within 180 days of the Offering Closing, following which this contractual right of rescission will be null and void. This contractual right of rescission shall be subject to the defences, limitations and other provisions described under part XXIII of the *Securities Act* (Ontario), and is in addition to any other right or remedy available to original purchasers of Debentures under section 130 of the *Securities Act* (Ontario) or otherwise at law. For greater certainty, this contractual right of rescission is only in connection with a misrepresentation (within the meaning of the *Securities Act* (Ontario)) and is not a right to withdraw from an agreement to purchase securities within two business days as provided in securities legislation in certain provinces and territories of Canada.

DESCRIPTION OF THE SERIES E SHARES

The following is a summary of certain provisions of the Series E Shares as a series.

Definition of Terms

The following definitions are relevant to the Series E Shares.

“Annual Fixed Dividend Rate” means, for any Subsequent Fixed Rate Period, the rate (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up to 0.00001%)) equal to the sum of the Government of Canada Yield on the applicable Fixed Rate Calculation Date plus 4.72%.

“Bloomberg Screen GCAN5YR Page” means the display designated as page “GCAN5YR<INDEX>” on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page) for purposes of displaying Government of Canada Yields.

“Business Day” means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the City of Toronto, Ontario, for the transaction of banking business.

“Fixed Rate Calculation Date” means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

“Government of Canada Yield” on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Yield will mean the average of the yields determined by two registered Canadian investment dealers, selected by the Corporation, as being the yield to maturity on such date (assuming semi-annual compounding) which a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

“Initial Fixed Rate Period” means the period from and including the Offering Closing up to, but excluding, September 30, 2019.

“Subsequent Fixed Rate Period” means, for the initial Subsequent Fixed Rate Period, the period from and including September 30, 2019 up to, but excluding, September 30, 2024 and for each succeeding Subsequent Fixed Rate Period, the period from and including the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period up to, but excluding, September 30 in the fifth year thereafter.

Issue Price

The Series E Shares will have an issue price of \$25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of the Series E Shares will be entitled to receive fixed, 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 during the Initial Fixed Rate Period, at an annual rate equal to \$1.60 per share. The initial dividend, if declared, will be payable on September 30, 2014 and will be \$0.45589 per Series E Share, based on the anticipated Offering Closing of June 18, 2014.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of Series E Shares will be entitled to receive fixed, 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 during the Subsequent Fixed Rate Period, in an annual amount per share determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by \$25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation as of the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding on the Corporation and all holders of Series E Shares. The Corporation will, on the Fixed Rate Calculation Date (or the immediately following Business Day), give written notice of the Annual Fixed Dividend Rate for the next succeeding Subsequent Fixed Rate Period to the registered holders of the then outstanding Series E Shares.

Payments of dividends and other amounts in respect of the Series E Shares will be made by the Corporation to CDS, or its nominee, as the case may be, as registered holder of the Series E Shares. As long as CDS, or its nominee, is the registered holder of the Series E Shares, CDS, or its nominee, as the case may be, will be considered the sole owner of the Series E Shares for the purpose of receiving payment on the Series E Shares. Payments of dividends and all other amounts in respect of the Series E Shares will be less any amounts deducted or withheld on account of tax.

Redemption

Except as noted below, the Series E Shares will not be redeemable by the Corporation prior to September 30, 2019. On September 30, 2019 and on September 30 every five years thereafter (or, if such date is not a Business Day, the next succeeding day that is a Business Day), and subject to certain other restrictions set out below under the heading “Description of the Series E Shares – Restrictions on Dividends and Retirement of Shares”, the Corporation may, at its option, on at least 30 days’ and not more than 60 days’ prior written notice, redeem all or any number of the outstanding Series E Shares by payment in cash of a per share sum equal to \$25.00, in each case together with all accrued and unpaid dividends thereon up to, but excluding, the date fixed for redemption (less any amounts deducted or withheld on account of tax).

If less than all of the outstanding Series E Shares are at any time to be redeemed, the particular shares to be redeemed shall be selected on a *pro rata* basis (disregarding fractions) or, if such shares are at such time listed on a stock exchange, with the consent of any applicable stock exchange, in such other manner as the Board of Directors may, in its sole discretion, determine by resolution.

The Series E Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series E Shares. See “Risk Factors”.

Conversion of Series E Shares into Series F Shares

Subject to the right of the Corporation to redeem the Series E Shares as described above, each holder of Series E Shares will have the right, at its option, on September 30, 2019 and on September 30 every five years thereafter (each a “Series E Conversion Date”), to convert, subject to the restrictions on conversion described below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable, 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. If a Series E Conversion Date falls on a day that is not a Business Day, such Series E Conversion Date will be the immediately following Business Day. The conversion of Series E Shares may be effected upon written notice (each notice, an “Election Notice”) given by the registered holder of the Series E Shares not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding the applicable Series E Conversion Date. Once received by the Corporation, an Election Notice is irrevocable.

The Corporation will, at least 30 days and not more than 60 days prior to the applicable Series E Conversion Date, give notice in writing to the then registered holders of the Series E Shares of the Series E Conversion Date and a form of Election Notice. On the 30th day prior to each Series E Conversion Date (or the immediately following Business Day), the Corporation will give notice in writing to the then registered holders of the Series E Shares of the Annual Fixed Dividend Rate for the next succeeding Subsequent Fixed Rate Period and the Quarterly Floating Dividend Rate applicable to the Series F Shares for the next succeeding Quarterly Floating Rate Period (as these terms are defined below).

If the Corporation gives notice to the registered holders of the Series E Shares of the redemption on a Series E Conversion Date of all the Series E Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series E Shares of the Annual Fixed Dividend Rate, the Quarterly Floating Dividend Rate or of the conversion right of holders of Series E Shares and the right of any holder of Series E Shares to convert such Series E Shares will cease and terminate in that event.

Holders of Series E Shares will not be entitled to convert their shares into Series F Shares if the Corporation determines that there would remain outstanding on a Series E Conversion Date fewer than 500,000 Series F Shares, after having taken into account the Election Notice in respect of all Series E Shares tendered for conversion into Series F Shares and the Election Notice in respect of all Series F Shares tendered for conversion into Series E Shares. The Corporation will give notice in writing to all affected holders of Series E Shares of their inability to convert their Series E Shares at least seven days prior to the applicable Series E Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series E Conversion Date fewer than 500,000 Series E Shares, after having taken into account all Election Notices in respect of Series E Shares tendered for conversion into Series F Shares and all Election Notices in respect of Series F Shares tendered for conversion into Series E Shares, then, all, but not part, of the remaining outstanding Series E Shares will be automatically converted into Series F Shares on the basis of one Series F Share for each

Series E Share, on the applicable Series E Conversion Date. The Corporation will give notice in writing to this effect to the then registered holders of such remaining Series E Shares at least seven days prior to the applicable Series E Conversion Date.

Upon exercise by a registered holder of its right to convert Series E Shares into Series F Shares (and upon an automatic conversion), the Corporation reserves the right not to issue Series F Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Corporation to take any action to comply with the securities or analogous laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law and to the provisions described below under “Restrictions on Dividends and Retirement of Shares”, the Corporation may at any time purchase for cancellation all or any number of the Series E Shares outstanding from time to time at any price in the open market (including purchases from or through an investment dealer or a firm holding membership on or that is a participant of a recognized stock exchange) or by tender available to all holders of Series E Shares or by private agreement or otherwise.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, whether voluntary or involuntary, subject to the prior satisfaction of the claims of all creditors of the Corporation and of holders of shares of the Corporation ranking prior to the Series E Shares, the holders of the Series E Shares will be entitled to receive an amount equal to \$25.00 per share, together with an amount equal to all accrued and unpaid dividends up to, but excluding, the date of payment or distribution (less any amounts deducted or withheld on the account of tax), before any amount is paid or any assets of the Corporation are distributed to the holders of any shares ranking junior as to capital to the Series E Shares. Upon payment of such amounts, the holders of the Series E Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Priority

The Series E Shares rank senior to the Corporation’s common shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs. The Series E Shares rank on a parity with every other series of Preferred Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Restrictions on Dividends and Retirement of Shares

So long as any of the Series E Shares are outstanding, the Corporation will not, without the approval of the holders of the Series E Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series E Shares) on any shares of the Corporation ranking as to dividends junior to the Series E Shares;
- (b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series E Shares, redeem or call for redemption, purchase for cancellation or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series E Shares;
- (c) redeem or call for redemption, purchase for cancellation, or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series E Shares then outstanding; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any Preferred Shares ranking as to dividends or capital on a parity with the Series E Shares,

unless, in each such case, all accrued and unpaid dividends on the Series E Shares up to and including the dividend payable for the last completed period for which dividends were payable on the Series E Shares and on all other shares of the Corporation ranking prior to or on a parity with the Series E Shares with respect to the payment of dividends have been declared and paid or moneys set apart for payment.

Shareholder Approvals

In addition to any other approvals required by law (including any approvals required by the TSX), the approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series E Shares as a series and any other approval to be given by the holders of the Series E Shares may be given by a resolution signed by all holders of the Series E Shares, or by a resolution passed by the affirmative vote of not less than two-thirds of the votes cast by the holders who voted in respect of that resolution at a meeting of the holders duly called for that purpose and at which the holders of at least 10% of the outstanding Series E Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series E Shares then present in person or represented by proxy would form the necessary quorum. At any meeting of holders of Series E Shares as a series, each such holder as at the applicable record date shall be entitled to one vote in respect of each Series E Share held by such holder.

Issue of Additional Series of Preferred Shares

The Corporation may issue other series of Preferred Shares ranking on a parity with the Series E Shares without the authorization of the holders of the Series E Shares.

Book-Entry, Delivery and Form of Series E Shares

The Series E Shares will generally be issued in “book-entry only” form and must be purchased, transferred, converted or redeemed through participants of CDS. On the Offering Closing, the Corporation will cause one or more certificate(s) (including book-entry only certificates or such other form of evidence of ownership) representing the Series E Shares to be delivered to the Preferred Shares Underwriters and registered in the name of CDS or such other name or names as the Preferred Shares Underwriters may notify the Corporation. In general, no holder of Series E Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that holder’s ownership thereof, and no holder will be shown on the records maintained by CDS except through a book-entry account of a CDS participant acting on behalf of such holder. Each holder of Series E Shares will receive a customer confirmation of purchase from the registered dealer from which the Series E Shares are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but, generally, customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Series E Shares.

The ability of a beneficial owner of Series E Shares to pledge such shares or otherwise take action with respect to such owner’s interest in such shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Corporation has the option to terminate registration of the Series E Shares through the book-based system, in which event certificates for Series E Shares in fully registered form will be issued to the beneficial owners of such shares or their nominees.

Voting Rights

The holders of the Series E Shares will not (except as otherwise provided by law and, except as noted below, in respect of meetings of the holders of Preferred Shares as a class and meetings of holders of Series E Shares as a series) be entitled to receive notice of, attend, or vote at any meeting of shareholders of the Corporation, unless and until the Corporation shall have failed to pay four quarterly dividends on the Series E Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of such dividends. In the event the Corporation shall have failed to pay four quarterly dividends, and for only so long as any such dividends remain in arrears, the holders of the Series E Shares as at the applicable record date will be entitled to receive notice of and to attend each meeting of the Corporation’s shareholders which takes place more than 60 days after the date on which such non-payment of the fourth quarterly dividend on the Series E Shares occurred, other than meetings at which only holders of another specified class or series are entitled to vote, and be entitled to vote together with all of the voting shares of the Corporation on the basis of one vote in respect of each Series E Share held by such holder, until all such arrears of such dividends have been paid, whereupon such rights shall cease.

Subject to applicable law, holders of the Series E Shares will not be entitled to vote separately as a class or series on a proposal to amend the articles of the Corporation to (a) increase any maximum number of authorized shares of a class or series having rights or privileges equal to or superior to the Series E Shares or (b) create a new class or series of shares equal or superior to the Series E Shares.

Tax Election

The Series E Shares will be “taxable preferred shares” as defined in the Tax Act. The terms of the Series E Shares will require that the Corporation elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay or cause payment of the tax, under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series E Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on such shares.

Business Day

If any action is required to be taken by the Corporation in relation to the Series E Shares on a day that is not a Business Day, then such action will be required to be taken on the next succeeding day that is a Business Day.

DESCRIPTION OF THE SERIES F SHARES

The following is a summary of certain provisions attaching to the Series F Shares as a series.

Definition of Terms

The following definitions are relevant to the Series F Shares.

“Business Day” means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the City of Toronto, Ontario, for the transaction of banking business.

“Floating Rate Calculation Date” means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

“Quarterly Commencement Date” means the last day of each of March, June, September and December in each year.

“Quarterly Floating Dividend Rate” means, for any Quarterly Floating Rate Period, the rate (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up to 0.00001%) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 4.72% (calculated on the basis of the actual number of days in such Quarterly Floating Rate Period divided by 365).

“Quarterly Floating Rate Period” means, for the initial Quarterly Floating Rate Period, the period from and including September 30, 2019 up to, but excluding, December 31, 2019, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period up to, but excluding, the next succeeding Quarterly Commencement Date.

“T-Bill Rate” means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date.

Dividends

The holders of the Series F Shares will be 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, in the amount per share determined by multiplying the applicable Quarterly Floating Dividend Rate by \$25.00.

The Quarterly Floating Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the applicable Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series F Shares. The Corporation will, on the relevant Floating Rate Calculation Date (or the immediately following Business Day), give written notice of the Quarterly Floating Dividend Rate for the ensuing Quarterly Floating Rate Period to the registered holders of the then outstanding Series F Shares.

Payments of dividends and other amounts in respect of the Series F Shares will be made by the Corporation to CDS, or its nominee, as the case may be, as registered holder of the Series F Shares. As long as CDS, or its nominee, is the registered holder of the Series F Shares, CDS, or its nominee, as the case may be, will be considered the sole owner of the Series F Shares for the purpose of receiving payment on the Series F Shares. Payments of dividends and all other amounts in respect of the Series F Shares will be less any amounts deducted or withheld on account of tax.

Redemption

Except as noted below, the Series F Shares will not be redeemable by the Corporation on or prior to September 30, 2024. Subject to certain other restrictions set out below under the heading “Description of the Series F Shares – Restrictions on Dividends and Retirement of Shares”, the Corporation may, at its option, on at least 30 days’ and not more than 60 days’ prior written notice, redeem all or any number of the outstanding Series F Shares by payment in cash of a per share sum equal to (i) \$25.00 in the case of redemptions on September 30, 2024 and on September 30 every five years thereafter (each a “Series F Redemption Date”), or (ii) \$25.50 in the case of redemptions on any date which is not a Series F Redemption Date after September 30, 2019, in each case together with all accrued and unpaid dividends thereon up to, but excluding, the date fixed for redemption (less any amounts deducted or withheld on account of tax). If a Series F Redemption Date falls on a day that is not a Business Day, such Series F Redemption Date will be the next succeeding day that is a Business Day.

If less than all of the outstanding Series F Shares are at any time to be redeemed, the particular shares to be redeemed shall be selected on a *pro rata* basis (disregarding fractions) or, if such shares are at such time listed on a stock exchange, with the consent of any applicable stock exchange, in such other manner as the Board of Directors may, in its sole discretion, determine by resolution.

The Series F Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series F Shares. See “Risk Factors”.

Conversion of Series F Shares into Series E Shares

Subject to the right of the Corporation to redeem the Series F Shares as described above, each holder of Series F Shares will have the right, at its option, on September 30, 2024 and on September 30 every five years thereafter (each a “Series F Conversion Date”), to convert, subject to the restrictions on conversion described below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable, all or any of the Series F Shares into Series E Shares on the basis of one Series E Share for each Series F Share converted. If a Series F Conversion Date falls on a day that is not a Business Day, such Series F Conversion Date will be the immediately following Business Day. The conversion of Series F Shares may be effected upon an Election Notice given by the registered holder of the Series F Shares not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding the applicable Series F Conversion Date. Once received by the Corporation, an Election Notice is irrevocable.

The Corporation will, at least 30 days and not more than 60 days prior to the applicable Series F Conversion Date, give notice in writing to the then registered holders of the Series F Shares of the Series F Conversion Date and a form of Election Notice. On the 30th day prior to each Series F Conversion Date (or the next following Business Day), the Corporation will give notice in writing to the then registered holders of Series F Shares of the Quarterly Floating Dividend Rate for the next Quarterly Floating Rate Period and of the Annual Fixed Dividend Rate applicable to the Series E Shares for the next Subsequent Fixed Rate Period.

If the Corporation gives notice to the registered holders of the Series F Shares of the redemption on a Series F Conversion Date of all the Series F Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series F Shares of the Annual Fixed Dividend Rate, the Quarterly Floating Dividend Rate or of the conversion right of holders of Series F Shares and the right of any holder of Series F Shares to convert such Series F Shares will cease and terminate in that event.

Holders of Series F Shares will not be entitled to convert their shares into Series E Shares if the Corporation determines that there would remain outstanding on a Series F Conversion Date fewer than 500,000 Series E Shares, after having taken into account the Election Notice in respect of all Series F Shares tendered for conversion into Series E Shares and the Election Notice in respect of all Series E Shares tendered for conversion into Series F Shares. The Corporation will give notice in writing to all affected holders of Series F Shares of their inability to convert their Series F Shares at least seven days prior to the applicable Series F Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series F Conversion Date fewer than 500,000 Series F Shares, after having taken into account all Election Notices in respect of Series F Shares tendered for conversion into Series E Shares and all Election Notices in respect of Series E Shares tendered for conversion into Series F Shares, then, all, but not part, of the remaining outstanding Series F Shares will be automatically converted into Series E Shares on the basis of one Series E Share for each

Series F Share, on the applicable Series F Conversion Date. The Corporation will give notice in writing to this effect to the then registered holders of such remaining Series F Shares at least seven days prior to the applicable Series F Conversion Date.

Upon exercise by a registered holder of its right to convert Series F Shares into Series E Shares (and upon an automatic conversion), the Corporation reserves the right not to issue Series E Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Corporation to take any action to comply with the securities or analogous laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law and to the provisions described below under “Description of the Series F Shares – Restrictions on Dividends and Retirement of Shares”, the Corporation may at any time purchase for cancellation all or any number of the Series F Shares outstanding from time to time at any price in the open market (including purchases from or through an investment dealer or a firm holding membership on or that is a participant of a recognized stock exchange) or by tender available to all holders of Series F Shares or by private agreement or otherwise.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, whether voluntary or involuntary, subject to the prior satisfaction of the claims of all creditors of the Corporation and of holders of shares of the Corporation ranking prior to the Series F Shares, the holders of the Series F Shares will be entitled to receive an amount equal to \$25.00 per share, together with an amount equal to all accrued and unpaid dividends up to, but excluding, the date of payment or distribution (less any tax required to be deducted or withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of any shares ranking junior as to capital to the Series F Shares. Upon payment of such amounts, the holders of the Series F Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Priority

The Series F Shares rank senior to the Corporation’s common shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs. The Series F Shares rank on a parity with every other series of Preferred Shares of the Corporation with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Restrictions on Dividends and Retirement of Shares

So long as any of the Series F Shares are outstanding, the Corporation will not, without the approval of the holders of the Series F Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series F Shares) on any shares of the Corporation ranking as to dividends junior to the Series F Shares;
- (b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series F Shares, redeem or call for redemption, purchase for cancellation or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series F Shares;
- (c) redeem or call for redemption, purchase for cancellation, or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series F Shares then outstanding; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any Preferred Shares ranking as to dividends or capital on a parity with the Series F Shares,

unless, in each such case, all accrued and unpaid dividends on the Series F Shares up to and including the dividend payable for the last completed period for which dividends were payable on the Series F Shares and on all other shares of the Corporation ranking prior to or on a parity with the Series F Shares with respect to the payment of dividends have been declared and paid or moneys set apart for payment.

Shareholder Approvals

In addition to any other approvals required by law (including any approvals required by the TSX), the approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series F Shares as a series and any other approval to be given by the holders of the Series F Shares may be given by a resolution signed by all holders of the Series F Shares, or by a resolution passed by the affirmative vote of not less than two-thirds of the votes cast by the holders who voted in respect of that resolution at a meeting of the holders duly called for that purpose and at which the holders of at least 10% of the outstanding Series F Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series F Shares then present in person or represented by proxy would form the necessary quorum. At any meeting of holders of Series F Shares as a series, each such holder as at the applicable record date shall be entitled to one vote in respect of each Series F Share held by such holder.

Issue of Additional Series of Preferred Shares

The Corporation may issue other series of Preferred Shares ranking on parity with the Series F Shares without the authorization of the holders of the Series F Shares.

Book-Entry, Delivery and Form of Series F Shares

The Series F Shares will generally be issued in “book-entry only” form and must be purchased, transferred, converted or redeemed through participants of CDS. In general, no holder of Series F Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that holder’s ownership thereof, and no holder will be shown on the records maintained by CDS except through a book-entry account of a CDS participant acting on behalf of such holder. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Series F Shares.

The ability of a beneficial owner of Series F Shares to pledge such shares or otherwise take action with respect to such owner’s interest in such shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Corporation has the option to terminate registration of the Series F Shares through the book-based system, in which event certificates for Series F Shares in fully registered form will be issued to the beneficial owners of such shares or their nominees.

Voting Rights

The holders of the Series F Shares will not (except as otherwise provided by law and, except as noted below, in respect of meetings of the holders of Preferred Shares as a class and meetings of holders of Series F Shares as a series) be entitled to receive notice of, attend, or vote at, any meeting of shareholders of the Corporation, unless and until the Corporation shall have failed to pay four quarterly dividends on the Series F Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of such dividends. In the event the Corporation shall have failed to pay four quarterly dividends on the Series F Shares, and for only so long as any such dividends remain in arrears, the holders of the Series F Shares as at the applicable record date will be entitled to receive notice of and to attend each meeting of the Corporation’s shareholders which takes place more than 60 days after the date on which such non-payment of the fourth quarterly dividend on the Series F Shares occurred, other than meetings at which only holders of another specified class or series are entitled to vote, and be entitled to vote together with all of the voting shares of the Corporation on the basis of one vote in respect of each Series F Share held by such holder, until all such arrears of such dividends shall have been paid, whereupon such rights shall cease.

Subject to applicable law, holders of the Series F Shares will not be entitled to vote separately as a class or series on a proposal to amend the articles of the Corporation to (a) increase any maximum number of authorized shares of a class or series having rights or privileges equal to or superior to the Series F Shares or (b) create a new class or series of shares equal or superior to the Series F Shares.

Tax Election

The Series F Shares will be “taxable preferred shares” as defined in the Tax Act. The terms of the Series F Shares will require that the Corporation elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay or cause payment of the tax, under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series F Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on such shares.

Business Day

If any action is required to be taken by the Corporation in relation to the Series F Shares on a day that is not a Business Day, then such action will be required to be taken on the next succeeding day that is a Business Day.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the “Underwriting Agreement”) dated June 5, 2014 among the Corporation and the Underwriters, the Corporation has agreed to sell, and the Subscription Receipt Underwriters, the Debenture Underwriters and the Preferred Shares Underwriters have severally, and not jointly and severally, agreed to purchase, as principals, subject to compliance with the terms and conditions contained therein and to all necessary legal requirements, on June 18, 2014 or such earlier or later date as the Corporation and BMO, on behalf of the Underwriters, may agree, but in any event no later than June 27, 2014, subject to the conditions stipulated in the Underwriting Agreement: (i) 64,710,000 Subscription Receipts offered hereby at a price of \$12.75 per Subscription Receipt for total gross proceeds of \$825,052,500; (ii) \$300,000,000 aggregate principal amount of Debentures offered hereby at a price of \$1,000 per Debenture; and (iii) 5,000,000 6.40% Series E Shares at an aggregate price of \$125,000,000, payable in cash to the Subscription Receipt Agent in the case of the Subscription Receipts (less 50% of the Underwriters’ Fee for Subscription Receipts) and to the Corporation in the case of the Debentures and Series E Shares against delivery by the Corporation of the Subscription Receipts, the Debentures and the Series E Shares. The Securities are being offered to the public in all of the provinces of Canada. The terms of the Offering and the offering prices of the Subscription Receipts, Debentures and Series E Shares were determined by negotiation between the Corporation and the Subscription Receipt Underwriters, the Debenture Underwriters and the Preferred Shares Underwriters, respectively.

