

Interim Condensed Consolidated Financial Statements

Element Financial Corporation

As at and for the three months ended March 31, 2015

Element Financial Corporation

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

[unaudited, in thousands of Canadian dollars]

	As at March 31, 2015 \$	As at December 31, 2014 \$
ASSETS		
Cash	19,763	66,869
Restricted funds [notes 5 and 12]	521,497	443,238
Finance receivables [note 3]	9,217,606	8,465,989
Equipment under operating leases [note 4]	1,624,053	1,279,670
Accounts receivable and other assets	88,985	64,258
Notes receivable [note 10]	46,698	45,299
Derivative financial instruments [note 12]	14,472	5,746
Property, equipment and leasehold improvements	18,838	17,020
Intangible assets	421,645	391,898
Deferred tax assets	53,318	39,405
Goodwill	504,132	471,110
	12,531,007	11,290,502
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities [notes 8]	324,987	368,113
Derivative financial instruments [note 12]	15,545	11,196
Secured borrowings [note 5]	8,790,235	7,751,395
Convertible debentures [note 6]	305,140	303,147
Deferred tax liabilities	36,463	25,700
Total liabilities	9,472,370	8,459,551
Shareholders' equity [notes 7]	3,058,637	2,830,951
	12,531,007	11,290,502

See accompanying notes

On behalf of the Board:



Director



Director

Element Financial Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2015 \$	Three-month period ended March 31, 2014 \$
NET FINANCIAL INCOME		
Interest income	111,593	48,545
Rental revenue, net <i>[note 4]</i>	25,981	10,174
	137,574	58,719
Interest expense	53,602	21,533
Net interest income before provision for credit losses	83,972	37,186
Provision for credit losses <i>[note 3]</i>	3,227	2,958
Net interest income	80,745	34,228
Other revenue items <i>[note 9]</i>	52,973	10,739
Net financial income	133,718	44,967
OPERATING EXPENSES		
Salaries, wages and benefits	34,023	12,567
General and administrative expenses	21,305	6,098
Amortization of convertible debenture synthetic discount <i>[note 6]</i>	1,472	—
Share-based compensation <i>[note 8]</i>	6,536	4,194
	63,336	22,859
BUSINESS ACQUISITION COSTS		
Amortization of intangible assets from acquisitions	4,743	1,026
Integration costs	1,181	—
	5,924	1,026
Income before income taxes	64,458	21,082
Provision for income taxes	14,961	5,246
Net income for the period	49,497	15,836
Basic earnings per share <i>[note 11]</i>	\$ 0.16	\$ 0.07
Diluted earnings per share <i>[note 11]</i>	\$ 0.16	\$ 0.07

See accompanying notes

Element Financial Corporation

**INTERIM CONDENSED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME**
[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2015 \$	Three-month period ended March 31, 2014 \$
Net income for the period	<u>49,497</u>	<u>15,836</u>
OTHER COMPREHENSIVE INCOME		
Cash flow and foreign exchange hedges <i>[note 12]</i>	(30,820)	(3,664)
Net unrealized foreign exchange gain	<u>200,250</u>	<u>20,298</u>
	169,430	16,634
Deferred tax recovery	<u>(9,758)</u>	<u>(827)</u>
Total other comprehensive income	<u>179,188</u>	<u>17,461</u>
Comprehensive income for the period	<u>228,685</u>	<u>33,297</u>

See accompanying notes

Element Financial Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[unaudited, in thousands of Canadian dollars]

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (accumulated deficit)	Accumulated other comprehensive income	Total Shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2013	1,323,897	110,387	—	25,059	(15,991)	3,304	1,446,656
Comprehensive income for the year	—	—	—	—	54,069	123,305	177,374
Dividends paid [note 7]	—	—	—	—	(19,199)	—	(19,199)
Net taxes on dividends paid	—	—	—	—	(580)	—	(580)
Options exercised [note 7]	6,236	—	—	(1,579)	—	—	4,657
Shares issued [note 7]	917,970	254,726	—	—	—	—	1,172,696
Issuance of convertible debentures	—	—	33,135	—	—	—	33,135
Employee stock option expense [note 8]	—	—	—	16,212	—	—	16,212
Balance, December 31, 2014	2,248,103	365,113	33,135	39,692	18,299	126,609	2,830,951
Comprehensive income for the period	—	—	—	—	49,497	179,188	228,685
Dividends paid [note 7]	—	—	—	—	(6,109)	—	(6,109)
Net taxes on dividends paid	—	—	—	—	(189)	—	(189)
Options exercised [note 7]	204	—	—	(111)	—	—	93
Shares issued [note 7]	—	—	—	—	—	—	—
Issuance of convertible debentures	—	—	—	—	—	—	—
Employee stock option expense [note 8]	—	—	—	5,206	—	—	5,206
Balance, March 31, 2015	2,248,307	365,113	33,135	44,787	61,498	305,797	3,058,637

See accompanying notes

Element Financial Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2015 \$	Three-month period ended March 31, 2014 \$
OPERATING ACTIVITIES [note 16]		
Net income for the period	49,497	15,836
Items not affecting cash		
Share-based compensation [note 8]	5,206	4,194
Depreciation of property, equipment and leasehold improvements	1,047	565
Amortization of intangible assets	469	136
Amortization of intangible assets from acquisitions	4,743	1,026
Amortization of deferred lease costs	3,801	1,874
Amortization of deferred financing costs	6,240	1,948
Amortization of equipment under operating leases	8,671	3,525
Amortization of convertible debenture synthetic discount and deferred costs	1,993	—
Provision for credit losses	3,227	2,958
	<u>84,894</u>	<u>32,062</u>
Changes in non-cash operating working capital items		
Accounts receivable and other assets	(20,977)	48,190
Accounts payable and accrued liabilities	(60,279)	31,507
Deferred tax assets	(13,643)	(2,671)
Deferred tax liabilities	10,347	6,004
Derivative financial instruments	(6,943)	—
Cash (use in) provided by operating activities	<u>(6,601)</u>	<u>115,092</u>
INVESTING ACTIVITIES [note 16]		
Business acquisition	—	2,000
Investment in finance receivables	(1,283,342)	(511,101)
Repayments of finance receivables	946,303	277,479
Investment in equipment under operating leases	(174,090)	(578,332)
Proceeds on disposals of equipment under operating leases	91	—
Syndications of finance receivables	42,564	31,627
(Increase) decrease in restricted funds	(49,310)	1,638
Purchase of property, equipment and leasehold improvements	(2,116)	(756)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	170	146
Purchase of intangible assets	(8,731)	(1,163)
Increase in notes receivable	(1,399)	(522)
Increase in deferred financing costs	(14,020)	(2,099)
Cash used in investing activities	<u>(543,880)</u>	<u>(781,083)</u>
FINANCING ACTIVITIES [note 16]		
Issue of share capital, net [note 7]	93	129,319
Issue of secured borrowings, net	507,571	568,434
Dividends paid on preferred shares	(6,109)	(2,162)
Cash provided by financing activities	<u>501,555</u>	<u>695,544</u>
Effects of exchange rates on cash	<u>1,820</u>	<u>139</u>
Net (decrease) increase in cash during the period	<u>(47,106)</u>	<u>29,692</u>
Cash, beginning of period	66,869	12,401
Cash, end of period	<u>19,763</u>	<u>42,093</u>

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

1. CORPORATE INFORMATION

Element Financial Corporation [the "Company"] is an independent financial services company that originates, co-invests in and manages asset based financings and related service programs with operations in both Canada and the United States ["US"]. The Company originates the financing of a broad range of equipment and capital assets by way of secured loans, financial leases and conditional sales contracts.