The Corporation has granted to the Subscription Receipt Underwriters the Subscription Receipt Over-Allotment Option, exercisable in whole or in part at any time not later than the earlier of (i) the 30th day following the date of the Offering Closing, and (ii) the occurrence of an Underwriting Termination Event, to purchase up to an additional 9,706,500 Subscription Receipts (or Common Shares, as the case may be) at a price of \$12.75 per Subscription Receipt (or Common Share, as the case may be) on the same terms and conditions as under the Offering, solely for market stabilization purposes and to cover over-allotments, if any. The Corporation has also granted to the Debenture Underwriters the Debenture Over-Allotment Option, exercisable in whole or in part at any time not later than the earlier of (i) the 30th day following the date of the Offering Closing, and (ii) the occurrence of an Underwriting Termination Event, to purchase up to an additional \$45,000,000 aggregate principal amount of Debentures on the same terms and conditions as under the Offering, solely for market stabilization purposes and to cover the Underwriters over-allocation position, if any. The Corporation has also granted to the Preferred Shares Underwriters the Series E Shares Over-Allotment Option, exercisable in whole or in part at any time not later than the 30th day following the date of the Offering Closing. This short form prospectus qualifies the distribution of the Subscription Receipts (or Common Shares, as the case may be), Debentures and Series E Shares issuable on the exercise of the Over-Allotment Options, as well as the underlying Common Shares if the Over-Allotment Options are exercised in whole or in part following the Acquisition. A purchaser who acquires Subscription Receipts, Debentures, Series E Shares or Common Shares forming part of the over-allotment position acquires such Subscription Receipts, Debentures, Series E Shares or Common Shares under this short form prospectus regardless of whether the over-allotment position is filled through the exercise of the Over-Allotment Options or secondary market purchases.

The Underwriting Agreement provides that the Corporation will pay the Underwriters’ Fee for Subscription Receipts of \$0.51 per Subscription Receipt, Underwriters’ Fee for Debentures of \$37.50 per Debenture and Underwriters’ Fee for Series E Shares of \$0.75 per Series E Share (collectively, the “Underwriters’ Fees”) in consideration for their services in connection with the Offering. The Underwriters’ Fee for Subscription Receipts is payable as to 50% upon the Offering Closing (and, as applicable, upon the closing of the exercise of the Subscription Receipt Over-Allotment Option) and 50% upon the Acquisition Closing. If a Subscription Termination Event occurs, the Underwriters’ Fee for Subscription Receipts will be reduced to the amount payable upon the Offering Closing. The entire Underwriters’ Fee for Debentures and the Underwriters’ Fee for Series E Shares is payable in full upon the Offering Closing.

The obligations of the Underwriters under the Underwriting Agreement may be terminated upon the occurrence of certain stated events, including if: (a) *material adverse change* – in the opinion of the Underwriter, acting reasonably, there shall have occurred any material change or change in material fact in relation to the Corporation or there shall be discovered any previously undisclosed material fact in each case which would be expected to result in a material adverse effect on the business, operations or capital of the Corporation or have a material adverse effect on the market price or value of the Securities; (b) *disaster out* - there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence (including terrorism) or any law or regulation which, in the opinion of the Underwriters, acting reasonably, materially adversely affects or involves, or might reasonably be expected to materially adversely affect or involve, the financial markets or the business, operations or affairs of the Corporation and its subsidiaries, taken as a whole; (c) *regulatory out* - any inquiry, action, investigation or other proceeding (whether formal or informal) is made, announced or threatened or any order is issued by any federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency, regulatory authority or other instrumentality including, without limitation, the TSX or any securities regulatory authority involving the Corporation's securities, directors or officers (except for any inquiry, action, investigation or other proceeding based upon activities of the Underwriters and not upon activities of the Corporation) or any law or regulation is enacted or changed which, in the opinion of the Underwriters, acting reasonably, prevents or restricts trading in or the distribution of the Securities or materially and adversely affects or might reasonably be expected to materially and adversely affect the market price or value of the Securities; (d) *cease trade* - trading in any securities of the Corporation has been, or is threatened to be, suspended by any securities commission in the provinces of Canada or the TSX; or (e) *breach* – the Corporation is in breach of any term, condition or covenant of the Underwriting Agreement or any representation or warranty given by the Corporation in the Underwriting Agreement becomes or is false. The Underwriters are, however, obligated to take up and pay for all the Securities if any Securities are purchased under the Underwriting Agreement.

The Underwriters may not, throughout the period of distribution, bid for or purchase the Securities. The foregoing restriction is subject to certain exemptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. In connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Securities at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the Underwriting Agreement, Element has agreed that it will not, without the written consent of the Underwriters, which consent may not be unreasonably withheld or delayed, issue, or announce the issuance of any Common Shares, Preferred Shares or any securities convertible into or exercisable to acquire Common Shares or Preferred Shares for 90 days following the Offering Closing, other than: (i) as contemplated by the Underwriting Agreement, (ii) pursuant to the grant or exercise of stock options and other similar issuances pursuant to the existing option and incentive plans of the Corporation and other existing compensation arrangements, or (iii) in connection with *bona fide* asset or share acquisitions by the Corporation in the normal course of business.

The TSX has conditionally approved the listing of the Securities (including the Securities forming part of the Over-Allotment Options and all Common Shares and Series F Preferred Shares issuable upon conversion of the Securities). Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 3, 2014.

The Securities have not been and will not be registered under the U.S. Securities Act, or any state securities laws and, subject to certain exemptions, may not be offered or sold within the United States. The distribution of this short form prospectus and the offering and sale of the Securities are also subject to certain restrictions under the laws of certain other jurisdictions outside of Canada. Each Underwriter has agreed that it will not offer for sale or sell or deliver the Securities in any such jurisdiction except in accordance with the laws thereof. The Underwriters have agreed that they will not offer or sell the Securities within the United States except to “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act), in accordance with the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A under the U.S. Securities Act and pursuant to similar exemptions under applicable state securities laws. This short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The Underwriters may also offer and sell Securities outside the United States in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the Offering Closing, an offer or sale of Securities, or any Common Shares issuable in exchange for the Subscription Receipts or upon conversion, redemption or maturity of the Debentures within the United States by any dealer (whether or not participating in the Offering) may violate the registration provisions of the U.S. Securities Act unless such offer is made pursuant to an exemption from registration under the U.S. Securities Act.

The Underwriters propose to offer the Securities initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of the Securities at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the price paid by the Underwriters to the Corporation.

The determination of the terms of the distribution, including the issue price of the Securities, was made through negotiations between the Corporation and the Underwriters.

RELATIONSHIP BETWEEN ELEMENT AND CERTAIN UNDERWRITERS

BMO is an affiliate of a Canadian chartered bank that is a member of each of the lending syndicates to the Corporation under the Bridge Credit Facility and the Revolving Credit Facility. In addition, such Canadian chartered bank, through one or more affiliates, is the lender to or investor in (a) \$300 million aggregate securitization funding facilities under which the Corporation or its affiliates have transferred and will transfer financial assets and related property or interests therein (the “CoActiv Securitization Funding Facilities”), and (b) each of (i) a \$350 million revolving securitization funding facility pursuant to which an affiliate of the Corporation has transferred and will transfer financial assets and related property or interests therein (the “TLS Securitization Arrangements”), and (ii) a \$500 million revolving securitization funding facility which has been established under the Fleet Securitization Platform (the “GE Securitization Funding Facility”). Further, BMO is an affiliate of a Canadian chartered bank that is a proposed member of the lending syndicate to the Corporation under the proposed Amended and Restated Revolving Credit Agreement and Bridge Agreement. Consequently, the Corporation may be considered a “connected issuer” to BMO under applicable securities laws in certain Provinces and Territories of Canada. As at March 31, 2014, there was US\$431.5 million outstanding under the Bridge Credit Facility. The Corporation is in compliance with the terms of the Bridge Credit Facility and, since the execution of the Bridge Credit Facility, there has been no breach or waiver of a breach of the Bridge Credit Facility. Under the Bridge Credit Facility, the Corporation has agreed to provide the lenders under the bridge credit agreement with a general security interest over the Corporation’s assets, including the Railcar Assets. The financial position of the Corporation has not changed in any material adverse manner since the Bridge Credit Facility was entered into. As at March 31, 2014, there was \$0 million and US\$245.3 million outstanding under the Revolving Credit Facility. The Corporation is in compliance with the terms of the Revolving Credit Facility and, since the execution of the Revolving Credit Facility, there has been no breach or waiver of a breach of the Revolving Credit Facility. The Revolving Credit Facility is secured by all of the undertaking and property of the Corporation pursuant to a general security agreement. The financial position of the Corporation has not changed in any material adverse manner since the Revolving Credit Facility was entered into. The Corporation has previously requested and received an amendment to its Revolving Credit Facility pursuant to which the lenders thereunder agreed, among other things, to the payment of an increase in the maximum permitted annual dividend amount on its publicly-issued preferred shares, thereby permitting the dividends on the Series A Shares and Series C Shares. Neither of the Amended and Restated Revolving Credit Agreement nor the Bridge Agreement are currently in existence, but the Corporation expects the security provided to be: (i) the security provided under the Revolving Credit Facility; and (ii) a first-ranking charge over the assets and equity interests acquired by the Corporation pursuant to the Acquisition and a second-ranking charge over other assets and equity interests of Element and its subsidiaries, respectively. As at March 31, 2014, there was approximately \$195.8 million outstanding under the TLS Securitization Arrangement. The Corporation and the affiliates of the Corporation are in compliance with the terms of the TLS Securitization Arrangement and, since the execution of the TLS Securitization Arrangement, there has been no breach or waiver of a breach of the TLS Securitization Arrangement. The financial position of the Corporation has not changed in any material adverse manner since the TLS Securitization Arrangement was entered into. As at March 31, 2014, there was approximately \$284.8 million outstanding under the CoActiv Securitization Funding Facilities. The Corporation or its affiliates are in compliance with the terms of the CoActiv Securitization Funding Facilities and, since the execution of the CoActiv Securitization Funding Facilities, there has been no breach or waiver of a breach of the CoActiv Securitization Funding Facilities. The financial position of the Corporation has not changed in any material adverse manner since the CoActiv Securitization Funding Facilities were entered into. As at March 31, 2014 there was approximately \$346.5 million outstanding under the GE Securitization Funding Facility. The Corporation and the affiliates of the Corporation are in compliance with the terms of the GE Securitization Funding Facility and since the execution of the GE Securitization Funding Facility, there has been no breach or waiver of a breach of the GE Securitization Funding Facility. The financial position of the Corporation has not changed in any material adverse manner since the GE Securitization Funding Facility was entered into.

NBF is an affiliate of a Canadian chartered bank that is a member of each of the lending syndicates to the Corporation under the Bridge Credit Facility and the Revolving Credit Facility and is a proposed member of the lending syndicate to the Corporation under the Amended and Restated Revolving Credit Agreement. In addition, such Canadian chartered bank is a member of the syndicate that

lends to or invests in floating rate asset-backed notes (“Notes”) issued by Fleet LP on an amortizing and non-revolving basis and in respect of a static pool of eligible lease and loan assets from TLS (the “Amortizing TLS Syndication Pool”). The Amortizing TLS Syndication Pool is established under the Fleet Securitization Platform. Consequently, the Corporation may be considered a “connected issuer” to NBF under applicable securities laws in certain Provinces and Territories of Canada. As at March 31, 2014, there was an approximately \$166.4 million principal amount of Notes outstanding under the Amortizing TLS Syndication Pool held by a Canadian chartered bank that is an affiliate of NBF. The Corporation and the affiliates of the Corporation are in compliance with the terms of the Notes as issued in connection with the Amortizing TLS Syndication Pool and, since the establishment of the Amortizing TLS Syndication Pool, there has been no breach or waiver of a breach of the indenture under which the Notes were issued. The financial position of the Corporation has not changed in any material adverse manner since the Amortizing TLS Syndication Pool was established.

MSI is an affiliate of a Canadian life insurance Corporation that is a lender to the Corporation under a term funding facility (the “Term Funding Facility”). Consequently, the Corporation may be considered a “connected issuer” to MSI under applicable securities laws in certain Provinces and Territories of Canada. As at March 31, 2014, there was approximately \$582.8 million outstanding under the Term Funding Facility. The Corporation is in compliance with the terms of the Term Funding Facility and, since the execution of the Term Funding Facility, there has been no breach or waiver of a breach of the Term Funding Facility. Indebtedness under the Term Funding Facility is secured by the portfolio of finance receivables under the Term Funding Facility, including cash reserves. The financial position of the Corporation has not changed in any material adverse manner since the Term Funding Facility was entered into.

CIBC, CSS, RBC and TD are affiliates of Canadian chartered banks that are members of each of the lending syndicates to the Corporation under the Bridge Credit Facility and the Revolving Credit Facility. Each of Barclays, CIBC, CSS, National and TD are currently anticipated to be part of the underwriting syndicate in connection with the Amended and Restated Revolving Credit Agreement. Consequently, the Corporation may be considered a “connected issuer” to each of CIBC, CSS, RBC and TD under applicable securities laws in certain Provinces and Territories of Canada

The decision to issue the Securities and the determination of the terms of the distribution, including the price of the Securities, were made through negotiations between the Corporation and the Underwriters. The lenders or investors, as applicable, under any of the Bridge Credit Facility, Revolving Credit Facility, the Amended and Restated Revolving Credit Agreement, the Bridge Agreement, the TLS Securitization Arrangement, the CoActiv Securitization Funding Facilities, the GE Securitization Funding Facility, the Amortizing TLS Syndication Pool or the Term Funding Facility did not have any involvement in such decision or determination, but have been advised of the issuance and terms thereof.

The net proceeds from the Offering have not and will not be applied for the benefit of any lenders to or investors or counterparties under any of the Bridge Credit Facility, the Revolving Credit Facility, the Amended and Restated Revolving Credit Agreement, the Bridge Agreement the TLS Securitization Arrangement, the CoActiv Securitization Funding Facilities, the GE Securitization Funding Facility, the Amortizing TLS Syndication Pool or the Term Funding Facility. As a consequence of this issuance, each of Barclays, BMO, CIBC, CSS, MSI, NBF, RBC and TD will receive their respective proportionate share of the Underwriters’ Fee.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and Wildeboer Dellelce LLP, counsel to the Underwriters (collectively, “Legal Counsel”), the following summary describes the principal Canadian federal income tax considerations pursuant to the *Income Tax Act* (Canada) (including the regulations thereunder, the “Tax Act”) generally applicable to the acquisition, holding and disposition of Subscription Receipts, Debentures, Series E Shares, Series F Shares and Common Shares by a holder who acquires, as beneficial owner, Subscription Receipts, Debentures or Series E Shares pursuant to the Offering and Common Shares either pursuant to such Subscription Receipts or on the conversion, redemption or maturity of such Debentures or Series F Shares on a conversion of Series E Shares (for purposes of this section, collectively, the “Subject Securities”) and who, for purposes of the Tax Act and at all relevant times, holds the Subject Securities as capital property, deals at arm’s length with the Corporation, the Underwriters, and any person that such holder subsequently sells or otherwise transfers Subject Securities to, and is not affiliated with the Corporation, the Underwriters, or any person that such holder subsequently sells or otherwise transfers Subject Securities to (a “Holder”). Generally, Subject Securities will be considered to be capital property to a Holder provided the holder does not hold the Subject Securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to (i) a holder that is a “financial institution” (as defined in the Tax Act for the purposes of the mark-to-market rules), (ii) a holder an interest in which would be a “tax shelter investment” (as defined in the Tax Act), (iii) a holder that is

a “specified financial institution” (as defined in the Tax Act), (iv) a holder that has elected to report its “Canadian tax results” (as defined in the Tax Act) in a currency other than Canadian currency, (v) that has entered or will enter into a “derivative forward agreement” (as defined in the Tax Act) with respect to Subject Securities, or (vi) that is a corporation resident in Canada and is, or becomes as part of a transaction or event or series of transactions or events that include the acquisition of Subject Securities, controlled by a non-resident corporation for the purposes of section 212.3 of the Tax Act. **Any such holder should consult its own tax advisor with respect to an investment in Securities.** In addition, this summary does not address the deductibility of interest by a holder who has borrowed money or otherwise incurred debt in connection with the acquisition of Subject Securities.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the “Proposed Amendments”) and Legal Counsel’s understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) made publicly available prior to the date hereof. This summary assumes the Proposed Amendments will be enacted in the form proposed, however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law or administrative policy or assessing practice, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder or prospective holder of Subject Securities, and no representations with respect to the income tax consequences to any holder or prospective holder are made. Consequently, holders and prospective holders of Subject Securities should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Subscription Receipts, Debentures or Series E Shares pursuant to this Offering, having regard to their particular circumstances.

Holders Resident in Canada

The following discussion applies to a Holder who, at all relevant times, for purposes of the Tax Act, is or is deemed to be resident in Canada (a “Canadian Holder”). Certain holders of Debentures, Series E Shares, Series F Shares or Common Shares who are residents of Canada and who might not otherwise be considered to hold their Debentures, Series E Shares, Series F Shares or Common Shares as capital property may, in certain circumstances, be entitled to have the Debentures, Series E Shares, Series F Shares and Common Shares, and all other “Canadian securities” (as defined in the Tax Act) owned by such holders in the taxation year of the election and any subsequent taxation year, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This election is not available in respect of Subscription Receipts. Canadian Holders should consult their own tax advisors regarding this election.

Taxation of Canadian Holders of Debentures

Taxation of Interest on Debentures

A Canadian Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year, or (ii) that has become receivable by or is received by the Canadian Holder before the end of that taxation year, including on a conversion, redemption or repayment at maturity, except to the extent that such interest was included in computing the Canadian Holder’s income for a preceding taxation year.

Any other Canadian Holder, including an individual and a trust of which neither a corporation nor a partnership is a beneficiary, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Canadian Holder in that taxation year (depending upon the method regularly followed by the Canadian Holder in computing income), except to the extent that the interest was included in the Canadian Holder’s income for a preceding taxation year. In addition, if such Canadian Holder has not otherwise included all interest that accrued on the Debentures in computing the Canadian Holder’s income at periodic intervals of not more than one year, such Canadian Holder will be required to include in computing income for a taxation year any interest that accrues to the Canadian Holder on the Debenture up to the end of any “anniversary day” (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Canadian Holder’s income for that year or a preceding taxation year.

A Canadian Holder of Debentures that throughout the relevant taxation year is a “Canadian-controlled private corporation”, as defined in the Tax Act, may be liable to pay the refundable tax of 6 2/3% on its “aggregate investment income”, which is defined in the Tax Act to include interest income.

As described in this short form prospectus under the heading “Description of the Debentures — Interest Payment Election”, the Corporation may, subject to certain conditions, elect to pay interest by issuing Common Shares to the Debenture Trustee for sale, in which event a Canadian Holder would be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares. If the Corporation were to pay interest in this manner, the Canadian federal income tax consequences to a Canadian Holder would generally be the same as those described above.

Exercise of the Conversion Privilege

Generally, a Canadian Holder that converts a Debenture into Common Shares pursuant to its right of conversion under the terms of the Debenture and only receives Common Shares upon such conversion (other than cash delivered in lieu of a fraction of a Common Share) will be deemed not to have disposed of the Debenture and, accordingly, will not be considered to realize a capital gain (or capital loss) upon such conversion. Under the current administrative practice of the CRA, a Canadian Holder who, upon conversion of a Debenture, receives cash not in excess of \$200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), or reduce the adjusted cost base of the Common Shares that the Canadian Holder receives upon conversion by the amount of the cash received.

The aggregate cost to a Canadian Holder of the Common Shares acquired upon conversion of a Debenture will generally be equal to the aggregate of the adjusted cost base to the Canadian Holder of the Debenture immediately before the conversion, minus any reduction of adjusted cost base for fractional shares as discussed above. The adjusted cost base to a Canadian Holder of Common Shares acquired at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Canadian Holder as capital property at the time.

Upon conversion of a Debenture, interest accrued thereon will be included in computing the income of the Canadian Holder as described above under “Holders Resident in Canada — Taxation of Canadian Holders of Debentures — Taxation of Interest on Debentures”.

Other Disposition of Debentures

A Canadian Holder that disposes of a Debenture (including due to a redemption, payment of the Debenture on maturity or purchase of the Debenture for cancellation, but not including conversion of a Debenture into Common Shares pursuant to the Canadian Holder’s conversion privilege as described above), will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Debenture, net of any amount otherwise required to be included in the Canadian Holder’s income as interest, exceed (or are less than) the aggregate of the adjusted cost base of the Debenture to the Canadian Holder and any reasonable costs of disposition. The treatment of capital gains and losses is described below under the heading “Holders Resident in Canada — Taxation of Canadian Holders of Common Shares — Taxation of Capital Gains and Capital Losses”.

Upon a disposition or deemed disposition of a Debenture by a Canadian Holder, the Canadian Holder will be required to include in computing income the amount of interest accrued on the Debenture from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in computing the Canadian Holder’s income for the taxation year or a previous taxation year, and such amount will be excluded in computing the Canadian Holder’s proceeds of disposition of the Debenture as described above.

If the Corporation pays any amount upon the redemption, purchase or maturity of a Debenture by issuing Common Shares to the Canadian Holder (but not including by the conversion of a debenture into Common Shares pursuant to the Canadian Holder’s conversion privilege as described above), the Canadian Holder’s proceeds of disposition of the Debenture will be equal to the fair market value, at the time of disposition of the Debenture, of the Common Shares and any other consideration so received (except consideration received in satisfaction of accrued interest). The cost to the Canadian Holder of the Common Shares so received will be equal to the fair market value of such Common Shares. The adjusted cost base to a Canadian Holder of Common Shares acquired at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Canadian Holder as capital property at the time.

Taxation of Canadian Holders of Subscription Receipts

Acquisition of Common Shares Pursuant to Terms of the Subscription Receipts

A Canadian Holder of Subscription Receipts will not realize any capital gain or capital loss upon the acquisition of Common Shares pursuant to the terms of Subscription Receipts.

The cost of a Common Share received pursuant to the terms of a Subscription Receipt will generally be the subscription price of such Subscription Receipt. The adjusted cost base to a Canadian Holder of Common Shares acquired at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base immediately before that time of any other Common Shares owned by the Canadian Holder as capital property at such time.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a Canadian Holder of a Subscription Receipt (other than on the acquisition of a Common Share pursuant to the terms of Subscription Receipts as discussed above) will generally result in the Canadian Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Canadian Holder's adjusted cost base thereof and any reasonable costs of disposition. Any such capital gain (or capital loss) realized will be subject to the tax treatment described below under "Holders Resident in Canada — Taxation of Canadian Holders of Common Shares — Taxation of Capital Gains and Capital Losses". The cost to a Canadian Holder of a Subscription Receipt will generally be the amount paid to acquire the Subscription Receipt. The adjusted cost base to a Canadian Holder of Subscription Receipt acquired at any time will be determined by averaging the cost of such Subscription Receipt with the adjusted cost base immediately before that time of any other Subscription Receipts owned by the Canadian Holder as capital property at such time.

In the event that a Canadian Holder becomes entitled to the repayment of the issue price of a Subscription Receipt as a consequence of a Subscription Termination Event, any amount that is paid to the holder by the Corporation as, or on account of, Earned Interest and Deemed Interest and that is included in the Canadian Holder's income as described below, will be excluded from the Canadian Holder's proceeds of disposition.

Pro Rata Share of Interest

In the event that a Subscription Termination Event occurs, holders of Subscription Receipts shall be entitled to receive from the Subscription Receipt Agent an amount equal to the full subscription price thereof plus their pro rata share of any Earned Interest and Deemed Interest.

Where a Canadian Holder is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, it will be required to include in computing its income for a taxation year the amount of Earned Interest and Deemed Interest that accrued to the Canadian Holder to the end of the Canadian Holder's taxation year, or that is receivable or received by the Canadian Holder before the end of that taxation year, except to the extent that such interest was included in computing the Canadian Holder's income for a preceding taxation year.

Any other Canadian Holder will be required to include in computing income for a taxation year its share of any Earned Interest and Deemed Interest that is receivable or received by the Canadian Holder in that taxation year, depending upon the method regularly followed by the Canadian Holder in computing income.

Any amount of Earned Interest and Deemed Interest included in the Canadian Holder's income as described above will be excluded from the Canadian Holder's proceeds of disposition of the Subscription Receipts.

A Canadian Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6 2/3% on its "aggregate investment income", which is defined in the Tax Act to include income from property (which should include the Canadian Holder's share of Earned Interest and Deemed Interest).

Taxation of Canadian Holders of Series E Shares and Series F Shares

Dividends on Series E Shares and Series F Shares

Dividends received or deemed to be received on the Series E Shares or the Series F Shares by a Canadian Holder who is an individual (other than certain trusts) will be included in the individual's income and generally will be subject to the gross-up and dividend tax

credit rules applicable to taxable dividends received by individuals from taxable Canadian corporations, including the enhanced dividend tax credit rules applicable to any dividends (including deemed dividends) designated by the Corporation as “eligible dividends” in accordance with the Tax Act. Dividends received or deemed to be received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax.

Dividends received or deemed to be received on the Series E Shares or the Series F Shares by a Canadian Holder that is a corporation will be included in computing its income and will generally be deductible in computing its taxable income. A “private corporation”, as defined in the Tax Act, or any other corporation controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay refundable tax under Part IV of the Tax Act of 33 1/3% on dividends received (or deemed to be received) on the Series E Shares and the Series F Shares to the extent such dividends are deductible in computing its taxable income.

The Series E Shares and the Series F Shares will be “taxable preferred shares” as defined in the Tax Act. The terms of the Series E Shares and the Series F Shares require the Corporation to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series E Shares or the Series F Shares.

Dispositions of Series E Shares and Series F Shares

A Canadian Holder who disposes of or is deemed to dispose of a Series E Share or a Series F Share (including on a redemption or other acquisition by the Corporation for cash, but not on conversion of Series E Shares into Series F Shares or Series F Shares into Series E Shares, as the case may be) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such share to such Canadian Holder. Any such capital gain (or capital loss) realized will be subject to the tax treatment described below under “Holders Resident in Canada – Taxation of Canadian Holders of Common Shares – Taxation of Capital Gains and Capital Losses”. For this purpose, the adjusted cost base to a Canadian Holder of Series E Shares will be determined at any time by averaging the cost of such Series E Shares with the adjusted cost base of any other Series E Shares owned by the Canadian Holder as capital property immediately before that time. Similarly, the adjusted cost base to a Canadian Holder of Series F Shares will be determined at any time by averaging the cost of such Series F Shares with the adjusted cost base of any other Series F Shares owned by the Canadian Holder as capital property immediately before that time. The amount of any deemed dividend arising on the redemption or purchase for cancellation by the Corporation of Series E Shares or Series F Shares, as the case may be, will not generally be included in computing the proceeds of disposition to a Canadian Holder for purposes of computing the capital gain or capital loss arising on the disposition of such shares. See “Holders Resident in Canada – Taxation of Canadian Holders of Series E Shares and Series F Shares – Redemption of Series E Shares and Series F Shares” below.

Redemption of Series E Shares and Series F Shares

If the Corporation redeems or otherwise acquires a Series E Share or a Series F Share, as the case may be, other than by a purchase in the open market in the manner in which shares are normally purchased by any member of the public in the open market, or a conversion as discussed below, the Canadian Holder will be deemed to have received a dividend equal to the amount, if any, paid by the Corporation in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. See “Holders Resident in Canada – Taxation of Canadian Holders of Series E Shares and Series F Shares – Dividends on Series E Shares and Series F Shares” above. Generally, the difference between the amount paid by the Corporation and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. See “Holders Resident in Canada – Taxation of Canadian Holders of Series E Shares and Series F Shares – Dispositions of Series E Shares and Series F Shares” above. In the case of a corporate Canadian Holder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

Conversion of Series E Shares and Series F Shares

The conversion of a Series E Share into a Series F Share or a Series F Share into a Series E Share will be deemed not to be a disposition of property and accordingly will not give rise to any capital gain or capital loss. The cost to a Canadian Holder of a Series F Share or Series E Share, as the case may be, received on the conversion will be deemed to be equal to the Holder’s adjusted cost base of the converted Series E Share or Series F Share, as the case may be, immediately before the conversion and will be subject to cost averaging as described under “Dispositions” above.

Taxation of Canadian Holders of Common Shares

Dividends on Common Shares

Dividends received or deemed to be received on Common Shares held by a Canadian Holder will be included in the Canadian Holder's income for the purposes of the Tax Act.

Such dividends received by a Canadian Holder that is an individual (other than certain trusts) will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by the Corporation as "eligible dividends".

Taxable dividends received by a Canadian Holder who is an individual (other than certain trusts) may result in such Canadian Holder being liable for alternative minimum tax under the Tax Act. Canadian Holders who are individuals should consult their own tax advisors in this regard.

A Canadian Holder that is a corporation will include such dividends in computing its income and generally will be entitled to deduct the amount of such dividends in computing its taxable income. A "private corporation" as defined in the Tax Act or any other corporation controlled for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable under Part IV of the Tax Act to pay a refundable tax of 33 1/3% of dividends received or deemed to be received on the Common Shares to the extent such dividends are deductible in computing the Canadian Holder's taxable income.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Canadian Holder (except to the Corporation) will generally result in the Canadian Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceed (or are less than) the aggregate of the adjusted cost base to the Canadian Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "Holders Resident in Canada — Taxation of Canadian Holders of Common Shares — Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Canadian Holder in a taxation year must be included in the Canadian Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Canadian Holder in a taxation year must be deducted from taxable capital gains realized by the Canadian Holder in that year. Allowable capital losses in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Canadian Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust.

A Canadian Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay the refundable tax of 6 2/3% on its "aggregate investment income", which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. Canadian Holders who are individuals should consult their own tax advisors in this regard.

Holders Not Resident in Canada

The following discussion applies to a Holder who, at all relevant times, for purposes of the Tax Act (i) is neither resident nor deemed to be resident in Canada, (ii) does not, and is not deemed to, use or hold Subject Securities, in a business carried on in Canada, and (iii) is entitled to receive all payments (including all principal and interest) made on a Debenture (a "Non-Canadian Holder"). In addition, this discussion does not apply to: (i) an insurer who carries on an insurance business in Canada and elsewhere; (ii) an

“authorized foreign bank” (as defined in the Tax Act); or (iii) a Non-Canadian Holder that is, or does not deal at arm’s length with, a “specified shareholder” (as defined in subsection 18(5) of the Tax Act) of the Corporation. A “specified shareholder” for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm’s length for the purposes of the Tax Act) owns or has the right to acquire or control 25% or more of the Corporation’s shares determined on a votes or fair market value basis.

Taxation of Non-Canadian Holders of Debentures

Taxation of Interest on Debentures

A Non-Canadian Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures, except as described below. See “Holders Not Resident in Canada — Taxation of Non-Canadian Holders of Debentures — Exercise of Conversion Privilege” and “Risk Factors – Risks Relating Specifically to the Securities - Withholding Tax”.

Exercise of the Conversion Privilege

Generally, a Non-Canadian Holder that converts a Debenture into Common Shares pursuant to its right of conversion under the terms of the Debenture and only receives Common Shares on such conversion (other than cash delivered in lieu of a fraction of a Common Share), will be deemed not to have disposed of the Debenture and, accordingly, will not be considered to realize a capital gain (or capital loss) upon such conversion.

In the event that a Debenture is converted into Common Shares pursuant to the Non-Canadian Holder’s conversion privilege as described above) or is purchased by any other resident or deemed resident of Canada (a “Canadian Transferee”) from a Non-Canadian Holder, or is otherwise assigned or transferred by a Non-Canadian Holder to a Canadian Transferee, for an amount which exceeds, generally, the issue price thereof, all or a portion of such excess may be deemed to be interest and may be subject to Canadian non-resident withholding tax. If: (i) all or any portion of such interest is participating debt interest and (ii) the Debenture is not considered to be an “excluded obligation” for the purposes of the Tax Act. In the case of a conversion of a Debenture into Common Shares pursuant to the Non-Canadian Holder’s conversion privilege as described above, an excess should generally be equal to the difference between the fair market value of the Common Shares received at the time of conversion (or cash received in lieu of the issuance of Common Shares) and the issue price of the Debenture. If such excess is considered to be participating debt interest, the amount paid to a Non-Canadian Holder would be subject to Canadian withholding tax at the statutory rate of 25% (subject to reduction under an applicable income tax convention between Canada and the Non-Canadian Holder’s country of residence). In this respect, it is uncertain whether or not any excess would constitute “participating debt interest” for purposes of the Tax Act. The CRA has stated that such excess would not be considered to be participating debt where the relevant debenture is a “traditional convertible debenture” and the CRA has published guidance on what it believes to be a “traditional convertible debenture” for these purposes. The CRA has also made subsequent statements relating to such guidance. Based on such published guidance and subsequent statements by the CRA, the Corporation intends not to withhold tax on any such excess resulting from a conversion of the Debentures into Common Shares, however, the Corporation reserves the right to withhold in such circumstances and no assurance can be given that the conversion of Debentures into Common Shares will not be subject to withholding tax. See “Risk Factors – Risks Relating Specifically to the Securities - Withholding Tax”.

Upon the conversion of a Debenture, the payment representing interest accrued from the most recent Interest Payment Date to the date of conversion will be subject to the Canadian federal tax considerations described above under “Holders Not Resident in Canada — Taxation of Non-Canadian Holders of Debentures — Taxation of Interest on Debentures”.

Other Disposition of Debentures

In the event that a Debenture is redeemed, cancelled, repurchased or purchased by the Corporation or is purchased by a Canadian Transferee from a Non-Canadian Holder, or is otherwise assigned or transferred by a Non-Canadian Holder to a Canadian Transferee, for an amount which exceeds, generally, the issue price thereof, all or a portion of such excess may be deemed to be interest and may be subject to Canadian non-resident withholding tax as described above under “Holders Not Resident in Canada — Taxation of Non-Canadian Holders of Debentures — Exercise of Conversion Privilege”. See also “Risk Factors – Risks Relating Specifically to the Securities - Withholding Tax”.

On the disposition or deemed disposition of a Debenture (otherwise than on the conversion of a Debenture into Common Shares pursuant to the Non-Canadian Holder’s conversion privilege as described above), a Non-Canadian Holder will not be subject to tax

under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder, unless the Debenture constitutes “taxable Canadian property” (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the holder is not entitled to relief under an applicable income convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), the Debentures will generally not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Debentures: (i) (a) the Non-Canadian Holder, (b) persons with whom the Non-Canadian Holder did not deal at arm’s length, (c) pursuant to certain Proposed Amendments, partnerships in which the Non-Canadian Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnership, or (d) any combination of the persons and partnerships described in (a) through (c), owned 25% or more of the issued shares of any class of the capital stock of the Corporation, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (w) real or immovable property situated in Canada; (x) Canadian resource properties; (y) timber resource properties; and (z) options in respect of, or interests in or for civil law rights in, property described in (w) to (y) (the “TCP Conditions”). A Non-Canadian Holder contemplating a disposition of Debentures that may constitute taxable Canadian property should consult a tax advisor prior to such disposition.

Taxation of Non-Canadian Holders of Subscription Receipts

Acquisition of Common Shares pursuant to terms of the Subscription Receipts

A Non-Canadian Holder of Subscription Receipts will not realize any capital gain or capital loss upon the acquisition of Common Shares pursuant to the terms of Subscription Receipts.

Other Dispositions of Subscription Receipts

On a disposition of a Subscription Receipt (other than on the acquisition of a Common Share pursuant to the terms of Subscription Receipts as discussed above), a Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder, unless the Subscription Receipt constitutes “taxable Canadian property” (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are listed on a designated stock exchange (which currently includes the TSX), the Subscription Receipts will generally not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Subscription Receipt the TCP Conditions are met. A Non-Canadian Holder contemplating a disposition of Subscription Receipts that may constitute taxable Canadian property should consult a tax advisor prior to such disposition.

Pro Rata Share of Interest

In the event that a Subscription Termination Event occurs, holders of Subscription Receipts shall be entitled to receive from the Subscription Receipt Agent an amount equal to the full subscription price thereof plus their pro rata share of Earned Interest and Deemed Interest. A Non-Canadian Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, any such interest.

Taxation of Non-Canadian Holders of Common Shares

Dividends on Common Shares

Any dividends paid or credited, or deemed to be paid or credited, on the Common Shares to a Non-Canadian Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention, which the Non-Canadian Holder is entitled to the benefits of, between Canada and the Non-Canadian Holder’s country of residence. For instance, where the Non-Canadian Holder is a resident of the United States that is entitled to full benefits under the Canada-United States Income Tax Convention (1980), as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

Disposition of Common Shares

A Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder on a disposition of a Common Share issuable pursuant to the terms of the Debentures or the Subscription Receipts, unless the Common Shares constitute “taxable Canadian property” (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the Non-Canadian Holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), Common Shares generally will not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Common Shares the TCP Conditions are met. A Non-Canadian Holder contemplating a disposition of Common Shares that may constitute taxable Canadian property should consult a tax advisor prior to such disposition.

Taxation of Non-Canadian Holders of Series E Shares and Series F Shares

Dividends on Series E Shares and Series F Shares

Any dividends paid or credited, or deemed to be paid or credited, on the Series E Shares or Series F Shares, as the case may be, to a Non-Canadian Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention, which the Non-Canadian Holder is entitled to the benefits of, between Canada and the Non-Canadian Holder’s country of residence. For instance, where the Non-Canadian Holder is a resident of the United States that is entitled to full benefits under the Canada-United States Income Tax Convention (1980), as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

Disposition of Series E Shares and Series F Shares

A Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder on a disposition of a Series E Share or Series F Share unless such share constitutes “taxable Canadian property” (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the Non-Canadian Holder is not entitled to relief under an applicable income tax convention.

As long as the Series E Shares or Series F Shares, as the case may be, are then listed on a designated stock exchange (which currently includes the TSX), the Series E Shares or Series F Shares, as the case may be, generally will not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Series E Shares or Series F Shares, as the case may be, (a) the Non-Canadian Holder, (b) persons with whom the Non-Canadian Holder did not deal at arm’s length, (c) pursuant to certain Proposed Amendments, partnerships in which the Non-Canadian Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnership, or (d) any combination of the persons and partnerships described in (a) through (c), owned 25% or more of the issued shares of any class of the capital stock of the Corporation, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (w) real or immovable property situated in Canada; (x) Canadian resource properties; (y) timber resource properties; and (z) options in respect of, or interests in or for civil law rights in, property described in (w) to (y). A Non-Canadian Holder contemplating a disposition of Class E Shares or Class F Shares that may constitute taxable Canadian property should consult a tax advisor prior to such disposition

Redemption of Series E Shares and Series F Shares

If the Corporation redeems or otherwise acquires a Series E Share or a Series F Share, as the case may be, other than by a purchase in the open market in the manner in which shares are normally purchased by any member of the public in the open market, or a conversion as discussed below, a Non-Canadian Holder of the Series E Share or Series F Share, as the case may be, a dividend equal to the amount, if any, paid by the Corporation in excess of the paid-up capital of such share (as determined for purposes of the Tax Act) of such share at such time will be deemed to have been paid or credited to such Non-Canadian Holder. See “Holders Not Resident in Canada – Taxation of Non-Canadian Holders of Series E Shares and Series F Shares – Dividends on Series E Shares and Series F Shares” above. Generally, the difference between the amount paid on redemption and the amount of the deemed dividend will be treated as proceeds of disposition for purposes of computing any capital gain or loss arising on the disposition of such shares which would be relevant where such shares were “taxable Canadian property”. See “Holders Not Resident in Canada – Taxation of Non-Canadian Holders of Series E Shares and Series F Shares – Dispositions of Series E Shares and Series F Shares” above.

Conversion of Series E Shares and Series F Shares

The conversion of a Series E Share into a Series F Share or a Series F Share into a Series E Share will be deemed not to be a disposition of property and accordingly will not give rise to any capital gain or capital loss.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and Wildeboer Dellelce LLP, counsel to the Underwriters, the Subscription Receipts, Debentures, Series E Shares, Series F Shares and Common Shares, provided they are listed on a designated stock exchange (which currently includes the TSX) and, in the case of the Debentures, Series E Shares, Series F Shares and Common Shares, provided the Corporation remains a “public corporation” for purposes of the Tax Act, if issued on the date of this short form prospectus, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan (“RRSP”), a registered retirement income fund (“RRIF”), a registered education savings plan, a deferred profit sharing plan (other than, in the case of Debentures, a trust governed by a deferred profit sharing plan to which contributions are made by the Corporation or an employer with which the Corporation does not deal at arm’s length for the purposes of the Tax Act), a registered disability savings plan or a tax-free savings account (“TFSA”).

The Subscription Receipts, Debentures, Series E Shares, Series F Shares and Common Shares will generally not be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm’s length with Element for purposes of the Tax Act or (ii) has a “significant interest” as defined in the Tax Act in Element. In addition, the Common Shares, Series E Shares and Series F Shares will not be a “prohibited investment” if the Common Shares, Series E Shares or Series F Shares, as the case may be, are “excluded property” as defined in the Tax Act, for trusts governed by a TFSA, RRSP or RRIF.

Holders or annuitants should consult their own tax advisors with respect to whether Debentures, Subscription Receipts, Common Shares, Series E Shares or Series F Shares would be prohibited investments, including with respect to whether the Common Shares, Series E Shares or Series F Shares would be “excluded property”.

RISK FACTORS

An investment in the Securities involves certain risks, including those risks described in the “Risk Factors” section of the AIF. Prospective purchasers of the Securities should consider carefully these risks, the risk factors related to the Securities set forth below, as well as the risks set out in the documents incorporated by reference in this Prospectus, including the disclosure under the heading “Risk Factors” in the AIF and under the headings “Risk Management” and “Critical Accounting Policies and Estimates” in the Annual MD&A, and all subsequently filed documents incorporated by reference herein.

Risks Relating to the Acquisition

There are risks inherent in acquisitions

While Element conducted substantial due diligence in connection with the Acquisition, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of the Fleet Business for which Element is not sufficiently indemnified pursuant to the provisions of the Stock Purchase Agreement. Any such unknown or undisclosed risks or liabilities and any upward adjustment of the purchase price under the Stock Purchase Agreement could materially and adversely affect Element’s financial performance and results of operations.

Element currently anticipates that the Acquisition will be accretive; however, this expectation is based on preliminary estimates which may materially change. Element could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits anticipated in the Acquisition. All of these factors could cause dilution to Element’s earnings per share or decrease or delay the anticipated accretive effect of the Acquisition and cause a decrease in the market price of the Common Shares.

There are transitional risks associated with acquisitions

Pursuant to the terms of the Transition Service Agreements, PHH has agreed to provide certain transitional services to the Corporation following the Acquisition Closing on terms customary for a transaction of this type. There can be no assurance that the services provided under the Transition Service Agreements will be adequate for Element to maintain the operations of the Fleet Business and facilitate the efficient and effective transition of business operations. Further, there can be no assurance that the transition process will be completed during the term of the Transition Service Agreements.

There are risks involved with integrating the Fleet Business

The Acquisition poses additional risks to Element's business. The success of the Acquisition will depend, in part, on the ability of Element to realize the anticipated benefits of the Acquisition. Element cannot be certain that it will successfully integrate the Fleet Business or that the Acquisition will ultimately benefit Element. Any failure to successfully integrate the Fleet Business or failure to achieve the anticipated benefits of the Acquisition could have a material adverse effect on Element's business and results of operations.

The Corporation is dependent on key personnel

The Corporation currently intends to retain certain key personnel of the Fleet Business following the completion of the Acquisition to continue to manage and operate Fleet Business. The Corporation will compete with other potential employers for employees, and it may not be successful in keeping the services of the executives and other employees that it needs to realize the anticipated benefits of the Acquisition. The Corporation's failure to retain key personnel to remain as part of the management team of Fleet Business in the period following the Acquisition could have a material adverse effect on the Fleet Business.

There is a risk that the Acquisition may not be completed

The Acquisition Closing is subject to the normal commercial risks that the Acquisition will not close on the terms negotiated or at all. The Acquisition Closing is subject to the fulfillment or waiver of certain customary closing conditions disclosed herein, including the applicable waiting period under certain regulatory legislation having expired or been terminated. The failure to have such closing conditions satisfied or, if applicable, waived, will prevent the Corporation from completing the Acquisition. There is no assurance that such closing conditions will be satisfied or waived. Accordingly, there can be no assurance that the Corporation will complete the Acquisition in the timeframe or on the basis described herein, if at all.

The Fleet Business is substantially dependent upon its unsecured and secured funding arrangements, a significant portion of which are short-term agreements. If any of its funding arrangements are terminated, not renewed or otherwise become unavailable to the Fleet Business, it may be unable to find replacement financing on economically viable terms, if at all, which would adversely affect its ability to fund its operations.

The Fleet Business is substantially dependent upon various sources of funding, including unsecured credit facilities and other unsecured debt, as well as secured funding arrangements, including asset-backed securities and other secured credit facilities to fund vehicle acquisitions, a significant portion of which is short-term in nature. The Fleet Business' access to both the secured and unsecured credit markets is subject to prevailing market conditions. Renewal of the Fleet Business' existing series of, or the issuance of new series of, vehicle lease asset-backed notes on terms acceptable to it or its ability to enter into alternative vehicle management asset-backed debt arrangements could be adversely affected in the event of: (i) the deterioration in the quality of the assets underlying the asset-backed debt arrangement; (ii) termination of its role as servicer of the underlying lease assets in the event that it defaults in the performance of its servicing obligations or it declares bankruptcy or become insolvent; or (iii) the Fleet Business' failure to maintain a sufficient level of eligible assets or credit enhancements, including collateral intended to provide for any differential between variable-rate lease revenues and the underlying variable-rate debt costs.

Certain of the Fleet Business' debt arrangements require it to comply with specific financial covenants and other affirmative and restrictive covenants, including requirements to post additional collateral or to fund assets that become ineligible under its secured funding arrangements. An uncured default of one or more of these covenants could result in a cross-default between and amongst its various debt arrangements. Consequently, an uncured default under any of the Fleet Business' debt arrangements that is not waived by its lenders and that results in an acceleration of amounts payable to its lenders or the termination of credit facilities would materially and adversely impact the Fleet Business' liquidity, could force it to sell assets at below market prices to repay its indebtedness, and could force the Fleet Business to seek relief under the U.S. Bankruptcy Code and/or analogous Canadian bankruptcy and insolvency laws.

If any of the Fleet Business' credit facilities are terminated or are not renewed, it may be unable to find replacement financing on commercially favorable terms, if at all, which could adversely impact its operations and prevent the Fleet Business from: (i) executing its business plan and related risk management strategies; (ii) originating new vehicle leases; or (iii) fulfilling commitments made in the ordinary course of business. These factors could reduce revenues attributable to its business activities or require the Fleet Business to sell assets at below market prices, either of which would have a material adverse effect on the Fleet Business' overall business and consolidated financial position, results of operations and cash flows.

The Fleet Business' reliance on outsourcing arrangements for information technology services subjects it to significant business process and control risks due to the complexity of its information systems, any failures in the Fleet Business' ability to manage or transition services under the arrangement, or if its outsourcing counterparties do not meet their obligations to the Fleet Business. In addition, the Fleet Business may be unable to fully or successfully realize operational and cost benefits through its outsourcing arrangement for information technology services.

During 2013, PHH, including the Fleet Business, entered into an arrangement to outsource its information technology ("IT") services to a third party as part of an effort to reduce costs and obtain operational benefits, including improved governance and reductions in technology-related risk. The Fleet Business faces risks related to its ability to successfully transition the performance of these processes and the related internal and operational controls to the third party, and the risk of not meeting its goals related to cost reductions due to the complexity of the Fleet Business' IT systems and processes.

Entering into an outsourcing arrangement for IT services subjects the Fleet Business to significant business process and control risks. If PHH's outsource partner fails to perform their obligations under the terms of the agreement, or if PHH's transition and management of this vendor is not successful, the Fleet Business is subject to operational risk from its IT environment. The Fleet Business is heavily dependent on the strength and capability of its technology systems which it uses both to interface with its customers and to manage its internal financial and other systems. The Fleet Business' business model and its reputation as a service provider to its clients, as well as its internal controls over financial reporting, are highly dependent upon these systems and processes. In addition, the Fleet Business' ability to run its business in compliance with applicable laws and regulations is dependent on its technology infrastructure. Although PHH has service-level arrangements with its counterparties, neither it nor the Fleet Business ultimately controls their performance, which may make its operations vulnerable to their performance failures. Any failures in the Fleet Business' technology systems, processes or the related internal and operational controls, or the failure of its outsourcing providers to perform as expected or as contractually required could result in the loss of client relationships, damage to the Fleet Business' reputation, failures to comply with regulations, failure to prepare its financial statements in a timely and accurate manner, and increased costs, the result of any of which could have a material and adverse effect on its business, reputation, results of operations, financial position, or cash flows.

There are risks involved with pro forma financial statements

This short form prospectus contains *pro forma* financial statements. Such *pro forma* financial statements have been prepared using certain of Element's and the Fleet Business respective financial statements as more particularly described in the notes to such *pro forma* financial statements. Such *pro forma* financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected therein occurred on the dates indicated. Actual amounts recorded upon consummation of the Acquisition will differ from such *pro forma* financial statements. Any potential synergies that may be realized after consummation of the Acquisition have been excluded from such *pro forma* financial statements. Since the *pro forma* financial statements have been developed to retroactively show the effect of a transaction that occurred at a later date (even though this was accomplished by following generally accepted accounting principles using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the *pro forma* financial statements represents only a simulation of the potential impact of the Acquisition. Undue reliance should not be placed on such *pro forma* financial statements.

Risks Relating Specifically to the Securities

There is currently no market through which the Securities may be sold

There is currently no market through which the Securities may be sold and purchasers may not be able to resell the Securities purchased under this short form prospectus. Although Element has received conditional acceptance from the TSX to list the Subscription Receipts, the Debentures, the Series E Shares and the Common Shares issuable upon (i) the exchange of the Subscription Receipts, (ii) conversion, redemption or maturity of the Debentures, there is can be no assurance that listing will occur. The Debentures may trade at a discount from the offering price depending on prevailing interest rates, the market for similar securities, the Corporation's performance and other factors. There can be no assurance that an active trading market will develop for the Subscription Receipts, the Debentures or the Series E Shares after the Offering, or if developed, that such a market will be sustained at the price level of the Offering. To the extent that an active trading market for the Securities does not develop, the liquidity and trading prices of the Securities may be adversely affected.

The market price of Common Shares may be volatile which may affect the ability to sell at an advantageous price

The market price of the Common Shares may be volatile. This volatility may affect the ability of holders of Subscription Receipts or Debentures to sell the Securities at an advantageous price. In addition, it may result in greater volatility in the market price of the

Debentures than would be expected for non-convertible debt securities. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market prices of the Subscription Receipts, Debentures and Common Shares.

There is existing and prior ranking indebtedness which will affect the priority of the Debentures

The Debentures will be subordinate to all of the Senior Indebtedness. The Debentures will also be effectively subordinate to claims of creditors of the Corporation's subsidiaries, except to the extent that the Corporation is a creditor of such subsidiaries ranking at least *pari passu* with such creditors. Specifically, the Debentures will be effectively subordinated in right of payment to the prior payment in full of all indebtedness under the Corporation's credit facilities. In the event of the Corporation's insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, its assets would be made available to satisfy the obligations of the creditors of all the Senior Indebtedness before being available to pay the Corporation's obligations to the holders of the Debentures. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable to satisfy the claims of the holders of the Debentures.

The Corporation's ability to meet its debt-service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the Corporation's financial performance, debt-service obligations, working capital and future capital-expenditure requirements. In addition, the Corporation's ability to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants in existing credit agreements and other agreements. A failure to comply with any covenants or obligations under the Corporation's consolidated indebtedness could result in a default, which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay such indebtedness in full. There can also be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

There is no guarantee that the Corporation will be able to repay the Debentures

The Corporation may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that the Corporation will be able to repay the outstanding principal amount upon maturity of the Debentures.

Prevailing yields on similar securities will impact the market value of the Debentures

Prevailing yields on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

Redemption on a Change of Control

The Corporation will be required to offer to purchase for cash all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that, following a Change of Control, the Corporation will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See "Description of the Debentures — Repurchase Upon a Change of Control". In addition, the Corporation's ability to purchase the Debentures in such an event may be limited by law, by the Indenture, by the terms of other present or future agreements relating to indebtedness, and agreements that the Corporation may enter into in the future which may replace, supplement or amend the Corporation's future debt. Future credit agreements or other agreements of the Corporation may contain provisions that could limit or prohibit the purchase of the Debentures by the Corporation. The Corporation's failure to purchase the Debentures would constitute a Debenture Event of Default under the Indenture, which might also constitute a default under the terms of the Corporation's other indebtedness at that time.

If a holder of Debentures converts its Debentures in connection with a Change of Control, the Corporation may, in certain circumstances, be required to increase the conversion rate, as described under "Description of the Debentures — Cash Change of Control". While the increased conversion rate is designed, inter alia, to compensate a holder of Debentures for the lost option-time value of its Debentures as a result of a Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss. In addition, in some circumstances as described under "Description of the Debentures — Cash Change of Control", no adjustment will be made.

Absence of covenant protection in relation to additional indebtedness

The Indenture will not restrict the Corporation or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture will not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

Redemption may occur prior to the Final Maturity Date

The Debentures may be redeemed, at the option of the Corporation, on or after June 30, 2017 and prior to the Final Maturity Date at any time and from time to time, at their principal amount, together with any accrued and unpaid interest. See “Description of the Debentures — Redemption and Purchase”. Holders of Debentures should assume that this redemption option will be exercised if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interests of the Corporation to redeem the Debentures.

There may be dilutive effects on holders of Common Shares

The Corporation may issue Common Shares in connection with the Subscription Receipts or upon conversion, redemption or maturity of or payment of interest on the Debentures. Accordingly, holders of Common Shares may suffer dilution.

There are conversion rights following certain transactions

In the event of certain transactions, pursuant to the terms of the Indenture, each Debenture will become convertible into securities, cash or property receivable by a holder of Common Shares in such transactions. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the Debentures. See “Description of the Debentures — Conversion Privilege”.

Credit risk

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation’s financial health and creditworthiness.

Withholding tax

Effective January 1, 2008, the Tax Act was amended to generally eliminate withholding tax on interest paid or credited to non-residents of Canada with whom the payor deals at arm’s length. However, Canadian withholding tax continues to apply to payments of “participating debt interest”. For purposes of the Tax Act, participating debt interest is generally interest that is paid on an obligation where all or any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any similar criterion.

Under the Tax Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would include a conversion of the obligation or payment on maturity), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (an “Excess”).

The deeming rule does not apply in respect of certain “excluded obligations”, although it is not clear whether a particular convertible debenture would qualify as an “excluded obligation”. If a convertible debenture is not an “excluded obligation”, issues that arise are whether any Excess would be considered to exist, whether any such excess which is deemed to be interest is “participating debt interest”, and if the Excess is participating debt interest, whether that results in all interest on the obligation being considered to be participating debt interest.

The CRA has stated that no Excess, and therefore no participating debt interest, would in general arise on the conversion of a “traditional convertible debenture” and therefore there would be no withholding tax in such circumstances (provided that the payor and payee deal at arm’s length for purposes of the Tax Act). The CRA has published guidance on what it believes to be a “traditional convertible debenture” for these purposes. The Debentures contain at least one term which may not meet the criteria set forth in the CRA’s published guidance.

Accordingly, the application of the CRA’s published guidance is uncertain and there is a risk that amounts paid or payable by the Corporation to a non-resident holder of Debentures on account of interest or any Excess amount may be subject to Canadian

withholding tax at a rate of 25% (subject to any reduction in accordance with any applicable income tax treaty or convention). Non-resident holders of Debentures should anticipate the possibility that the Corporation may withhold tax on a repayment or redemption or conversion of the Debentures. When necessary, the Corporation may cause Common Shares to be received on such repayment, redemption or maturity to be sold in order to satisfy the withholding obligation.

The Indenture will not contain a requirement that the Corporation increase the amount of interest or other payments to holders of Debentures should it be required to withhold amounts in respect of income or similar taxes on payments of interest or other amounts on the Debentures.

Element may redeem Series E Shares and Series F Shares.

The Corporation may choose to redeem the Series E Shares and the Series F Shares from time to time, in accordance with its rights described under “Description of the Series E Shares – Redemption” and “Description of the Series F Shares – Redemption”, including when prevailing interest rates are lower than the yields borne by the Series E Shares and the Series F Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yields on the Series E Shares or the Series F Shares being redeemed. The Corporation’s redemption right may also adversely impact a purchaser’s ability to sell Series E Shares and Series F Shares as the optional redemption date or period approaches.

The Series E Shares and the Series F Shares do not have a fixed maturity date, may not be redeemed at the holder’s option and may be liquidated by the holder only in limited circumstances.

Neither the Series E Shares nor the Series F Shares have a fixed maturity date and they are not redeemable or retractable at the option of the holders of Series E Shares or Series F Shares. The ability of a holder to liquidate its holdings of Series E Shares or Series F Shares may be limited.

Creditors of the Corporation rank ahead of holders of Series E Shares and Series F Shares in the event of an insolvency or winding-up of the Corporation.

Creditors of the Corporation would rank ahead of holders of Series E Shares and Series F Shares in the event of an insolvency or winding-up of the Corporation.

The Series E Shares and the Series F Shares rank equally with other Preferred Shares that may be outstanding in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation’s assets must be used to pay debt, including inter-company debt, before payments may be made on Series E Shares, Series F Shares and other Preferred Shares.

The dividend rates on the Series E Shares and the Series F Shares will reset.

The dividend rate in respect of the Series E Shares will reset on September 30, 2019 and on September 30 every five years thereafter. The dividend rate in respect of the Series F Shares will reset quarterly. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

Investments in the Series F Shares, given their floating interest component, entail risks not associated with investments in the Series E Shares.

Investments in the Series F Shares, given their floating interest component, entail risks not associated with investments in the Series E Shares. The resetting of the applicable rate on a Series F Share may result in a lower dividend compared to fixed rate Series E Shares. The applicable rate on a Series F Share will fluctuate in accordance with fluctuations in the T-Bill Rate on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Corporation has no control.

The Series E Shares and the Series F Shares may be converted or redeemed without the holders’ consent in certain circumstances.

An investment in the Series E Shares, or in the Series F Shares, as the case may be, may become an investment in Series F Shares, or in Series E Shares, respectively, without the consent of the holder in the event of an automatic conversion in the circumstances described under “Description of the Series E Shares – Conversion of Series E Shares into Series F Shares” and “Description of the Series F Shares – Conversion of Series F Shares into Series E Shares”. Upon the automatic conversion of the Series E Shares into

Series F Shares, the dividend rate on the Series F Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate which may vary from time to time while, upon the automatic conversion of the Series F Shares into Series E Shares, the dividend rate on the Series E Shares will be, for each five-year period, a fixed rate that is determined by reference to the Government of Canada Yield on the 30th day prior to the first day of each such five-year period. In addition, holders may be prevented from converting their Series E Shares into Series F Shares, and vice versa, in certain circumstances.

The declaration of dividends on the Series E Shares and the Series F Shares is at the discretion of the Board of Directors.

Holders of Series E Shares and Series F Shares do not have a right to dividends on such shares unless declared by the Board of Directors. The declaration of dividends is at the discretion of the Board of Directors even if the Corporation has sufficient funds, net of its liabilities, to pay such dividends.

The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Liabilities of the Corporation will include those arising in the course of its business, indebtedness, including inter-company debt, and amounts, if any, that are owing by the Corporation under guarantees in respect of which a demand for payment has been made. See "Consolidated Capitalization".

Credit Risk

The likelihood that holders of either Series E Shares or Series F Shares will receive payments owing to them under the terms of such shares will depend on the financial health of the Corporation and its creditworthiness. Accordingly, there is no assurance that the Corporation will have sufficient capital to make the dividend payments owing to the holders of Series E Shares or Series F Shares, as the case may be. Neither the Series E Shares nor the Series F Shares are rated by any credit rating agency.

Holders of the Series E Shares and the Series F Shares do not have voting rights except under limited circumstances.

Holders of Series E Shares and Series F Shares will generally not have voting rights at meetings of the shareholders of the Corporation except under limited circumstances. Holders of Series E Shares and Series F Shares will have no right to elect the Board of Directors. See "Details of the Series E Shares" and "Description of the Series F Shares".

Series E Shares are not conditional on the Acquisition

The offering of Series E Shares is not conditional on the Acquisition Closing occurring by a certain date, or at all. If the Acquisition does not proceed, the net proceeds from the issuance and sale of the Series E Shares will be used by Element to originate and finance, directly or indirectly, finance assets and for general corporate purposes.

LEGAL MATTERS

Certain legal matters relating to the Offering and this short form prospectus will be passed upon by Blake, Cassels & Graydon LLP on behalf of Element and Wildeboer Dellelce LLP on behalf of the Underwriters.

INTEREST OF EXPERTS

As of the date hereof, the partners and associates of Blake, Cassels & Graydon LLP, as a group, own, directly or indirectly less than 1% of the Common Shares. As of the date hereof, the partners and associates of Wildeboer Dellelce LLP, as a group, beneficially own, directly or indirectly, less than 1% of the Common Shares.

Ernst & Young LLP, as auditors of the Corporation, has advised the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

KPMG LLP, as auditors of the GE Fleet Portfolio, has advised the Corporation that it is independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada.

OTHER MATTERS

INDEPENDENT AUDITORS

The financial statements of Fleet Business as of and for the years ended December 31, 2013 and 2012, included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditors of Element are Ernst & Young LLP, Chartered Accountants, of Toronto, Ontario.

The transfer agent and registrar for the Securities will be Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

AGENT FOR SERVICE OF PROCESS

Gordon Giffin, a director of the Corporation, resides outside of Canada and has appointed the following agent for service of process:

| Name of Person | Name and Address of Agent |
|---------------------|---|
| Gordon Giffin | Ross McKee Blakes Extra-Provincial Services Inc. Commerce Court West 199 Bay Street, Suite 4000 Toronto, Ontario, M5L 1A9 |

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

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Element Financial Corporation

Unaudited

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for the three-month period ended March 31, 2014

Element Financial Corporation

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[unaudited in millions of Canadian dollars]

As at March 31, 2014

| Element | PHH Fleet ⁽¹⁾ | [a] | [b] | [c] | [d] | [e] | [f] | [g] | <i>Pro forma consolidated</i> | |
|--|--------------------------|--------------|------------|------------|------------|------------|----------------|----------|-------------------------------|--------------|
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| <i>Adjustments [note 2]</i> | | | | | | | | | | |
| ASSETS | | | | | | | | | | |
| Cash | 42 | 313 | 792 | 121 | 289 | 346 | (1,548) | — | — | 355 |
| Restricted cash | 102 | 273 | — | — | — | — | — | — | — | 375 |
| Finance receivables | 2,986 | — | — | — | — | — | — | 3,986 | — | 6,972 |
| Equipment under operating leases | 813 | 4,000 | — | — | — | — | (14) | (3,986) | — | 813 |
| Accounts receivable and other assets | 36 | 467 | — | — | — | — | (13) | — | — | 490 |
| Notes receivable | 36 | — | — | — | — | — | — | — | — | 36 |
| Income taxes receivable | — | 4 | — | — | — | — | — | — | — | 4 |
| Derivative financial instruments | 1 | — | — | — | — | — | — | — | — | 1 |
| Property, equipment and leasehold improvements | 6 | 30 | — | — | — | — | — | — | — | 36 |
| Intangible assets | 77 | 31 | — | — | — | — | 180 | — | — | 288 |
| Deferred tax assets | 32 | 21 | — | — | — | — | (19) | — | — | 34 |
| Goodwill | 104 | 28 | — | — | — | — | 337 | — | — | 469 |
| | 4,235 | 5,167 | 792 | 121 | 289 | 346 | (1,077) | — | — | 9,873 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Accounts payable and accrued liabilities | 113 | 273 | 2 | 1 | 2 | — | — | — | 25 | 416 |
| Current income taxes payable | 1 | — | — | — | — | — | — | — | — | 1 |
| Due to affiliates | — | 25 | — | — | — | — | (25) | — | — | — |
| Derivative financial instruments | 8 | — | — | — | — | — | — | — | — | 8 |
| Secured borrowings | 2,467 | 3,817 | — | — | — | 346 | — | — | — | 6,630 |
| Deferred tax liabilities | 36 | 640 | — | — | — | — | (640) | — | — | 36 |
| Convertible debt | — | — | — | — | 273 | — | — | — | — | 273 |
| Total liabilities | 2,625 | 4,755 | 2 | 1 | 275 | 346 | (665) | — | 25 | 7,364 |
| Share capital | 1,564 | — | 790 | 120 | 14 | — | — | — | — | 2,488 |
| Special warrants | — | — | — | — | — | — | — | — | — | — |
| Contributed surplus | 27 | — | — | — | — | — | — | — | — | 27 |
| Net parent investment | — | 397 | — | — | — | — | (397) | — | — | — |
| Retained Earnings (Deficit) | (2) | — | — | — | — | — | — | — | (25) | (27) |
| Accumulated other comprehensive income | 21 | 15 | — | — | — | — | (15) | — | — | 21 |
| Shareholders' equity | 1,610 | 412 | 790 | 120 | 14 | — | (412) | — | (25) | 2,509 |
| | 4,235 | 5,167 | 792 | 121 | 289 | 346 | (1,077) | — | — | 9,873 |

See accompanying notes

⁽¹⁾ Column was derived from the historical consolidated balance sheet as at March 31, 2014 of the Fleet Business and Subsidiaries of PHH Corporation, which was prepared in accordance with U.S. GAAP and in U.S. dollars. The exchange rate used to translate the U.S. dollar amounts is the exchange rate as at March 31, 2014 of U.S. \$0.9046 for Cdn \$1.0000.

Element Financial Corporation

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

[unaudited in millions of Canadian dollars]

Three-month period ended March 31, 2014

| | Element | PHH Fleet ⁽¹⁾ | [b] | [f] | [h] | [i] Pro forma consolidated | |
|--|-------------|--------------------------|------------|----------|------------|----------------------------|-------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| NET INTEREST REVENUE | | | | | | | |
| Interest income - finance receivables | 48 | — | — | 33 | — | — | 81 |
| Rental revenue, net | 10 | 379 | — | (379) | — | — | 10 |
| | 58 | 379 | — | (346) | — | — | 91 |
| Interest expense | 21 | 15 | — | — | 9 | — | 45 |
| Net interest income before provision for credit loss | 37 | 364 | — | (346) | (9) | — | 46 |
| Provision for credit losses | 3 | — | — | — | — | — | 3 |
| Net interest income | 34 | 364 | — | (346) | (9) | — | 43 |
| Other revenue items | 11 | 70 | — | 1 | — | — | 82 |
| Net financial income | 45 | 434 | — | (345) | (9) | — | 125 |
| OPERATING EXPENSES | | | | | | | |
| Depreciation on operating leases | — | 331 | — | (331) | — | — | — |
| Salaries and benefits | 13 | 21 | — | — | — | — | 34 |
| General and administrative expenses | 6 | 57 | — | (14) | — | — | 49 |
| Share-based compensation | 4 | — | — | — | — | — | 4 |
| | 23 | 409 | — | (345) | — | — | 87 |
| BUSINESS ACQUISITION COSTS | | | | | | | |
| Amortization of intangible assets | 1 | 1 | — | — | — | 2 | 4 |
| Integration costs | — | — | — | — | — | — | — |
| Income (loss) before income taxes | 21 | 24 | — | — | (9) | (2) | 34 |
| Provision for (recovery of) income taxes | 5 | 8 | — | — | (3) | (1) | 9 |
| Net income (loss) for the period | 16 | 16 | — | — | (6) | (1) | 25 |
| Cumulative dividend on preferred shares | (2) | — | (2) | — | — | — | (4) |
| Net income available to common shareholders | 14 | 16 | (2) | — | (6) | (1) | 21 |
| Earnings (loss) per share | | | | | | | |
| Basic | 0.07 | | | | | | 0.08 |
| Fully diluted | 0.07 | | | | | | 0.08 |
| Weighted average shares outstanding | | | | | | | |
| Basic | 189,214,813 | | | | | | 253,924,813 |
| Fully diluted | 194,113,733 | | | | | | 258,823,733 |

See accompanying notes

⁽¹⁾ Column was derived from the unaudited consolidated statement of income for the three-month period ended March 31, 2014 of the Fleet Business and Subsidiaries of PHH Corporation, which was prepared in accordance with U.S. GAAP and in U.S. dollars. The exchange rate used to translate the U.S. dollar amounts is the average exchange rate for the three-month period ended March 31, 2014 of U.S. \$0.906 for Cdn \$1.000.

Element Financial Corporation

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

[unaudited in millions of Canadian dollars]

Year ended December 31, 2013

| Element | PHH Fleet ⁽¹⁾ | GE Canadian Fleet ⁽²⁾ | [b] | [f] | [h] | [i] | [j] | [k] Pro forma consolidated |
|--|--------------------------|----------------------------------|------------|------------|----------------|-------------|-------------|----------------------------|
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| NET INTEREST REVENUE | | | | | | | | |
| Interest income - finance receivables | 136 | — | 2 | — | 82 | — | 12 | 232 |
| Rental revenue, net | — | 1,427 | 93 | — | (1,386) | — | (93) | 41 |
| | <u>136</u> | <u>1,427</u> | <u>95</u> | <u>—</u> | <u>(1,304)</u> | <u>—</u> | <u>(81)</u> | <u>273</u> |
| Interest expense | 50 | 63 | — | — | 34 | — | — | 152 |
| Net interest income before provision for credit loss | 86 | 1,364 | 95 | — | (1,304) | (34) | (81) | 121 |
| Provision for credit losses | 5 | — | — | — | — | — | — | 5 |
| Net interest income | 81 | 1,364 | 95 | — | (1,304) | (34) | (81) | 116 |
| Other revenue items | 33 | 264 | 6 | — | 2 | — | — | 305 |
| Net financial income | <u>114</u> | <u>1,628</u> | <u>101</u> | <u>—</u> | <u>(1,302)</u> | <u>(34)</u> | <u>(81)</u> | <u>(5)</u> |
| | | | | | | | | <u>421</u> |
| OPERATING EXPENSES | | | | | | | | |
| Depreciation on operating leases | — | 1,247 | 81 | — | (1,247) | — | (81) | — |
| Salaries and benefits | 35 | 71 | 5 | — | — | — | — | 111 |
| General and administrative expenses | 14 | 217 | 4 | — | (55) | — | — | 180 |
| Share-based compensation | 12 | — | — | — | — | — | — | 12 |
| | <u>61</u> | <u>1,535</u> | <u>90</u> | <u>—</u> | <u>(1,302)</u> | <u>—</u> | <u>(81)</u> | <u>303</u> |
| BUSINESS ACQUISITION COSTS | | | | | | | | |
| Amortization of intangible assets | 2 | 2 | — | — | — | 9 | — | 13 |
| Transaction costs | 35 | — | — | — | — | — | — | 35 |
| Integration costs | 11 | — | — | — | — | — | — | 11 |
| Income (loss) before income taxes | 5 | 91 | 11 | — | — | (34) | (9) | 59 |
| Provision for (recovery of) income taxes | 6 | 31 | 3 | — | — | (10) | (2) | 27 |
| Net income (loss) for the period | <u>(1)</u> | <u>60</u> | <u>8</u> | <u>—</u> | <u>—</u> | <u>(24)</u> | <u>(7)</u> | <u>32</u> |
| Cumulative dividend on preferred shares | — | — | — | (8) | — | — | — | (8) |
| Net income available to common shareholders | <u>(1)</u> | <u>60</u> | <u>8</u> | <u>(8)</u> | <u>—</u> | <u>(24)</u> | <u>(7)</u> | <u>(4)</u> |
| | | | | | | | | <u>24</u> |
| Earnings (loss) per share | | | | | | | | |
| Basic | (0.01) | | | | | | | 0.11 |
| Fully diluted | (0.01) | | | | | | | 0.11 |
| Weighted average shares outstanding | | | | | | | | |
| Basic | 138,422,653 | | | | | | | 216,844,290 |
| Fully diluted | 138,422,653 | | | | | | | 220,841,650 |

See accompanying notes

⁽¹⁾ Column was derived from the unaudited consolidated statement of income for the year ended December 31, 2013 of the Fleet Business and Subsidiaries of PHH Corporation, which was prepared in accordance with U.S. GAAP and in U.S. dollars. The exchange rate used to translate the U.S. dollar amounts is the average exchange rate for the year ended December 31, 2013 of U.S. \$0.9710 for Cdn \$1.0000.

⁽²⁾ Column was derived from the unaudited constructed statement of operations of GE Capital's Canadian fleet for the six-month period ended June 28, 2013 prepared in accordance with U.S. GAAP. The results of operations for GE Capital's Canadian fleet for the six-month period ended December 31, 2013 are already reflected in the condensed consolidated financial statements of the Company for the year ended December 31, 2013, based on the actual acquisition date.

Element Financial Corporation

NOTES TO *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

[in millions of Canadian dollars unless otherwise noted]

March 31, 2014

Unaudited

1. BASIS OF PRESENTATION

On June 2, 2014, Element Financial Corporation ["Element" or the "Corporation"] announced the probable acquisition of the Fleet Business and Subsidiaries of PHH Corporation ["PHH Fleet"] for anticipated cash consideration of approximately U.S.\$1.4 billion. The consideration is expected to be financed through a combination of a subscription receipt issuance, a preferred share issuance, a convertible debenture issuance, amended and restated borrowing facilities and cash on hand [the "PHH Fleet Acquisition"].

On June 28, 2013, the Corporation acquired the Canadian fleet portfolio of GE Capital along with the related operational resources. The Corporation completed the transaction for net cash consideration of \$559. The purchase was satisfied through a combination of \$173 in cash and from short-term borrowings of \$386 [the "GE Canadian Fleet Portfolio Acquisition"].

The unaudited *pro forma* consolidated statement of financial position as at March 31, 2014 gives effect to the PHH Fleet Acquisition as if it had occurred on March 31, 2014 and is based on: [i] the unaudited condensed consolidated financial statements of the Corporation as at and for the three-month period ended March 31, 2014 prepared in accordance with International Financial Reporting Standards ["IFRS"]; [ii] the unaudited combined condensed financial statements of Fleet Business and Subsidiaries of PHH Corporation as at and for the three-month period ended March 31, 2014, prepared in accordance with U.S. generally accepted accounting principles ["U.S. GAAP"].

The *pro forma* consolidated statement of operations for the year ended December 31, 2013 gives effect to the PHH Fleet Acquisition and GE Canadian Fleet Portfolio Acquisition [collectively the "Acquisitions"] as if they had occurred on January 1, 2013 and is based on: [i] the audited consolidated financial statements of the Corporation for the year ended December 31, 2013 prepared in accordance with IFRS; [ii] the audited combined financial statements of Fleet Business and Subsidiaries of PHH Corporation for the year ended December 31, 2013 prepared in accordance with U.S. GAAP; [iii] the unaudited constructed statement of operations of GE Capital Fleet Services Canada Business Unit for the six-month period ended June 30, 2013 prepared in accordance with U.S. GAAP.

The *pro forma* consolidated statement of operations for the three-month period ended March 31, 2014 gives effect to the Acquisitions as if they had occurred on January 1, 2013 and is based on: [i] the unaudited condensed consolidated financial statements of the Corporation for the three-month period ended March 31, 2014 prepared in accordance with IFRS; and [ii] the unaudited combined condensed financial statements of Fleet Business and Subsidiaries of PHH Corporation for the three-month period ended March 31, 2014 prepared in accordance with U.S.

Element Financial Corporation

NOTES TO *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

[in millions of Canadian dollars unless otherwise noted]

March 31, 2014

Unaudited

GAAP. The results of operations for the Canadian fleet portfolio of GE Capital for the three-month period ended March 31, 2014 are already reflected in the condensed consolidated financial statements of the Corporation for the three-month period ended March 31, 2014 based on the timing of the GE Canadian Fleet Portfolio Acquisition.

These unaudited *pro forma* consolidated financial statements are not intended to reflect the results of operations or the financial position of the Corporation which would have actually resulted had the Acquisitions been effected on the dates indicated. Any potential synergies that may be realized upon consummation of the Acquisitions have not been reflected in the unaudited *pro forma* consolidated financial statements. Further, the unaudited *pro forma* consolidated financial statements are not necessarily indicative of the results of operations that may be obtained in the future.

2. *PRO FORMA* ADJUSTMENTS

The *pro forma* adjustments contained in these unaudited *pro forma* consolidated financial statements reflect on estimates and assumptions by management of the Corporation based on currently available information.

The following *pro forma* adjustments relate to the PHH Fleet Acquisition:

- [a] In advance of the PHH Fleet Acquisition, the Corporation expects to complete an offering of 64,710,000 subscription receipts at a price of \$12.75 per subscription receipt for gross proceeds of \$825. Proceeds expected to be received, net of estimated share issue costs incurred for underwriting services of \$33, are \$792. An additional \$2 of estimated share issue costs are anticipated to be incurred with respect to legal, audit, and other fees, which has been recorded as an increase to accounts payable and other liabilities.
- [b] In advance of the PHH Fleet Acquisition, the Corporation expects to complete an offering of 5,000,000 6.4% cumulative 5-Year Rate Reset Preferred Shares, Series E at a price of \$25.00 per preferred share for gross proceeds of \$125. Proceeds expected to be received, net of estimated share issue costs incurred for underwriting services of \$4, are \$121. An additional \$1 of estimated share issue costs are anticipated to be incurred with respect to legal, audit, and other fees, which has been recorded as an increase to accounts payable and other liabilities. The impact of the cumulative dividend on the anticipated preferred shares for the three-month period ended March 31, 2014 and for the year ended December 31, 2013 is \$2 and \$8, respectively.

Element Financial Corporation

NOTES TO *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

[in millions of Canadian dollars unless otherwise noted]

March 31, 2014

Unaudited

- [c] In advance of the PHH Fleet Acquisition, the Corporation expects to complete an offering of 5.125% Extendible Convertible Unsecured Subordinated Debentures for gross proceeds of \$300 [the “Debentures”]. Proceeds expected to be received, net of estimated transaction costs of \$11, are \$289. An additional \$2 of estimated share issue costs are anticipated to be incurred with respect to legal, audit, and other fees, which has been recorded as an increase to accounts payable and other liabilities.

For accounting purposes, the Debentures are compound financial instruments which consist of a debt instrument and equity conversion feature. Within these *pro forma* financial statements, the \$300 principal amount has been allocated between the liability and equity components. The allocation was made by estimating the fair value of the liability component, which is the fair value of a similar liability that does not have an equity conversion feature. A market interest rate of 6.25% was used to estimate the fair value of the liability component, which was determined to be \$285. The initial value of the equity component of \$15 was based on the residual principal amount after deducting the fair value of the liability component. Estimated transaction costs attributable to the issuance of \$13 have been allocated to the liability and equity components on a proportionate basis.

- [d] In advance of the PHH Fleet Acquisition, the Corporation expects to draw \$346 from an amended and restated credit facility to finance the remainder of the anticipated cash consideration.
- [e] The anticipated cash consideration in the PHH Fleet Acquisition of U.S.\$1.4 billion has been translated into Canadian dollars at the exchange rate as at March 31, 2014 of U.S.\$0.9046 for CDN\$1.00. The anticipated cash consideration has been reflected as a reduction to cash of \$1,548.

Adjustments to reflect the preliminary allocation of assets acquired and liabilities assumed include: [i] a decrease of \$14 to equipment under operating leases to reflect the preliminary fair value adjustment; [ii] a decrease of \$13 to accounts receivable and other assets to reflect the preliminary fair value adjustment; [iii] an increase to intangible assets of \$180 to reflect the preliminary estimate of the fair value of customer relationship and software assets acquired; [iv] the reduction of deferred tax assets and deferred tax liabilities of \$19 and \$640, respectively, to reflect the Corporation’s U.S.-tax election to treat a portion of the PHH Fleet Acquisition as an asset purchase for tax compliance purposes, thereby eliminating the existing temporary differences between the financial statement amounts of assets acquired and liabilities assumed and the corresponding tax basis used in the computation of taxable income; [v] the elimination of PHH Fleet’s previously recognized goodwill of \$28 and allocation of the excess purchase consideration over the fair value of net assets acquired of \$365 to

Element Financial Corporation

**NOTES TO *PRO FORMA* CONSOLIDATED
FINANCIAL STATEMENTS**

[in millions of Canadian dollars unless otherwise noted]

March 31, 2014

Unaudited

goodwill; and [vi] the elimination of PHH Fleet's due to affiliates balance and net parent investment of \$25 and \$397, respectively.

- [f] Under U.S. GAAP, the majority of PHH Fleet's fleet portfolio was classified as operating leases. This presentation is the result of a specific quantitative lease classification test, whereby the present value of the minimum lease payments did not exceed 90% of the initial fair value of the lease. Based on a preliminary assessment of the portfolio, the Corporation expects to present the lease contracts as finance leases under IFRS. This preliminary conclusion is based on an overall assessment of the substance of the transaction, whereby historic lessee behavior and contractual residual value guarantees suggest that substantially all of the risks and rewards of ownership have been transferred to the lessee.

A corresponding adjustment has also been made to the *pro forma* consolidated statement of operations to reflect the change in the nature of the related revenue and expenses from operating lease income and amortization of leased assets to interest income.

There are no other adjustments required to convert PHH Fleet's statement of operations from U.S. GAAP to IFRS.

- [g] The adjustment to record an accrual for the estimated costs associated with the PHH Fleet Acquisition of \$25. These costs have not been reflected in the *pro forma* statements of operations because they are not reflective of the recurring operations of the combined entities.
- [h] The adjustment to recognize interest expense on the anticipated issuance of the Debentures and anticipated draw on the amended and restated credit facility associated with the PHH Fleet Acquisition. The interest expense on the anticipated issuance of Debentures is based on an effective interest rate of 6.98%, which reflects: [i] the effective interest rate that is applicable to the liability component of the compound instrument, which incorporates the difference between actual cash interest payments and interest expense accreted to the liability component; and [ii] the adjustment to record the amortization of related transaction costs. The estimated interest expense on the amended and restated credit facility is the U.S. base rate plus 1% per annum.
- [i] The adjustment to record amortization expense on the customer relationship and software-based intangible assets recognized as part of the PHH Fleet Acquisition.

Element Financial Corporation

NOTES TO *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

[in millions of Canadian dollars unless otherwise noted]

March 31, 2014

Unaudited

The following *pro forma* adjustments relate to the GE Canadian Fleet Portfolio Acquisition:

[j] Under U.S. GAAP, the majority of GE's Canadian fleet portfolio was classified as operating leases. This presentation is the result of a specific quantitative lease classification test, whereby the present value of the minimum lease payments did not exceed 90% of the initial fair value of the lease. Based on an assessment of the portfolio, the Corporation has presented the lease contracts as finance leases under IFRS. This conclusion is based on an overall assessment of the substance of the transaction, whereby historic lessee behavior and contractual residual value guarantees suggest that substantially all of the risks and rewards of ownership have been transferred to the lessee. An adjustment has been made to the *pro forma* consolidated statement of operations to reflect the change in the nature of the related revenue and expenses from operating lease income and amortization of leased assets to interest income.

There are no other adjustments required to convert GE Capital Fleet Services Canada Business Unit's statement of operations from U.S. GAAP to IFRS.

[k] The adjustment to recognize interest expense and deferred financing costs on the Corporation's secured borrowings associated with the new securitization arrangement relating to the GE Canadian Fleet Portfolio Acquisition. The interest expense reflects: [i] the interest rate on the Corporation's secured borrowing arrangements and [ii] the percentage of finance receivables funded by way of debt. The amortization recorded is based on an estimate of the required effective yield adjustment on the related financing.

3. EARNINGS (LOSS) PER SHARE

The weighted average number of common shares for all *pro forma* earnings per share calculations assumes that the 64,710,000 subscription receipts expected to be issued in conjunction with the PHH Fleet Acquisition and the 29,462,500 Special Warrants issued in conjunction with the GE Canadian Fleet Portfolio Acquisition, were converted into common shares as of January 1, 2013. This is consistent with the key assumption underlying the *pro forma* consolidated statements of operations which gives effect to the PHH Fleet Acquisition and GE Canadian Fleet Portfolio Acquisition as if each had occurred on January 1, 2013.

**Fleet Business and Subsidiaries of
PHH Corporation**

**Combined Financial Statements as of and for
the Years Ended December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)**

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Deloitte & Touche LLP
1700 Market Street
24th Floor
Philadelphia, PA 19103
USA

Tel: (215) 246-2300
Fax: (215) 246-2300
www.us.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PHH Corporation
Mount Laurel, New Jersey

We have audited the accompanying combined financial statements of PHH Vehicle Management Services Group LLC and its subsidiaries (VMS), PHH Sub 1 Inc. (Sub 1), and PHH Sub 2 Inc. (Sub 2) (collectively the "Company"), all of which are under common ownership and common management, which comprise the combined balance sheet as of December 31, 2013 and 2012, and the related combined statements of comprehensive income, changes in parent equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the companies' preparation and fair presentation of the combined 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 companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Other Matter

The accompanying combined financial statements have been prepared from the separate records maintained by VMS, Sub 1, and Sub 2, and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Portions of certain income and expenses and assets and liabilities represent allocations made from home-office items applicable to the company as a whole.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of PHH Vehicle Management Services Group LLC, PHH Sub 1 Inc., and PHH Sub 2 Inc. as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

May 29, 2014

FLEET BUSINESS AND SUBSIDIARIES OF PHH CORPORATION
COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

| | Year Ended December 31, | |
|--|-------------------------|--------------|
| | 2013 | 2012 |
| REVENUES | | |
| Fleet lease income | \$ 1,386 | \$ 1,364 |
| Fleet management fees | 175 | 180 |
| Other income | 81 | 73 |
| Total revenues | 1,642 | 1,617 |
| EXPENSES | | |
| Depreciation on operating leases | 1,211 | 1,212 |
| Cost of goods sold | 122 | 94 |
| Interest expense | 61 | 76 |
| Salaries and related expenses | 69 | 62 |
| Allocated expenses (Note 7) | 53 | 50 |
| Other depreciation and amortization | 10 | 10 |
| Other operating expenses | 28 | 33 |
| Total expenses | 1,554 | 1,537 |
| Income before income taxes | 88 | 80 |
| Income tax expense | 30 | 22 |
| Net income | \$ 58 | \$ 58 |
| Other comprehensive (loss) income, net of tax: | | |
| Currency translation adjustment | (14) | 5 |
| Total other comprehensive (loss) income, net of tax | (14) | 5 |
| Total comprehensive income | \$ 44 | \$ 63 |

See accompanying Notes to Combined Financial Statements.

COMBINED BALANCE SHEETS

(In millions)

| | December 31, | |
|--|-----------------|-----------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 278 | \$ 230 |
| Accounts receivable, net | 348 | 409 |
| Net investment in fleet leases | 45 | 49 |
| Income tax receivable | — | 1 |
| Deferred taxes | 25 | 33 |
| Other assets | 28 | 20 |
| Total current assets | 724 | 742 |
| Noncurrent Assets | | |
| Restricted cash | 207 | 256 |
| Net investment in fleet leases | 3,608 | 3,606 |
| Due from affiliates (Note 7) | 22 | — |
| Property and equipment, net | 27 | 26 |
| Goodwill | 25 | 25 |
| Intangible assets | 29 | 31 |
| Other assets | 21 | 25 |
| Total noncurrent assets | 3,939 | 3,969 |
| Total assets⁽¹⁾ | \$ 4,663 | \$ 4,711 |
| LIABILITIES AND PARENT EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 220 | \$ 253 |
| Debt | 1,023 | 841 |
| Other liabilities | 8 | 7 |
| Total current liabilities | 1,251 | 1,101 |
| Noncurrent Liabilities | | |
| Debt | 2,458 | 2,616 |
| Deferred taxes | 578 | 553 |
| Due to affiliates (Note 7) | — | 131 |
| Other liabilities | 9 | 16 |
| Total noncurrent liabilities | 3,045 | 3,316 |
| Total liabilities⁽¹⁾ | 4,296 | 4,417 |
| Commitments and contingencies (Note 9) | — | — |
| PARENT EQUITY | | |
| Net parent investment | 345 | 258 |
| Accumulated other comprehensive income | 22 | 36 |
| Total parent equity | 367 | 294 |
| Total liabilities and parent equity | \$ 4,663 | \$ 4,711 |

See accompanying Notes to Combined Financial Statements.

Continued.

COMBINED BALANCE SHEETS—(Continued)

(In millions)

⁽¹⁾ The Combined Balance Sheets include assets of variable interest entities which can be used only to settle their obligations and liabilities of variable interest entities which creditors or beneficial interest holders do not have recourse to the Group (as defined within Note 1, "Description of Business and Basis of Presentation") as follows:

| | December 31, | |
|---|-----------------|-----------------|
| | 2013 | 2012 |
| ASSETS | | |
| Cash and cash equivalents | \$ 5 | \$ 2 |
| Restricted cash | 203 | 245 |
| Accounts receivable, net | 46 | 73 |
| Net investment in leases | 3,581 | 3,531 |
| Other assets | 18 | 19 |
| Total assets | \$ 3,853 | \$ 3,870 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 7 | \$ 10 |
| Debt | 3,464 | 3,433 |
| Total liabilities | \$ 3,471 | \$ 3,443 |

See accompanying Notes to Combined Financial Statements.

COMBINED STATEMENTS OF CHANGES IN PARENT EQUITY
(In millions)

| | <u>Net Parent Investment</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Equity</u> |
|---|----------------------------------|--|-------------------------|
| Beginning Balance, January 1, 2012 | \$ 213 | \$ 31 | \$ 244 |
| Net income | 58 | — | 58 |
| Currency translation adjustment | — | 5 | 5 |
| Recapitalization to parent (Note 7) | (13) | — | (13) |
| Balance at December 31, 2012 | \$ 258 | \$ 36 | \$ 294 |
| Net income | 58 | — | 58 |
| Currency translation adjustment | — | (14) | (14) |
| Net transfers from affiliates (Note 7) | 7 | — | 7 |
| Recapitalization from parent (Note 7) | 22 | — | 22 |
| Balance at December 31, 2013 | \$ 345 | \$ 22 | \$ 367 |

See accompanying Notes to Combined Financial Statements.

COMBINED STATEMENTS OF CASH FLOWS
(In millions)

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 58 | \$ 58 |
| Adjustments to reconcile Net income to net cash provided by operating activities: | | |
| Depreciation on operating leases | 1,211 | 1,212 |
| Other depreciation and amortization | 10 | 10 |
| Amortization of debt issuance costs | 11 | 10 |
| Deferred income tax expense | 19 | 17 |
| Changes in other assets and liabilities: | | |
| Accounts receivable, net | 93 | — |
| Accounts payable and accrued expenses | (26) | 9 |
| Other, net | (8) | 33 |
| Net cash provided by operating activities | 1,368 | 1,349 |
| Cash flows from investing activities: | | |
| Investment in vehicles | (1,703) | (1,721) |
| Proceeds on sale of investment vehicles | 409 | 345 |
| Purchases of property and equipment | (11) | (8) |
| Decrease in restricted cash | 35 | 68 |
| Other | 1 | 1 |
| Net cash used in investing activities | (1,269) | (1,315) |
| Cash flows from financing activities: | | |
| Net transfers to affiliates | (103) | (129) |
| Proceeds from secured borrowings | 2,781 | 3,111 |
| Principal payments on secured borrowings | (2,716) | (2,792) |
| Cash paid for debt issuance costs | (9) | (16) |
| Net cash (used in) provided by financing activities | (47) | 174 |
| Effect of changes in exchange rates on Cash and cash equivalents | (4) | — |
| Net increase in Cash and cash equivalents | 48 | 208 |
| Cash and cash equivalents at beginning of period | 230 | 22 |
| Cash and cash equivalents at end of period | \$ 278 | \$ 230 |
| Supplemental Disclosure of Cash Flows Information | | |
| Interest payments | \$ 47 | \$ 56 |
| Income tax payments, net | 11 | 8 |
| Significant Non-Cash Transactions | | |
| Recapitalization (from) to parent (Note 7) | \$ (22) | \$ 13 |

See accompanying Notes to Combined Financial Statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

PHH Corporation (“PHH”) maintains a fleet management services business comprised of various legal subsidiaries. The Combined carve-out Financial Statements of the Fleet Business and Subsidiaries of PHH are comprised of PHH Vehicle Management Services Group LLC and its subsidiaries (“VMS”), PHH Sub 1 Inc. (“Sub 1”) and PHH Sub 2 Inc. (“Sub 2”) (collectively the “Group”).

- VMS provides commercial fleet management services to corporate clients, including financial institutions and government agencies, throughout the United States and Canada. The fleet management services include leasing services and additional products and services including fleet management, maintenance services, accident management services, fuel card programs, data warehousing, information management and online systems support and access.
- Sub 1 is a holding company which owns the preferred interest in Chesapeake Finance Holdings LLC (“Chesapeake Finance”), which facilitates the acquisition of vehicles for VMS pursuant to its vehicle leasing operations. Chesapeake Finance is a wholly-owned subsidiary of VMS.
- Sub 2 is a holding company which owns all of the interest in Chesapeake Funding LLC which issues asset-backed securities used to support the acquisition of vehicles by Chesapeake Finance for the U.S. leasing operations.

The Combined Financial Statements include the accounts and transactions of the Group and its subsidiaries, as well as entities in which the Group directly or indirectly has a controlling financial interest and variable interest entities of which the Group is the primary beneficiary. Total assets attributable to foreign operations (Canada) were 19% and 21% as of December 31, 2013 and 2012, respectively. Total revenues attributable to foreign operations were 19% and 20% for the years ended December 31, 2013 and 2012, respectively.

Basis of Presentation

The Combined carve-out Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP), based upon financial information derived from PHH’s consolidated financial statements and accounting records. The Combined Financial Statements include corporate costs incurred by PHH that are provided to or on behalf of the Group and consist of both direct and allocated costs.

As the Group was combined for purposes of these financial statements, Net parent investment is shown in lieu of Shareholders’ Equity. The Net parent investment equity balance on the Combined Balance Sheets represents PHH’s historical investment in the Group and the accumulated earnings of the business. Intercompany transactions with PHH or its affiliates are reflected in the Combined Statements of Cash Flows within Net transfers to affiliates in financing activities, and in the Combined Balance Sheets within Due to or from affiliates.

The Combined Financial Statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. All significant intercompany balances and intercompany transactions have been eliminated.

Unless otherwise noted, dollar amounts presented within these Notes to Combined Financial Statements are in millions.

NOTES TO COMBINED FINANCIAL STATEMENTS

Methods of Allocation

The Combined Financial Statements include the assets, liabilities, revenue, and expenses solely attributable to the Group, as well as certain allocations described below. Management believes these allocation methods are reasonable and the allocations were applied consistently for all periods presented. The historical results of operations and financial position of the Group included in the Combined Financial Statements may not be indicative of what would have been recorded if the Group had been a stand-alone entity, or if each entity in the Group had been operating as a separate, stand-alone entity.

Revenues and Expenses. PHH allocates direct costs that can be specifically identified to the Group based upon the business activity or dedicated employee function. For costs that cannot be specifically identified, the Group is allocated costs that are intended to represent the costs of providing these shared services. The methods for allocating corporate costs to the Group are based on allocation factors including revenues, expenses, headcount and usage. See Note 7, “Due from/to Affiliates and Related Party Transactions” for more information. There were no allocations with respect to Revenues for the periods presented.

Assets and Liabilities. Certain assets and liabilities that were historically carried at PHH have been included in the Combined Financial Statements to the extent that they are separately identifiable to the Group or allocated based upon an allocation methodology. Allocations from PHH include amounts related to Cash and cash equivalents, Property and equipment, Other assets and Other liabilities. See Note 7, “Due from/to Affiliates and Related Party Transactions” for more information.

Income Taxes. The results of operations of the Group, excluding any Canadian subsidiaries, have historically been included in the consolidated federal income tax returns of PHH and its combined and separate state income tax returns. The income tax amounts reflected in the accompanying Combined Financial Statements have been allocated based on taxable income directly attributable to the Group. See Note 2, “Summary of Significant Accounting Policies” for more information on tax amounts.

2. Summary of Significant Accounting Policies

Principles of Combination

The accompanying Combined Financial Statements have been prepared on a stand-alone basis to present the combined financial position, results of operations, changes in parent equity and cash flows of the Group. All significant intracompany transactions and accounts within the Group’s combined businesses have been eliminated. All significant intercompany transactions between PHH Corporation and its subsidiaries and the Group have been included in the Combined Financial Statements, and additional amounts were allocated to the Group from PHH Corporation as described in Note 1, “Description of Business and Basis of Presentation”.

Revenue Recognition

Revenues are comprised of Fleet lease income, Fleet management fees and Other income. Fleet lease income consists of leasing revenue related to operating and direct financing leases as well as the gross sales proceeds associated with operating lease syndications. Fleet management fees consists of revenue related to principal fee- and asset-based products and services. Other income primarily consists of gross sales proceeds from owned vehicle dealerships, the net gain or loss on the sale of used vehicles and other ancillary revenues.

Vehicles are leased primarily to corporate customers under open-end operating and direct financing lease arrangements where the client bears substantially all of the vehicle’s residual value risk. The lease term under the open-end lease agreements provides for a minimum lease term of 12 months. After the minimum term, the leases may be continued at the lessees’ election for successive monthly renewals. In limited circumstances, vehicles are leased under closed-end leases where the Group bears all of the vehicle’s residual value risk. Gains or losses on the sales of vehicles under closed-end leases are recorded in Other income in the period of sale.

NOTES TO COMBINED FINANCIAL STATEMENTS

Lease revenues for operating leases, which contain a depreciation component, an interest component and a management fee component, are recognized over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. Lease revenues for direct financing leases contain an interest component and a management fee component. The interest component is recognized using the effective interest method over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. Direct financing leases are placed on non-accrual status when it is determined that the value of past due lease receivables will not be recoverable.

The interest component of lease revenue is determined in accordance with the pricing supplement to the respective lease agreement. The interest component of lease revenue is generally calculated on a variable-rate basis that fluctuates in accordance with changes in the variable-rate index; however, in certain circumstances, the lease may be calculated on a fixed rate basis that would remain constant for the life of the lease. The depreciation component of lease revenue is based on the straight-line depreciation of the vehicle over its expected term. The management fee component of lease revenue is recognized on a straight-line basis over the life of the lease.

Revenue for other fleet management services is recognized as earned when the services are provided to the lessee. These services include fuel cards, accident management services, maintenance services and driver safety training services. Revenue for these services is based on a negotiated percentage of the purchase price for the underlying products or services provided by certain third-party suppliers, or is outlined on a fee basis.

Certain truck and equipment leases are originated with the intention of syndicating to third parties. When operating leases are sold, the underlying assets are transferred and any rights to the leases and their future leasing revenues are assigned to the third parties. Upon the transfer and assignment of the rights associated with the operating leases, the proceeds from the sale are recorded as revenue in Fleet lease income and an expense for the undepreciated cost of the assets sold is recognized in Cost of goods sold in the Combined Statements of Comprehensive Income. Upon the sale or transfer of rights to direct financing leases, the net gain or loss is recorded in Other income. Under certain of these sales agreements, a portion of residual risk in connection with the fair value of the asset at lease termination is retained and a liability is recorded for the retention of this risk.

Income Taxes

The Group, excluding any Canadian subsidiaries, is included in the consolidated federal income tax return of PHH. Current income taxes payable or receivable are presented as Income tax payable and receivable in the Combined Balance Sheets. In addition, the Group files unitary and consolidated state income tax returns in jurisdictions where required. Income tax expense or benefit is computed as if federal and state income tax returns are filed on a stand-alone basis. Certain state income tax returns are filed on a stand-alone basis. The Canadian subsidiaries file Canadian and provincial income tax returns at the entity level.

Income tax expense or benefit consists of two components: current and deferred. Current tax expense or benefit represents the amount of taxes currently payable to or receivable from a taxing authority plus amounts accrued for income tax contingencies (including tax, penalty and interest). Deferred tax expense or benefit generally represents the net change in the deferred tax asset or liability balance during the year plus any change in the valuation allowance. Interest and penalties related to income tax contingencies are recognized in Income tax expense in the Combined Statements of Comprehensive Income.

Deferred income taxes are determined using the balance sheet method. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Deferred tax assets and liabilities are regularly reviewed to assess their potential realization and to establish a valuation allowance when it is "more likely than not" that some portion will not be realized.

The Group must presume that an uncertain income tax position will be examined by the relevant taxing authority and must determine whether it is more likely than not that the position will be sustained upon examination based on its technical merit. An uncertain income tax position that meets the "more likely than not" recognition threshold is then measured to determine the amount of the benefit to recognize in the financial statements. A liability is recorded for the amount of the unrecognized income tax benefit included in: (i) previously filed income tax returns and (ii) financial results expected to be included in income tax returns to be filed for periods through the date of the Combined Financial Statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Cash and Cash Equivalents

Marketable securities with original maturities of three months or less are included in Cash and cash equivalents.

Restricted Cash

Restricted cash primarily relates to amounts specifically designated to purchase assets, repay debt, support letters of credit and/or provide over-collateralization within asset-backed debt arrangements.

Net Investment in Fleet Leases and Accounts Receivable

Net investment in fleet leases includes vehicles under operating leases and direct financing lease receivables, as well as vehicles that are in transit awaiting delivery to clients or sale. Vehicles under operating leases are stated at cost, net of accumulated depreciation. The initial cost of the vehicles is recorded net of incentives and allowances from vehicle manufacturers. Leased vehicles are depreciated on a straight-line basis over a term that generally ranges from 3 to 6 years. Direct financing leases are stated at the net present value of future expected cash flows.

An allowance for uncollectible lease receivables is recorded as a reduction to Accounts receivable when it is determined that the past due lease receivables will not be recoverable upon sale of the underlying asset. The exposure to losses typically arises from clients that file for bankruptcy protection, as pre-petition receivables are fully reserved and post-petition balances are reserved if the leases are rejected from the bankruptcy petition or if the client enters into liquidation. Charge-offs are recorded after the leased vehicles have been disposed and final shortfall has been determined.

Property and Equipment

Property and equipment (including leasehold improvements) are recorded at cost, net of accumulated depreciation and amortization. Depreciation, recorded as a component of Other depreciation and amortization in the Combined Statements of Comprehensive Income, is computed utilizing the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements and capital leases is computed utilizing the straight-line method over the estimated benefit period of the related assets or the lease term, if shorter. Estimated useful lives are 30 years for buildings, 50 months for automobiles, lesser of the remaining lease term or 20 years for leasehold improvements, lesser of the remaining lease term or 5 years for capital leases and range from 3 to 5 years for capitalized software and 3 to 7 years for furniture, fixtures and equipment.

Internal software development costs are capitalized during the application development stage. The costs capitalized relate to external direct costs of materials and services and employee costs related to the time spent on the project during the capitalization period. Capitalized software is evaluated for impairment annually or when changing circumstances indicate that amounts capitalized may be impaired. Impaired items are written down to their estimated fair values at the date of evaluation.

Goodwill and Other Intangible Assets

The carrying value of Goodwill and indefinite-lived intangible assets is assessed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Goodwill is assessed for impairment by first performing a qualitative assessment before calculating the fair value of the reporting unit. If it is determined, based upon the qualitative factors, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the fair value of the reporting unit will be estimated and compared to the carrying amount. The fair value of reporting unit may be determined using an income approach, using discounted cash flows, or a combination of an income approach and a market approach, wherein comparative market multiples are used.

Indefinite-lived intangible assets are comprised entirely of trademarks for all periods presented. Fair value of trademarks is determined by discounting cash flows determined from applying a hypothetical royalty rate to projected revenues associated with these trademarks.

Intangible assets subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Amortizable intangible assets included on the Combined Balance Sheets consist primarily of customer lists that are amortized on a straight-line basis over a 20-year period.

Costs to renew or extend recognized intangible assets are expensed as the costs are incurred.

NOTES TO COMBINED FINANCIAL STATEMENTS

Derivative Instruments

Derivative instruments are used as part of the overall strategy to manage exposure to market risks primarily associated with fluctuations in interest rates. As a matter of policy, derivatives are not used for speculative purposes. Derivative instruments are measured at fair value on a recurring basis and are included in Other assets or Other liabilities in the Combined Balance Sheets. The Group does not have any derivative instruments designated as hedging instruments.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates prevailing on the balance sheet date; income and expenses are translated at the average rate for the month in which the transactions are recorded. Foreign currency translation adjustments are recorded as a component of Total parent equity. Foreign currency transaction gains or losses are recorded in the Combined Statements of Comprehensive Income and primarily relate to our foreign exchange contracts. See Note 7, "Due from/to Affiliates and Related Party Transactions".

Accumulated other comprehensive income was \$22 million and \$36 million as of December 31, 2013 and 2012, respectively and consists only of accumulated foreign currency translation adjustments. Currency translation adjustments exclude income taxes on undistributed earnings of foreign subsidiaries, which are considered to be indefinitely invested. During the year ended December 31, 2013, there were no reclassifications out of Accumulated other comprehensive income.

Debt

Asset-backed notes are initially recorded at cost (which approximates fair value to the Group) and are subsequently measured at amortized cost. Interest expense is recorded on an accrual basis using the effective interest method. Deferred financing fees are costs incurred in connection with issuing debt and are amortized using the effective interest method based upon the estimated life of the notes.

Fair Value

A three-level valuation hierarchy is used to classify inputs into the measurement of assets and liabilities at fair value. The valuation hierarchy is based upon the relative reliability and availability to market participants of inputs for the valuation of an asset or liability as of the measurement date. When the valuation technique used in determining fair value of an asset or liability utilizes inputs from different levels of the hierarchy, the level within which the measurement in its entirety is categorized is based upon the lowest level input that is significant to the measurement in its entirety. The valuation hierarchy consists of the following levels:

Level One. Level One inputs are unadjusted, quoted prices in active markets for identical assets or liabilities which the Group has the ability to access at the measurement date.

Level Two. Level Two inputs are observable for that asset or liability, either directly or indirectly, and include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, observable inputs for the asset or liability other than quoted prices and inputs derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the inputs must be observable for substantially the full term of the asset or liability.

Level Three. Level Three inputs are unobservable inputs for the asset or liability that reflect the Group's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and are developed based on the best information available.

Fair value is based on quoted market prices, where available. If quoted prices are not available, fair value is estimated based upon other observable inputs. Unobservable inputs are used when observable inputs are not available and are based upon judgments and assumptions, which are the Group's assessment of the assumptions market participants would use in pricing the asset or liability. These inputs may include assumptions about risk,

NOTES TO COMBINED FINANCIAL STATEMENTS

counterparty credit quality, the Group's creditworthiness and liquidity and are developed based on the best information available.

When a determination is made to classify an asset or liability within Level Three of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement of the asset or liability. The fair value of assets and liabilities classified within Level Three of the valuation hierarchy also typically includes observable factors and the realized or unrealized gain or loss recorded from the valuation of these instruments would also include amounts determined by observable factors.

Changes in the availability of observable inputs may result in the reclassification of certain assets or liabilities. Such reclassifications are reported as transfers in or out of Level Three as of the beginning of the period that the change occurs.

Stock-based Compensation

The Group's employees have historically participated in PHH's stock-based compensation plans. Compensation cost for stock and cash awards is generally recognized over the requisite service period, net of estimated forfeitures. The weighted-average grant-date fair value was estimated using the Black-Scholes option valuation model for stock options and using a Monte Carlo simulation valuation model for market-based Restricted Stock Units.

Recently Issued Accounting Pronouncements

Comprehensive Income. In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income". This update to the comprehensive income guidance requires additional disclosure about the amounts reclassified out of Accumulated other comprehensive income, including disclosing the amounts that impact each line item in the Statement of Comprehensive Income within a reporting period. This update enhances the disclosure requirements for amounts reclassified out of Accumulated other comprehensive income but will not impact the Group's financial position, results of operations or cash flows. The Group adopted the new accounting guidance prospectively effective January 1, 2013. The updated disclosures are included above under "*Foreign Currency*".

Intangibles. In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment". This update amends the current guidance on testing indefinite-lived intangibles for impairment and allows for the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangibles are impaired. If it is more likely than not that the indefinite-lived intangibles are impaired, the entity is required to determine the fair value of the indefinite-lived intangibles and perform the quantitative impairment test by comparing the fair value with the carrying amount. The Group adopted the new accounting guidance effective January 1, 2013 and applied it prospectively. The adoption of this update did not have an impact on the Group's financial statements.

Offsetting Assets and Liabilities. In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". This update requires disclosure of both gross and net information about instruments and transactions in the scope of these pronouncements. Subsequently in January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" which limited the disclosures to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with current derivative and netting guidance, or subject to a master netting arrangement or similar agreement. The Group adopted the new accounting guidance retrospectively effective January 1, 2013. The adoption of this update did not have an impact on the Group's financial statements.

Income Taxes. In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This update to the income tax guidance clarifies the diversity in practice in the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update requires the unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset or as a liability to the extent the entity cannot or does not intend to use the deferred tax asset for such purpose. The new accounting guidance is effective beginning January 1, 2014 and should be applied prospectively to all unrecognized

NOTES TO COMBINED FINANCIAL STATEMENTS

tax benefits that exist at the effective date and retrospective application is permitted. The Group does not expect the adoption of ASU 2013-11 to have a material impact on its financial statements.

Subsequent Events

The Group evaluated subsequent events with respect to the Combined Financial Statements through the date of issuance which was May 29, 2014.

3. Vehicle Leasing Activities

The following table summarizes the components of Net investment in fleet leases:

| | December 31, | |
|--|---------------|----------|
| | 2013 | 2012 |
| | (In millions) | |
| <i>Operating Leases:</i> | | |
| Vehicles under open-end operating leases | \$ 7,974 | \$ 8,174 |
| Vehicles under closed-end operating leases | 137 | 154 |
| Vehicles under operating leases | 8,111 | 8,328 |
| Less: Accumulated depreciation | (4,777) | (4,959) |
| Net investment in operating leases | 3,334 | 3,369 |
| <i>Direct Financing Leases:</i> | | |
| Lease payments receivable | 100 | 91 |
| Less: Unearned income | (2) | — |
| Net investment in direct financing leases | 98 | 91 |
| <i>Off-Lease Vehicles:</i> | | |
| Vehicles not yet subject to a lease | 217 | 188 |
| Vehicles held for sale | 10 | 15 |
| Less: Accumulated depreciation | (6) | (8) |
| Net investment in off-lease vehicles | 221 | 195 |
| Total | \$ 3,653 | \$ 3,655 |
| | December 31, | |
| | 2013 | 2012 |
| Vehicles under open-end leases | 98 % | 98 % |
| Vehicles under closed-end leases | 2 % | 2 % |
| Vehicles under variable-rate leases | 80 % | 82 % |
| Vehicles under fixed-rate leases | 20 % | 18 % |

NOTES TO COMBINED FINANCIAL STATEMENTS

The following table presents the future minimum lease payments to be received as of December 31, 2013. Amounts presented include the monthly payments for the unexpired portion of the minimum lease term, which is 12 months under open-end lease agreements, and the residual value guaranteed by the lessee during the minimum lease term. The interest component included in future minimum payments is based on the rate in effect at the inception of each lease.

| | Future Minimum Lease Payments | |
|------------------|--------------------------------------|--|
| | Operating Leases | Direct Financing Leases |
| | (In millions) | |
| 2014 | \$ 1,069 | \$ 45 |
| 2015 | 29 | 1 |
| 2016 | 18 | 1 |
| 2017 | 12 | 1 |
| 2018 | 6 | — |
| Thereafter | 9 | — |
| Total | \$ 1,143 | \$ 48 |

Contingent rentals include amounts for excess mileage, wear and tear, early termination fees, and, for variable-rate leases, changes in interest rates subsequent to lease inception. Contingent rentals are recorded in Fleet lease income in the Combined Statements of Comprehensive Income. Contingent rentals from both operating and direct financing leases were not significant for the years ended December 31, 2013 and 2012.

Credit Risk

Accounts receivable are primarily related to trade accounts receivable from fleet management and leasing services. An allowance for uncollectible receivables is recorded when it becomes probable, based on the age of outstanding receivables, that the receivables will not be collected. As of December 31, 2013 the allowance was not significant and as of December 31, 2012 was \$1 million.

The Group is exposed to commercial credit risk for its clients under vehicle lease and fleet management service agreements. Such risk is managed through an evaluation of the financial position and creditworthiness of the client, which is performed on at least an annual basis. As of December 31, 2013 and 2012, there were no significant client concentrations related to vehicle leases. Lease agreements generally allow VMS to refuse any additional orders upon the occurrence of certain credit events; however, the obligation remains for all leased vehicle units under contract at that time. The fleet management service agreements can generally be terminated upon 30 days written notice. Receivables are charged-off after leased vehicles have been disposed and final shortfall has been determined. Historical credit losses for receivables related to vehicle leasing and fleet management services have not been significant.

Vehicle leases are primarily classified as operating leases; however, certain leases are classified as direct financing leases at inception, based on the extent to which the risks and rewards incidental to ownership of the leased vehicle are transferred to the lessee. Direct financing leases represent financing receivables in which the Group bears the credit risk of the underlying leases, but does not retain the residual risk on the related assets. The amount recognized in Net investment in fleet leases for direct financing leases represents the sum of the undiscounted minimum lease payments, including the guaranteed residual.

NOTES TO COMBINED FINANCIAL STATEMENTS

The following table summarizes the aging of direct financing leases, based upon the most aged monthly lease billing of each lessee:

| | December 31, | |
|--|---------------|--------------|
| | 2013 | 2012 |
| | (In millions) | |
| Current amount | \$ 87 | \$ 73 |
| 30-59 days | 11 | 12 |
| 60-89 days | — | 1 |
| Greater than 90 days ⁽¹⁾ | — | 5 |
| Direct financing lease receivables, gross ⁽²⁾ | 98 | 91 |
| Allowance for credit losses | — | — |
| Direct financing lease receivables, net | <u>\$ 98</u> | <u>\$ 91</u> |

⁽¹⁾ As of December 31, 2012, there were \$5 million of leases that were still accruing interest.

⁽²⁾ There were no direct financing leases on non-accrual status as of December 31, 2013 and 2012, respectively.

During the years ended December 31, 2013 and 2012, the amount of direct financing leases sold were \$41 million and \$58 million, respectively.

4. Goodwill and Other Intangible Assets

Goodwill and intangible assets are recorded within a single reporting unit and consisted of:

| | December 31, 2013 | | | December 31, 2012 | | |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | (In millions) | | | | | |
| <i>Amortized intangible assets:</i> | | | | | | |
| Other Assets: | | | | | | |
| Customer lists | \$ 40 | \$ 26 | \$ 14 | \$ 40 | \$ 24 | \$ 16 |
| Other | 13 | 13 | — | 13 | 13 | — |
| Total | <u>\$ 53</u> | <u>\$ 39</u> | <u>\$ 14</u> | <u>\$ 53</u> | <u>\$ 37</u> | <u>\$ 16</u> |
| <i>Unamortized intangible assets:</i> | | | | | | |
| Goodwill | \$ 25 | | | \$ 25 | | |
| Other Assets: | | | | | | |
| Trademarks | 15 | | | 15 | | |
| Total | <u>\$ 40</u> | | | <u>\$ 40</u> | | |

Amortization expense included within Other depreciation and amortization relating to intangible assets was as follows:

| | Year Ended December 31, | |
|----------------------|-------------------------|-------------|
| | 2013 | 2012 |
| | (In millions) | |
| Customer lists | \$ 2 | \$ 1 |
| Other | — | 1 |
| Total | <u>\$ 2</u> | <u>\$ 2</u> |

Based on the amortizable intangible assets as of December 31, 2013, estimated future amortization expense is expected to approximate \$2 million for each of the next five fiscal years.

NOTES TO COMBINED FINANCIAL STATEMENTS

5. Financial Instruments

The following is a description of the fair value measurement of financial instruments and the Group's risk management policies related to interest rate and foreign exchange risks.

Interest Rate Contracts

The Group has exposure to interest rate risk from fluctuations in LIBOR due to its impact on changes in variable-rate leases that may be funded by fixed-rate or variable-rate debt. From time to time, various financial instruments are used to manage and reduce this risk by utilizing various hedging strategies and derivative financial instruments to create a desired mix of fixed- and variable-rate assets and liabilities. To the extent that the Group enters into fixed-rate lease contracts, derivative instruments are utilized in order to offset gains and losses related to the interest rate exposure. Derivative instruments used in these hedging strategies may include swaps and interest rate contracts. To more closely match the characteristics of the related assets, including the net investment in variable-rate lease assets, either variable-rate debt or fixed-rate debt is issued, which may be swapped to variable LIBOR-based rates.

Interest rate contracts are classified within Level Two of the valuation hierarchy. The fair value of interest rate contracts is based upon projected short term interest rates and a market-based volatility.

Foreign Exchange Contracts

The Group has exposure to foreign exchange risk through its investment in Canadian operations and any foreign exchange forward contracts that may be executed. Currency swap agreements are used to manage such risk. The fair value of foreign exchange contracts is determined using current exchange rates. The Group does not hold any foreign exchange-related derivatives as of December 31, 2013 and 2012, however such contracts were held during the respective years. See Note 7, "Due from/to Affiliates and Related Party Transactions" for more information.

The following table presents balances and results of derivative activity as of and for the year ended December 31:

| | Interest Rate Contracts | | Foreign Exchange Contracts | |
|---|----------------------------|------|-------------------------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In millions) | | | |
| Fair value recorded in Other assets | \$ 2 | \$ 1 | \$ — | \$ — |
| Notional amount | 710 | 614 | — | — |
| Loss recorded in Interest expense | (1) | (1) | — | (1) |

Fair Value of Other Financial Instruments

As of December 31, 2013 and 2012, all financial instruments were either recorded at fair value or the carrying value approximated fair value, with the exception of Debt. For financial instruments that were not recorded at fair value, such as Cash and cash equivalents and Restricted cash, the carrying value approximates fair value due to the short-term nature of such instruments. These financial instruments are classified within Level One of the valuation hierarchy.

Debt. As of both December 31, 2013 and 2012, the total fair value of Debt was \$3.5 billion and substantially all of the debt is measured using Level Two inputs. As of December 31, 2013, the fair value of Level Two Debt was estimated using the following valuation techniques: (i) \$2.2 billion was measured using a market based approach, considering the current market pricing of recent trades for similar instruments or the current expected ask price for the Group's debt instruments and (ii) \$1.3 billion was measured using a discounted cash flow model incorporating assumptions based on current market information available for similar debt instruments.

NOTES TO COMBINED FINANCIAL STATEMENTS

6. Debt

The following table summarize the components of Debt:

| | December 31, 2013 | | | | December 31, 2012 |
|--|-------------------|--------------------------------------|------------------|-----------------------------------|-------------------|
| | Balance | Wt. Avg-Interest Rate ⁽¹⁾ | Maximum Capacity | Available Capacity ⁽²⁾ | Balance |
| | | | (In millions) | | |
| Term notes, in amortization | \$ 1,406 | 1.0 % | \$ 1,406 | n/a | \$ 424 |
| Term notes, in revolving period | 700 | 0.7 % | 700 | \$ — | 1,593 |
| Variable-funding notes | 1,358 | 1.4 % | 2,069 | 711 | 1,415 |
| Other | 17 | 5.0 % | 17 | n/a | 25 |
| Asset-backed debt | <u>3,481</u> | | <u>4,192</u> | <u>711</u> | <u>3,457</u> |
| Secured Canadian credit facility | — | —% | 118 | 19 | — |
| Total | <u>\$ 3,481</u> | | <u>\$ 4,310</u> | <u>\$ 730</u> | <u>\$ 3,457</u> |

⁽¹⁾ Represents the weighted-average stated interest rate of the variable-rate facilities as of the respective date.

⁽²⁾ Capacity is dependent upon maintaining compliance with the terms, conditions, and covenants of the respective agreements and may be further limited by asset eligibility requirements. Available capacity for the Secured Canadian credit facility is limited by the borrowing base calculation as of December 31, 2013.

The following table presents maturities of asset-backed notes, a portion of which are amortizing in accordance with their terms as of December 31, 2013. The maturities represent estimated payments based on the expected cash inflows related to the securitized vehicle leases and related assets.

| | Asset-Backed Debt |
|------------------------------------|-------------------|
| | (In millions) |
| Within one year | \$ 1,023 |
| Between one and two years | 1,076 |
| Between two and three years | 790 |
| Between three and four years | 441 |
| Between four and five years | 141 |
| Thereafter | 10 |
| | <u>\$ 3,481</u> |

Assets held as collateral that are not available to pay the Group's general obligations as of December 31, 2013 included Restricted cash of \$203 million, Accounts receivable of \$46 million and Net investment in fleet leases of \$3,603 million.

See Note 5, "Financial Instruments" for a discussion of the fair value of Debt.

NOTES TO COMBINED FINANCIAL STATEMENTS

Asset-Backed Debt

Asset-backed debt primarily represents variable-rate debt issued by a wholly owned subsidiary, Chesapeake Funding LLC (“Chesapeake”), to support the acquisition of vehicles by the U.S. leasing operations and variable-rate debt issued by the consolidated special purpose trust, Fleet Leasing Receivables Trust (“FLRT”), the Canadian special purpose trust, used to finance leases originated by the Canadian fleet operation. These asset-backed debt structures may provide creditors an interest in: (i) a pool of master leases or a pool of specific leases; (ii) the related vehicles under lease; and/or (iii) in the case of Chesapeake, the related receivables billed to clients for the monthly collection of lease payments and ancillary service revenues (such as fuel and maintenance services). This interest is generally granted to a specific series of note holders either on a pro-rata basis relative to their share of the total outstanding debt issued through the program or through a direct interest in a specific pool of leases. Repayment of the obligations of the facilities is non-recourse and is sourced from the monthly cash flow generated by lease payments and ancillary service payments made under the terms of the related master lease contracts.

Asset-backed debt includes Term notes and Variable-funding notes. **Term notes** provide a fixed funding amount at the time of issuance, and may be classified as:

Term notes, in amortization: the monthly collection of lease payments allocable to the series is used in repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: (i) 125 months following the commencement of the amortization period; or (ii) when the respective series of notes are paid in full.

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.

Variable-funding notes provide a committed capacity which may be drawn upon as needed during a commitment period, which is primarily 364 days in duration, but may extend to a two-year duration for some facilities. 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 or pay down amortizing notes during the term of the commitment.

Term Notes

As of December 31, 2013, Term notes outstanding that are revolving in accordance with their terms are the Chesapeake Series 2013-1. The expiration date of the revolving period is May 22, 2014.

As of December 31, 2013, Term notes outstanding that are amortizing in accordance with their terms are the Chesapeake Series 2009-3, 2011-2, 2012-1, and 2012-2. Final repayment dates of Term notes in amortization range from September 7, 2014 to April 7, 2017.

On June 13, 2013, Chesapeake issued \$700 million of Series 2013-1 Term notes. Proceeds from the notes were used to repay a portion of the Series 2010-1 notes and Series 2011-1 notes.

On August 15, 2013, Chesapeake fully repaid the Series 2009-2 Term notes with available cash.

Variable-funding Notes

As of December 31, 2013, Variable-funding notes outstanding are the FLRT Series 2010-2 and the Chesapeake Series 2013-2 and 2013-3. Expiration dates of the revolving periods range from July 9, 2014 to July 10, 2015.

On July 10, 2013, Chesapeake issued Series 2013-2 and Series 2013-3 Variable-funding notes with available commitments of \$780 million and \$520 million, respectively. Proceeds of the issuance were used to fully repay Chesapeake Series 2010-1 and Series 2011-1 Variable-funding notes.

On August 30, 2013, the FLRT 2010-2 Series was amended to extend the maturity date to August 30, 2014.

NOTES TO COMBINED FINANCIAL STATEMENTS

Secured Canadian Credit Facility

PHH Vehicle Management Services Inc. (“VMS Canada”), a wholly-owned subsidiary, has a secured revolving credit facility with a group of lenders providing up to C\$125 million (\$118 million USD as of December 31, 2013) of committed revolving borrowing capacity. See Note 12, “Subsequent Events” for a discussion of the decrease in committed capacity in March 2014.

Borrowings under the facility bear interest at a variable-rate, and the facility fee and interest rate margin are dependent on PHH’s senior unsecured long-term debt ratings issued by certain credit rating agencies. The facility is scheduled to expire on August 2, 2015.

Available borrowing capacity under the facility is based on a borrowing base calculation which considers eligible unencumbered vehicle leases, vehicles not yet subject to lease, and accounts receivable for ancillary services. VMS Canada’s obligations under the facility are guaranteed by PHH Corporation and are secured by a first-priority lien on all of VMS Canada’s present and future assets and property (and corresponding security in any jurisdiction), subject to certain eligibility exceptions.

Debt Covenants

Certain debt arrangements require that the Group, its subsidiaries and/or PHH maintain minimum net worth and maximum indebtedness to tangible net worth ratios and contain other affirmative and negative covenants, including but not limited to, material adverse change, liquidity maintenance, profitability and restrictions on the indebtedness of the Group, PHH and other material subsidiaries of PHH.

Covenants—PHH Corporation: Among other covenants, the Secured Canadian Revolving Credit Facility and vehicle asset backed debt facilities require that PHH maintain: (i) on the last day of each fiscal quarter, net worth of at least \$1.0 billion; (ii) a ratio of indebtedness to tangible net worth no greater than 5.75 to 1; and (iii) require subsidiaries of PHH Corporation to maintain a minimum of \$750 million in committed third party fleet vehicle lease financing capacity.

Covenants—The Group: The Chesapeake vehicle asset backed debt facilities requires that Chesapeake Finance Holdings maintain a minimum net worth equal to at least 4% of the aggregate lease balance and contain certain required levels towards the Group’s aggregate investment in Chesapeake Finance Holdings.

These covenants represent the most restrictive net worth and debt to equity covenants; however, certain other outstanding debt agreements contain debt to equity covenants that are less restrictive.

As of December 31, 2013, the Group and PHH Corporation were in compliance with all of their financial covenants related to the Group’s debt arrangements.

7. Due from/to Affiliates and Related Party Transactions

Due from (to) affiliates, net consisted of the following:

| | December 31, | |
|---|---------------|----------|
| | 2013 | 2012 |
| | (In millions) | |
| Due from PHH Corporation | \$ 58 | \$ 62 |
| Due from other PHH affiliates | 10 | 12 |
| Unsecured intercompany line of credit | (19) | (180) |
| Interest payable on Unsecured intercompany line of credit | (27) | (25) |
| Total | \$ 22 | \$ (131) |

NOTES TO COMBINED FINANCIAL STATEMENTS

Amounts due to or from PHH Corporation and its affiliates that arise in the normal course of operations are non-interest bearing and payable or receivable on demand.

An unsecured intercompany line of credit exists between Sub 2 and PHH which bears interest at a variable rate based on LIBOR. This arrangement exists to fund working capital needs and debt issuance costs of the Chesapeake facility. For the years ended December 31, 2013 and 2012, interest charges related to this facility were \$2 million and \$8 million, respectively and are included in Interest expense in the Combined Statements of Comprehensive Income.

Corporate Overhead Allocation

PHH utilizes a centralized corporate platform to provide shared services for general and administrative functions to the Group and other affiliates of PHH. These shared services include, but are not limited to, support associated with information technology, enterprise risk management, internal audit, human resources, accounting and finance and communications. The Group is also allocated expenses for insurance, bank fees, external audit fees and for costs to manage the overall corporate function of PHH. Corporate overhead allocations and allocated expenses from PHH are recorded in Allocated expenses in the Combined Statements of Comprehensive Income.

The corporate overhead expenses allocated from PHH to the Group relate to the following costs:

| | December 31, | |
|---|---------------|-------|
| | 2013 | 2012 |
| | (In millions) | |
| Salaries and related expenses | \$ 24 | \$ 29 |
| Occupancy and other office expenses | 1 | 1 |
| Other depreciation and amortization | 2 | 2 |
| Other operating expenses | 26 | 18 |
| Total | \$ 53 | \$ 50 |

Other Allocations

Interest charges. Historically, the Group's working capital needs were managed in the normal course of business with other affiliates of PHH. For certain years, the Group was allocated a share of interest expense and facility fees related to an unsecured line of credit that was maintained by PHH to fund working capital needs and to supplement asset-backed debt. During the fourth quarter of 2012, the Group entered into the Secured Canadian credit facility and no longer needed access to PHH's unsecured line of credit. As a result, the Group was not allocated any interest costs during the year ended December 31, 2013.

During the year ended December 31, 2012, the Group was allocated \$2 million of interest costs for its proportionate share of available commitments under the unsecured line of credit. Interest charges were recorded in Interest expense in the Combined Statements of Comprehensive Income.

Foreign exchange contracts. PHH periodically enters into foreign exchange contracts to mitigate the exchange risk associated with Canadian dollar denominated lease assets collateralizing U.S. dollar denominated borrowings. Any gains or losses associated with these foreign exchange contracts are allocated to the Group and recorded in Interest expense in the Combined Statements of Comprehensive Income. During the year ended December 31, 2013 the amount was not significant and during the year ended December 31, 2012, the Group recorded a loss of \$1 million.

Retirement plans and Stock-based compensation. PHH maintains retirement benefit plans and stock-based compensation programs at a corporate level. The Group's employees participate in these plans and the financial statements reflect an allocation for a portion of the costs associated with these programs; however, the Combined Balance Sheets do not include any net benefit obligation or outstanding equity balances related to these programs. See Note 10, "Retirement Plans and Stock Based Compensation" for a further description of these plans.

NOTES TO COMBINED FINANCIAL STATEMENTS

Other Related Party Transactions

Cash Management and Treasury. PHH uses a centralized approach to cash management and financing its operations. Cash transferred to and from PHH has historically been recorded as an intercompany receivable or payable in the Combined Balance Sheets. On a daily basis, PHH's corporate treasury function determines the minimum cash balance the Group needs to fund the following day's accounts payable disbursements and any cash in excess of that amount is swept to PHH. The Combined Financial Statements as of both December 31, 2013 and 2012 include an allocation of \$159 million to increase Cash and cash equivalents on the Combined Balance Sheets for the amount of cash related to the Group that was held at the PHH Corporate level at the Balance Sheet dates.

Noncash Recapitalization. On an annual basis, PHH evaluates several data sources, including rating agency leverage benchmarks, industry comparables and asset-backed securities market subordination levels to establish the appropriate equity levels in each of its segments. During 2013, the Group received a \$22 million contribution from PHH and during 2012, the Group distributed \$13 million to PHH. The recapitalization is recorded through Net parent investment in the Combined Statements of Changes in Parent Equity.

Demand Note. VMS has a demand note from PHH whereby PHH has a commitment to pay \$345 million, due and payable upon the demand of VMS, which will then contribute the amounts to Chesapeake Finance Holdings LLC. See also Note 11, "Variable Interest Entities", for more information about Chesapeake Finance Holdings LLC.

Tax Sharing Agreement. The results of operations of the Group, excluding the Canadian subsidiaries, have historically been included in the consolidated federal income tax returns of PHH and its combined and separate state income tax returns. The Group, excluding the Canadian subsidiaries, has entered into a tax sharing agreement between PHH and its subsidiaries whereby the net operating losses of other entities are available for use to offset taxable income of the Group. As of December 31, 2013, the Group has a \$32 million obligation to PHH for the utilization of other members' tax losses pursuant to the tax sharing agreement, which has been reflected as an increase to the Group's deferred tax liabilities in Note 8, "Income Taxes", as presented on a separate income tax return basis.

8. Income Taxes

The following table summarizes Income tax expense (benefit):

| | <u>Year Ended December 31,</u> | |
|---|--------------------------------|--------------|
| | <u>2013</u> | <u>2012</u> |
| | (In millions) | |
| <i>Current:</i> | | |
| Federal | \$ — | \$ — |
| State | 3 | — |
| Foreign | 8 | 5 |
| Total current income tax expense (benefit) | <u>11</u> | <u>5</u> |
| <i>Deferred:</i> | | |
| Federal | 25 | 22 |
| State | (5) | (6) |
| Foreign | (1) | 1 |
| Total deferred income tax expense (benefit) | <u>19</u> | <u>17</u> |
| Income tax expense | <u>\$ 30</u> | <u>\$ 22</u> |

NOTES TO COMBINED FINANCIAL STATEMENTS

The following table summarizes Income before income taxes:

| | Year Ended December 31, | |
|----------------------------------|-------------------------|-------|
| | 2013 | 2012 |
| | (In millions) | |
| Domestic operations | \$ 64 | \$ 54 |
| Foreign operations | 24 | 26 |
| Income before income taxes | 88 | 80 |

No provision has been made for federal deferred taxes on \$150 million of accumulated and undistributed earnings of foreign subsidiaries as of December 31, 2013 since it is the present intention of management to reinvest the undistributed earnings indefinitely in those foreign operations. The determination of the amount of unrecognized federal deferred tax liability for unremitted earnings is not practicable.

Deferred tax assets and liabilities represent the basis differences between assets and liabilities measured for financial reporting versus for income-tax return purposes. The following table summarizes the significant components of deferred tax assets and liabilities:

| | December 31, | |
|---|---------------|--------|
| | 2013 | 2012 |
| | (In millions) | |
| <i>Deferred tax assets:</i> | | |
| Federal loss carryforwards and credits | \$ 205 | \$ 253 |
| State loss carryforwards and credits | 15 | 16 |
| Alternative minimum tax credit carryforward | 23 | 23 |
| Other | 4 | 4 |
| Gross deferred tax assets | 247 | 296 |
| Valuation allowance | (5) | (5) |
| Deferred tax assets, net of valuation allowance | 242 | 291 |
| <i>Deferred tax liabilities:</i> | | |
| Depreciation and amortization | 795 | 811 |
| Deferred tax liabilities | 795 | 811 |
| Total current and noncurrent net deferred tax liability | 553 | 520 |
| Less: current deferred tax asset | (25) | (33) |
| Noncurrent deferred tax liability | \$ 578 | \$ 553 |

The deferred tax assets valuation allowance primarily relates to state loss carryforwards. The federal and state loss carryforwards will expire from 2027 to 2032 and from 2015 to 2034, respectively.

The total alternative minimum tax credit is not subject to limitations, and consists of credits that are available to the Group. As of December 31, 2013, it has been determined that all alternative minimum tax carryforwards can be utilized in future years; therefore, no reserve or valuation allowance has been recorded.

The deferred tax liabilities related to depreciation and amortization result primarily from differences in the net book value and tax basis of vehicles subject to lease due to differences in depreciation methods.

NOTES TO COMBINED FINANCIAL STATEMENTS

Total income taxes differ from the amount that would be computed by applying the U.S. federal statutory rate as follows:

| | Year Ended December 31, | |
|---|-------------------------|--------|
| | 2013 | 2012 |
| | (In millions) | |
| Income before income taxes | \$ 88 | \$ 80 |
| Statutory federal income taxes..... | (35)% | (35)% |
| Income taxes computed at statutory federal rate..... | \$ 31 | \$ 28 |
| State and local income taxes, net of federal tax benefits | 3 | 1 |
| Changes in rate and apportionment factors..... | (1) | (5) |
| Other | (3) | (2) |
| Income tax expense | \$ 30 | \$ 22 |
| Effective tax rate..... | 34.1 % | 27.5 % |

State and local income taxes, net of federal tax benefits. Represents the impact to the effective tax rate from the pre-tax income or loss as well as the mix of income and loss from the operations by entity and state income tax jurisdiction. The effective state tax rate was higher for the year ended December 31, 2013 as compared to 2012.

Changes in rate and apportionment factors. Represents the impact to the effective tax rate from deferred tax items for changes in apportionment factors and tax rate. For the years ended December 31, 2013 and 2012, the amounts represent the impact of applying statutory changes to apportionment weight, apportionment sourcing and corporate income tax rates that were enacted by various states.

Other. Represents the impact to effective tax rate from miscellaneous items, primarily due to taxes on foreign operations at a rate different than the U.S. federal income tax rate.

The Group's liability for unrecognized income tax benefit, including interest and penalties, was immaterial as of both December 31, 2013 and 2012. The Group does not expect the change in the unrecognized income tax benefit in the next 12 months to be significant.

The Group and its subsidiaries remain subject to examination by the IRS for the tax years ended December 31, 2010 through 2013. As of December 31, 2013, foreign and state income tax filings were subject to examination for periods including and subsequent to 2006, dependent upon jurisdiction.

9. Commitments and Contingencies

Legal Contingencies

The Group is party to various claims and legal proceedings from time to time related to contract disputes and other commercial, employment and tax matters. The Group is not aware of any pending legal proceedings that it believes could have, individually or in the aggregate, a material impact on its business, financial position, results of operations or cash flows.

Lease and Purchase Commitments

The Group is committed to making rental payments under noncancelable operating leases related to various facilities and equipment. In addition, during the normal course of business, the Group enters into purchase commitments for vehicles to be leased and other commitments are made to purchase goods or services from specific suppliers.

NOTES TO COMBINED FINANCIAL STATEMENTS

The following table summarizes the Group's commitments as of December 31, 2013:

| | <u>Future Minimum Operating Lease Payments</u> | <u>Purchase Commitments</u> |
|------------------|--|---------------------------------|
| | (In millions) | |
| 2014 | \$ 5 | \$ 89 |
| 2015 | 5 | — |
| 2016 | 5 | — |
| 2017 | 4 | — |
| 2018 | 4 | — |
| Thereafter | 23 | — |
| Total | <u>\$ 46</u> | <u>\$ 89</u> |

During the years ended December 31, 2013 and 2012, rental expense of \$7 million and \$6 million, respectively, was recorded in Other operating expenses in the Combined Statements of Comprehensive Income.

Guarantees

In the normal course of operations, the Group enters into agreements that contain standard guarantees and indemnities to third parties in transactions such as sales of assets and the performance of services. The nature of substantially all of the indemnification undertakings prevents the Group from making a reasonable estimate of the maximum potential amount the Group could be required to pay third parties and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Group has not made significant payments nor do they expect to make significant payments under such indemnification agreements.

VMS guarantees the obligations of PHH under its unsecured Revolving Credit Facility. The Revolving Credit Facility consists of a \$250 million revolving credit tranche (Tranche A) that will expire on August 2, 2015. As of December 31, 2013, PHH had no balance outstanding under the Revolving Credit Facility.

10. Retirement Plans and Stock Based Compensation

PHH offers various retirement benefits to its eligible employees, including employees of the Group and various equity compensation arrangements, which provide employees with restricted stock units ("RSUs") or stock options to purchase stock in PHH. Because PHH provides these benefits to eligible employees and retirees of the Group, the costs to participating employees are included in the Combined Statements of Comprehensive Income while the related assets and liabilities are retained by PHH.

U.S. Retirement Plans. PHH sponsors a defined contribution savings plan that provides certain eligible employees an opportunity to accumulate funds for retirement. Certain eligible employees of the Group are participants in the plan. Contributions of participating employees are matched on the basis specified by these plans. The costs for contributions to these plans are included in Salaries and related expenses in the Combined Statements of Comprehensive Income and were \$1 million for both years ended December 31, 2013 and 2012.

PHH also sponsors a defined benefit pension plan and an other post employment benefits plan, which cover certain eligible employees of the Group. Both the defined benefit pension plan and the other post employment benefits plan are frozen, wherein the plans only accrue benefits for a very limited number of employees. Benefits are based on an employee's years of credited service and a percentage of final average compensation, or as otherwise described by the plan. The amount of net periodic benefit costs allocated to the Group from PHH in the overhead allocation was not significant for both years ended December 31, 2013 and 2012.

NOTES TO COMBINED FINANCIAL STATEMENTS

Foreign Retirement Plans. PHH also sponsors a defined contribution plan in Canada that provides certain eligible employees an opportunity to accumulate funds for retirement. This plan has been designed in accordance with the federal regulations contained in the Income Tax Act (Canada), allowing it to function as a Registered Retirement Saving Plan. Employees can contribute up to a certain percentage of pre-tax earnings. The Company may match the employee's pre-tax contribution, up to a certain percentage, on an annual basis. The costs for contributions to these plans are included in Salaries and related expenses in the Combined Statements of Comprehensive Income and were not significant for both years ended December 31, 2013 and 2012.

Stock Based Compensation. Share-based payment expense for the awards granted to the Group's employees has been reflected in Allocated expenses in the Combined Statements of Comprehensive Income. The expense recognized for these programs was \$1 million for the year ended December 31, 2013 and was not significant for the year ended December 31, 2012.

11. Variable Interest Entities

The Group determines whether an entity is a variable interest entity ("VIE") and whether it is the primary beneficiary at the date of initial involvement with the entity. The Group reassesses whether it is the primary beneficiary of a VIE upon certain events that affect the VIE's equity investment at risk and upon certain changes in the VIE's activities. The purposes and activities of the VIE are considered in determining whether the Group is the primary beneficiary, including the variability and related risks the VIE incurs and transfers to other entities and their related parties. Based on these factors, a qualitative assessment is made and, if inconclusive, a quantitative assessment of whether it would absorb a majority of the VIE's expected losses or receive a majority of the VIE's expected residual returns. If the Group determines that it is the primary beneficiary of the VIE, the VIE is consolidated within the Combined Financial Statements.

The Group's involvement in variable interest entities primarily relate to fleet vehicle financing activities. The activities of significant variable interest entities are more fully described below.

Assets and liabilities of significant consolidated variable interest entities are included in the Combined Balance Sheets as follows:

| | <u>December 31, 2013</u> | | <u>December 31, 2012</u> | |
|--|---|--|---|--|
| | <u>Chesapeake and D.L. Peterson Trust</u> | <u>FLRT and PHH Lease Receivables LP</u> | <u>Chesapeake and D.L. Peterson Trust</u> | <u>FLRT and PHH Lease Receivables LP</u> |
| | (In millions) | | | |
| ASSETS | | | | |
| Cash | \$ 5 | \$ — | \$ 2 | \$ — |
| Restricted cash ⁽¹⁾ | 157 | 46 | 186 | 59 |
| Accounts receivable, net | 46 | — | 73 | — |
| Net investment in fleet leases | 2,982 | 599 | 2,856 | 675 |
| Other assets | 12 | 6 | 12 | 7 |
| Total assets | <u>\$ 3,202</u> | <u>\$ 651</u> | <u>\$ 3,129</u> | <u>\$ 741</u> |
| Assets held as collateral ⁽²⁾ | \$ 3,185 | \$ 645 | \$ 3,114 | \$ 731 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 2 | \$ 5 | \$ 2 | \$ 8 |
| Debt | 2,866 | 598 | 2,771 | 662 |
| Total liabilities ⁽³⁾ | <u>\$ 2,868</u> | <u>\$ 603</u> | <u>\$ 2,773</u> | <u>\$ 670</u> |

⁽¹⁾ Represents amounts specifically designated to purchase assets, repay debt and/or provide over-collateralization related to asset-backed debt arrangements.

⁽²⁾ Represents amounts not available to pay general obligations. See Note 6, "Debt" for further information.

⁽³⁾ Excludes intercompany payables.

NOTES TO COMBINED FINANCIAL STATEMENTS

In addition to the assets and liabilities of significant variable interest entities that were consolidated as outlined above, the Group had the following involvement with these entities as of and for the year ended December 31:

| | Net income (loss) ⁽¹⁾ | | VMS Investment ⁽²⁾ | | Intercompany payable ⁽²⁾ | |
|--|----------------------------------|-------|-------------------------------|--------|-------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | (In millions) | | | | | |
| Chesapeake and D.L. Peterson Trust | \$ 64 | \$ 58 | \$ 613 | \$ 766 | \$ (273) | \$ (238) |
| FLRT and PHH Lease Receivables LP | 12 | 11 | 23 | 81 | (9) | (36) |

⁽¹⁾ Includes adjustments for the elimination of intercompany transactions.

⁽²⁾ Amounts are eliminated in the Combined Balance Sheets.

Chesapeake and D.L. Peterson Trust

Purpose and Structure. Vehicle acquisitions in the U.S. for the Fleet Management services segment are primarily financed through the issuance of asset-backed variable funding notes issued by Chesapeake Funding LLC. D.L. Peterson Trust (“DLPT”), a bankruptcy remote statutory trust, holds the title to all vehicles that collateralize the debt issued by Chesapeake Funding. DLPT also acts as a lessor under both operating and direct financing lease agreements. Chesapeake Funding’s assets primarily consist of a loan made to Chesapeake Finance Holdings LLC, a subsidiary of the Group. Chesapeake Finance owns all of the special units of beneficial interest in the leased vehicles and eligible leases and certain other assets issued by DLPT, representing all interests in DLPT.

The Group determined that each of Chesapeake Funding, Chesapeake Finance and DLPT are VIEs and that it is the primary beneficiary due to insufficient equity investment at risk. The determination was made on a qualitative basis, considering the nature and purpose of each of the entities and how risk transfers to interest holders through their variable interests. The Group holds the significant variable interests, which include equity interests, ownership of certain amounts of asset-backed debt issued by Chesapeake and interests in DLPT. There are no significant variable interests that would absorb losses prior to the Group or that hold variable interests that exceed those of the Group.

In accordance with the Amended and Restated Servicer Agreement, the Group acts as a servicer for Chesapeake Finance and DLPT and in accordance with the Administrative Agreement, the Group acts as an administrator of the entities. The Group received related fees from Chesapeake of \$6 million during each of the years ended December 31, 2013, and 2012.

Contributions and Distributions. Certain capital transactions are executed between the Group and Chesapeake whereby the Group makes contributions to Chesapeake for increased escrow requirements, debt issuance costs and additional paydown of outstanding notes of Chesapeake. During both years ended December 31, 2013 and 2012 these contributions were \$5 million. Chesapeake may also distribute capital to the Group from the release of overcollateralization from asset-backed debt arrangements, leveraging existing series of asset-backed notes or from issuance of new note series. Distributions received from Chesapeake were \$158 million and \$30 million during the years December 31, 2013 and 2012, respectively.

Other Support. The Chesapeake Finance LLC agreement requires the Group to contribute additional capital to Chesapeake Finance as needed in order to maintain certain required capitalization levels. In addition, a separate Demand Note agreement requires PHH to contribute up to \$345 million of additional capital to Chesapeake Finance, upon the demand of Chesapeake Finance. During 2013 and 2012, no demands were made under this agreement.

NOTES TO COMBINED FINANCIAL STATEMENTS

Fleet Leasing Receivables Trust

Purpose and Structure. Fleet Leasing Receivables Trust (“FLRT”) is a Canadian special purpose trust and its primary business activities include the acquisition, disposition and administration of purchased or acquired lease assets from our other Canadian subsidiaries and the borrowing of funds or the issuance of securities to finance such acquisitions. PHH Fleet Lease Receivables LP is a bankruptcy remote special purpose entity that holds the beneficial ownership of lease assets transferred from Canadian subsidiaries.

The Group determined that FLRT and PHH Fleet Lease Receivables LP are VIEs based on a qualitative basis after considering the nature and purpose of the entities and how the risk is transferred to interest holders through their variable interests.

The Group acts as initial servicer, collections agent and financial services agent of FLRT and PHH Fleet Lease Receivables LP. Related fees of \$1 million were paid to the Group by FLRT during each of the years ended December 31, 2013 and 2012.

Contributions and Distributions. Certain FLRT debt transactions are structured whereby subsidiaries of the Group contribute the beneficial ownership in vehicles under lease to PHH Fleet Lease Receivables LP, and receive distributions upon the issuance of the debt by FLRT. During the years ended December 31, 2013 and 2012, the Group and its subsidiaries contributed \$275 million and \$380 million of vehicles to PHH Fleet Lease Receivables LP, respectively, and received distributions of \$333 million and \$381 million, respectively.

12. Subsequent Events

On March 11, 2014, Chesapeake Funding LLC issued \$800 million of Series 2014-1 Term notes. Proceeds from the notes were used to repay a portion of the Series 2013-2 variable-funding notes. On March 20, 2014, the total commitments under the Series 2013-2 and 2013-3 notes were reduced from \$1.3 billion to \$1.1 billion.

On March 21, 2014, the Secured Canadian credit facility was amended to decrease the committed revolving capacity from \$118 million (C\$125 million) to \$23 million (C\$25 million).

**Fleet Business and Subsidiaries of
PHH Corporation**

**Combined Condensed Financial Statements as of and for
the Three Months Ended March 31, 2014 and 2013**
(Unaudited)

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Interim Financial Statements

as of and for the three months ended March 31, 2014 and 2013 (unaudited):

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FLEET BUSINESS AND SUBSIDIARIES OF PHH CORPORATION
CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In millions)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2014 | 2013 |
| REVENUES | | |
| Fleet lease income | \$ 343 | \$ 332 |
| Fleet management fees | 44 | 43 |
| Other income | 19 | 19 |
| Total revenues | 406 | 394 |
| EXPENSES | | |
| Depreciation on operating leases | 300 | 302 |
| Cost of goods sold | 30 | 16 |
| Interest expense | 14 | 17 |
| Salaries and related expenses | 19 | 18 |
| Allocated expenses (Note IV) | 13 | 12 |
| Other depreciation and amortization | 2 | 2 |
| Other operating expenses | 7 | 7 |
| Total expenses | 385 | 374 |
| Income before income taxes | 21 | 20 |
| Income tax expense | 7 | 6 |
| Net income | \$ 14 | \$ 14 |
| Other comprehensive loss, net of tax: | | |
| Currency translation adjustment | (8) | (5) |
| Total other comprehensive loss, net of tax | (8) | (5) |
| Total comprehensive income | \$ 6 | \$ 9 |

See accompanying Notes to Condensed Combined Financial Statements.

CONDENSED COMBINED BALANCE SHEETS (unaudited)

(In millions)

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 282 | \$ 278 |
| Accounts receivable, net | 373 | 348 |
| Net investment in fleet leases | 45 | 45 |
| Income tax receivable | 4 | — |
| Deferred taxes | 19 | 25 |
| Other assets | 25 | 28 |
| Total current assets | 748 | 724 |
| Noncurrent Assets | | |
| Restricted cash | 247 | 207 |
| Net investment in fleet leases | 3,574 | 3,608 |
| Due from affiliates (Note IV) | — | 22 |
| Property and equipment, net | 27 | 27 |
| Goodwill | 25 | 25 |
| Intangible assets | 28 | 29 |
| Other assets | 24 | 21 |
| Total noncurrent assets | 3,925 | 3,939 |
| Total assets ⁽¹⁾ | \$ 4,673 | \$ 4,663 |
| LIABILITIES AND PARENT EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 230 | \$ 220 |
| Debt | 959 | 1,023 |
| Other liabilities | 10 | 8 |
| Total current liabilities | 1,199 | 1,251 |
| Noncurrent Liabilities | | |
| Debt | 2,493 | 2,458 |
| Deferred taxes | 579 | 578 |
| Due to affiliates (Note IV) | 23 | — |
| Other liabilities | 6 | 9 |
| Total noncurrent liabilities ⁽¹⁾ | 3,101 | 3,045 |
| Total liabilities | 4,300 | 4,296 |
| Commitments and contingencies | — | — |
| PARENT EQUITY | | |
| Net parent investment | 359 | 345 |
| Accumulated other comprehensive income | 14 | 22 |
| Total parent equity | 373 | 367 |
| Total liabilities and parent equity | \$ 4,673 | \$ 4,663 |

See accompanying Notes to Condensed Combined Financial Statements.

Continued.

CONDENSED COMBINED BALANCE SHEETS (unaudited)—(Continued)

(In millions)

(1) The Condensed Combined Balance Sheets include assets of variable interest entities which can be used only to settle their obligations and liabilities of variable interest entities which creditors or beneficial interest holders do not have recourse to the Group (as defined in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies") as follows:

| | March 31, 2014 | December 31, 2013 |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 10 | \$ 5 |
| Restricted cash | 243 | 203 |
| Accounts receivable, net | 45 | 46 |
| Net investment in leases | 3,556 | 3,581 |
| Other assets | 21 | 18 |
| Total assets | \$ 3,875 | \$ 3,853 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 8 | \$ 7 |
| Debt | 3,437 | 3,464 |
| Total liabilities | \$ 3,445 | \$ 3,471 |

See accompanying Notes to Condensed Combined Financial Statements.

CONDENSED COMBINED STATEMENTS OF CHANGES IN PARENT EQUITY (unaudited)

(In millions)

| | <u>Net Parent Investment</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Equity</u> |
|---|----------------------------------|--|-------------------------|
| <u>Three Months Ended March 31, 2014</u> | | | |
| Beginning Balance, January 1, 2014 | \$ 345 | \$ 22 | \$ 367 |
| Net income | 14 | — | 14 |
| Currency translation adjustment | — | (8) | (8) |
| Balance at March 31, 2014 | <u>\$ 359</u> | <u>\$ 14</u> | <u>\$ 373</u> |
| <u>Three Months Ended March 31, 2013</u> | | | |
| Beginning Balance, January 1, 2013 | \$ 258 | \$ 36 | \$ 294 |
| Net income | 14 | — | 14 |
| Currency translation adjustment | — | (5) | (5) |
| Recapitalization from parent | 22 | — | 22 |
| Balance at March 31, 2013 | <u>\$ 294</u> | <u>\$ 31</u> | <u>\$ 325</u> |

See accompanying Notes to Condensed Combined Financial Statements.

CONDENSED COMBINED STATEMENTS OF CASH FLOWS (unaudited)

(In millions)

| | Three Months Ended March 31, | |
|---|---------------------------------|---------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 14 | \$ 14 |
| Adjustments to reconcile Net income to net cash provided by operating activities: | | |
| Depreciation on operating leases | 300 | 302 |
| Other depreciation and amortization | 2 | 2 |
| Amortization of debt issuance costs | 4 | 3 |
| Deferred income tax expense | 7 | 5 |
| Changes in other assets and liabilities: | | |
| Accounts receivable, net | (19) | 52 |
| Accounts payable and accrued expenses | 20 | (8) |
| Other, net | (4) | (9) |
| Net cash provided by operating activities | 324 | 361 |
| Cash flows from investing activities: | | |
| Investment in vehicles | (409) | (428) |
| Proceeds on sale of investment vehicles | 103 | 77 |
| Purchases of property and equipment | (2) | (2) |
| (Increase) decrease in restricted cash | (42) | 10 |
| Net cash used in investing activities | (350) | (343) |
| Cash flows from financing activities: | | |
| Net transfers from (to) affiliates | 45 | (7) |
| Proceeds from secured borrowings | 992 | 491 |
| Principal payments on secured borrowings | (998) | (469) |
| Cash paid for debt issuance costs | (5) | — |
| Net cash provided by financing activities | 34 | 15 |
| Effect of changes in exchange rates on Cash and cash equivalents | (4) | — |
| Net increase in Cash and cash equivalents | 4 | 33 |
| Cash and cash equivalents at beginning of period | 278 | 230 |
| Cash and cash equivalents at end of period | \$ 282 | \$ 263 |
| Significant Non-Cash Transactions | | |
| Recapitalization from parent | \$ — | \$ (22) |

See accompanying Notes to Condensed Combined Financial Statements.

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

I. Basis of Presentation and Summary of Significant Accounting Policies

PHH Corporation (“PHH”) maintains a fleet management services business comprised of various legal subsidiaries. The Condensed Combined carve-out statements of the Fleet Business and Subsidiaries of PHH are comprised of PHH Vehicle Management Services Group LLC and its subsidiaries (“VMS”), PHH Sub 1 Inc. (“Sub 1”) and PHH Sub 2 Inc. (“Sub 2”), collectively (the “Group”).

The Condensed Combined Financial Statements include the accounts and transactions of the combined Group and its subsidiaries, as well as entities in which the Group directly or indirectly has a controlling financial interest and variable interest entities of which the Group is the primary beneficiary.

Basis of Presentation

The Condensed Combined carve-out Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP), for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In management’s opinion, the unaudited Condensed Combined Financial Statements contain all adjustments, which include normal and recurring adjustments necessary for a fair presentation of the financial position and results of operations for the interim period presented. The results of operations reported for the interim period are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These unaudited Condensed Combined Financial Statements should be read in conjunction with the Combined Financial Statements as of and for the year ended December 31, 2013.

The Condensed Combined carve-out financial statements have been prepared based upon financial information derived from PHH’s Condensed Consolidated financial statements and accounting records. The Condensed Combined Financial Statements include corporate costs incurred by PHH that are provided to or on behalf of the Group and consist of both direct and allocated costs.

As the Group was combined for purposes of these financial statements, Net parent investment is shown in lieu of Shareholders’ Equity. The Net parent investment equity balance on the Condensed Combined Balance Sheets represents PHH’s historical investment in the Group and the accumulated earnings of the business. Intercompany transactions with PHH or its affiliates are reflected in the Condensed Combined Statements of Cash Flows within Net transfers from/to affiliates in financing activities, and in the Condensed Combined Balance Sheets within Due to or from affiliates.

The Condensed Combined Financial Statements include the assets, liabilities, revenue, and expenses solely attributable to the Group, as well as certain allocations from PHH. Management believes these allocation methods are reasonable and the allocations were applied consistently for all periods presented, and were consistent with the allocations in the Combined Financial Statements for the year ended December 31, 2013. The historical results of operations and financial position of the Group included in the Condensed Combined Financial Statements may not be indicative of what would have been recorded if the Group had been a stand-alone entity, or if each entity in the Group had been operating as a separate, stand-alone entity.

Unless otherwise noted, dollar amounts presented within these Notes to Condensed Combined Financial Statements are in millions.

Changes in Accounting Policies

Income Taxes. In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. This update to the income tax guidance clarifies the diversity in practice in the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update requires the unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset or as a liability to the extent the entity cannot or does not intend to use the deferred tax asset for such purpose. The Group adopted the accounting guidance effective January 1, 2014 and applied the guidance prospectively to all

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

unrecognized tax benefits that exist at the effective date. The adoption of the guidance did not have a material impact on the Group's financial statements.

Interim Income Tax Expense or Benefit

Interim income tax benefit or expense is recorded by applying a projected full-year effective income tax rate to the quarterly Income before income taxes for results that are deemed to be reliably estimable.

Subsequent Events

The Group evaluated subsequent events with respect to the Condensed Combined Financial Statements through the date of issuance which was May 29, 2014.

II. Vehicle Leasing Activities

The following table summarizes the components of Net investment in fleet leases:

| | March 31, 2014 | December 31, 2013 |
|--|---------------------------|------------------------------|
| | (In millions) | |
| <i>Operating Leases:</i> | | |
| Vehicles under open-end operating leases | \$ 7,948 | \$ 7,974 |
| Vehicles under closed-end operating leases | 128 | 137 |
| Vehicles under operating leases..... | 8,076 | 8,111 |
| Less: Accumulated depreciation..... | (4,790) | (4,777) |
| Net investment in operating leases | 3,286 | 3,334 |
| <i>Direct Financing Leases:</i> | | |
| Lease payments receivable | 102 | 100 |
| Less: Unearned income | (6) | (2) |
| Net investment in direct financing leases | 96 | 98 |
| <i>Off-Lease Vehicles:</i> | | |
| Vehicles not yet subject to a lease | 233 | 217 |
| Vehicles held for sale | 11 | 10 |
| Less: Accumulated depreciation..... | (7) | (6) |
| Net investment in off-lease vehicles | 237 | 221 |
| Total..... | \$ 3,619 | \$ 3,653 |

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

III. Debt

The following table summarize the components of Debt:

| | March 31, 2014 | | | December 31, 2013 | |
|--|-----------------|---|---------------------|--------------------------------------|-----------------|
| | Balance | Wt. Avg- Interest Rate ⁽¹⁾ | Maximum Capacity | Available Capacity ⁽²⁾ | Balance |
| (In millions) | | | | | |
| Term notes, in amortization | \$ 1,237 | 1.0 % | \$ 1,237 | n/a | \$ 1,406 |
| Term notes, in revolving period | 1,500 | 0.7 % | 1,500 | \$ — | 700 |
| Variable-funding notes | 700 | 2.1 % | 1,839 | 1,139 | 1,358 |
| Other | 15 | 5.1 % | 15 | n/a | 17 |
| Asset-backed debt | 3,452 | | 4,591 | 1,139 | 3,481 |
| Secured Canadian credit facility | — | —% | 23 | 19 | — |
| Total | <u>\$ 3,452</u> | | <u>\$ 4,614</u> | <u>\$ 1,158</u> | <u>\$ 3,481</u> |

⁽¹⁾ Represents the weighted-average stated interest rate of the variable-rate facilities as of the respective date.

⁽²⁾ Capacity is dependent upon maintaining compliance with the terms, conditions, and covenants of the respective agreements and may be further limited by asset eligibility requirements. Available capacity for the Secured Canadian credit facility is limited by the borrowing base calculation as of March 31, 2014.

Assets held as collateral that are not available to pay the Group's general obligations as of March 31, 2014 included Restricted cash of \$243 million, Accounts receivable of \$45 million and Net investment in fleet leases of \$3,574 million.

On March 11, 2014, Chesapeake Funding LLC issued \$800 million of Series 2014-1 Term notes. Proceeds from the notes were used to repay a portion of the Series 2013-2 variable-funding notes. On March 20, 2014, the total commitments under the Series 2013-2 and 2013-3 notes were reduced from \$1.3 billion to \$1.1 billion.

On March 21, 2014, the Secured Canadian credit facility was amended to decrease the committed revolving capacity from \$118 million (C\$125 million) to \$23 million (C\$25 million).

There were no significant amendments to the terms of debt covenants during the three months ended March 31, 2014. As of March 31, 2014, the Group and PHH Corporation were in compliance with all of their financial covenants related to the Group's debt arrangements.

IV. Due from/to Affiliates and Related Party Transactions

Due from (to) affiliates, net consisted of the following:

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| (In millions) | | |
| Due from PHH Corporation | \$ 15 | \$ 58 |
| Due from other PHH affiliates | 10 | 10 |
| Unsecured intercompany line of credit | (21) | (19) |
| Interest payable on Unsecured intercompany line of credit | (27) | (27) |
| Total | <u>\$ (23)</u> | <u>\$ 22</u> |

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

The corporate overhead expenses allocated from PHH to the Group included in Allocated expenses in the Condensed Combined Statements of Comprehensive Income relate to the following costs:

| | Three Months Ended | |
|---|--------------------|-------|
| | March 31, | |
| | 2014 | 2013 |
| | (In millions) | |
| Salaries and related expenses | \$ 6 | \$ 6 |
| Other depreciation and amortization | 1 | 1 |
| Other operating expenses | 6 | 5 |
| Total | \$ 13 | \$ 12 |

V. Variable Interest Entities

Assets and liabilities of significant consolidated variable interest entities are included in the Condensed Combined Balance Sheets as follows:

| | March 31, 2014 | | December 31, 2013 | |
|--|--|---|--|---|
| | Chesapeake and D.L. Peterson Trust | FLRT and PHH Lease Receivables LP | Chesapeake and D.L. Peterson Trust | FLRT and PHH Lease Receivables LP |
| | (In millions) | | | |
| ASSETS | | | | |
| Cash | \$ 10 | \$ — | \$ 5 | \$ — |
| Restricted cash ⁽¹⁾ | 196 | 47 | 157 | 46 |
| Accounts receivable, net | 45 | — | 46 | — |
| Net investment in fleet leases | 2,991 | 565 | 2,982 | 599 |
| Other assets | 15 | 6 | 12 | 6 |
| Total assets | \$ 3,257 | \$ 618 | \$ 3,202 | \$ 651 |
| Assets held as collateral ⁽²⁾ | \$ 3,232 | \$ 612 | \$ 3,185 | \$ 645 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 2 | \$ 6 | \$ 2 | \$ 5 |
| Debt | 2,873 | 564 | 2,866 | 598 |
| Total liabilities ⁽³⁾ | \$ 2,875 | \$ 570 | \$ 2,868 | \$ 603 |

⁽¹⁾ Represents amounts specifically designated to purchase assets, repay debt and/or provide over-collateralization related to asset-backed debt arrangements.

⁽²⁾ Represents amounts not available to pay general obligations. See Note III, "Debt" for further information.

⁽³⁾ Excludes intercompany payables.

CERTIFICATE OF ELEMENT

Date: June 11, 2014

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada.

ELEMENT FINANCIAL CORPORATION

By: (signed) "*Steven K. Hudson*"
Chief Executive Officer

By: (signed) "*Michel Béland*"
Chief Financial Officer

On Behalf of the Board of Directors

By: (signed) "*Steven Small*"
Director

By: (signed) "*Paul Stoyan*"
Director

CERTIFICATE OF THE UNDERWRITERS OF THE SUBSCRIPTION RECEIPTS

Date: June 11, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada.

**BMO Nesbitt
Burns Inc.**

By: (signed)
"John Coke"

**CIBC World
Markets Inc.**

By: (signed)
"Donald A. Fox"

**GMP
Securities
L.P.**

By: (signed)
"Neil Selfe"

**Barclays
Capital Canada
Inc.**

By: (signed)
"Adam Sinclair"

**National Bank
Financial Inc.**

By: (signed)
"Darin E. Deschamps"

**TD Securities
Inc.**

By: (signed)
"Jonathan Broer"

**Credit Suisse
Securities (Canada)
Inc.**

By: (signed)
"Erik Charbonneau"

**RBC Dominion
Securities Inc.**

By: (signed)
"John Bylaard"

**Scotia Capital
Inc.**

By: (signed)
"David Garg"

**Cormark
Securities Inc.**

By: (signed)
"Roger Poirier"

**Manulife
Securities
Incorporated**

By: (signed)
"William Porter"

CERTIFICATE OF THE UNDERWRITERS OF THE DEBENTURES

Date: June 11, 2014

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By: (signed)
"Roger Poirier"

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Incorporated**

By: (signed)
"William Porter"

CERTIFICATE OF THE UNDERWRITERS OF THE SERIES E SHARES

Date: June 11, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada.

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Burns Inc.**

By: (signed)
"John Coke"

**CIBC World
Markets Inc.**

By: (signed)
"Donald A. Fox"

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