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

The Company was incorporated under the Business Corporations Act of Ontario (Canada) on May 11, 2007 and commenced operations on that date. The registered office of the Company is 161 Bay Street, Suite 4600, Toronto, Ontario. The Company is a public corporation traded on the Toronto Stock Exchange under the symbol "EFN".

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standards 34, "*Interim Financial Reporting*" as issued by the International Accounting Standards Board. These statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2014.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at December 31, 2014 which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 13, 2015.

Basis of consolidation

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

3. FINANCE RECEIVABLES

The following table presents finance receivables based on the ultimate obligor location:

	March 31, 2015			
	Canada	US	Other	Total
	\$	\$	\$	\$
Gross investment	3,442,681	5,951,767	95,292	9,489,740
Unearned income	(437,782)	(598,356)	(13,900)	(1,050,038)
Net investment	3,004,899	5,353,411	81,392	8,439,702
Net realizable value of impaired receivables	2,523	1,988	—	4,511
Unamortized deferred costs and subsidies	2,046	(42,473)	(185)	(40,612)
Security deposits	(23,647)	(25,174)	(5,478)	(54,299)
Interim fundings	83,249	418,691	—	501,940
Fleet management service receivables	118,985	214,520	—	333,505
Other receivables	8,286	43,048	—	51,334
Allowance for credit losses	(2,444)	(15,976)	(55)	(18,475)
Total finance receivables	3,193,897	5,948,035	75,674	9,217,606

	December 31, 2014			
	Canada	US	Other	Total
	\$	\$	\$	\$
Gross investment	3,439,180	5,118,968	106,530	8,664,678
Unearned income	(418,955)	(482,899)	(13,564)	(915,418)
Net investment	3,020,225	4,636,069	92,966	7,749,260
Net realizable value of impaired receivables	5,451	—	—	5,451
Unamortized deferred costs and subsidies	1,989	(41,460)	(194)	(39,665)
Security deposits	(20,909)	(23,388)	(5,017)	(49,314)
Interim fundings	56,052	358,621	—	414,673
Fleet management service receivables	138,820	206,740	—	345,560
Other receivables	4,295	52,644	—	56,939
Allowance for credit losses	(5,412)	(11,314)	(189)	(16,915)
Total finance receivables	3,200,511	5,177,912	87,566	8,465,989

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

The following table presents delinquency status of the Net Investment in Finance Receivables, by contract balance:

	March 31, 2015		December 31, 2014	
	\$	%	\$	%
31-60 days past due	18,828	0.22	17,270	0.22
61-90 days past due	8,594	0.10	5,118	0.07
Greater than 90 days past due	1,652	0.02	3,242	0.04
Total past due	29,074	0.34	25,630	0.33
Current	8,410,628	99.66	7,723,630	99.67
	8,439,702	100.00	7,749,260	100.00

Selected characteristics of the finance receivables

	March 31, 2015		December 31, 2014	
	Leases	Loans	Leases	Loans
Weighted average fixed interest rate	6.66%	6.43%	6.50%	6.56%
Weighted average floating interest rate	2.92%	4.52%	3.04%	5.72%
Percentage of portfolio with fixed interest rate	46.09%	47.98%	45.62%	78.99%

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

Allowance for credit losses

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

	Three-month period ended March 31, 2015	Year ended December 31, 2014
	\$	\$
Allowance for credit losses, beginning of the year	16,915	11,071
Assumed through business acquisitions	—	2,529
Provision for credit losses	3,227	12,945
Charge-offs, net of recoveries	(2,822)	(10,439)
Impact of foreign exchange rates	1,155	809
Allowance for credit losses, end of the period	18,475	16,915
Allowance as a percentage of finance receivables	0.20%	0.20%
Finance receivables in arrears [90 days and over]	1,652	3,242
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.02%	0.04%
Impaired receivables, at estimated net realizable value	4,511	5,451

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

4. EQUIPMENT UNDER OPERATING LEASES

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

	March 31, 2015			December 31, 2014		
	Railcar	Aviation	Total	Railcar	Aviation	Total
	\$	\$	\$	\$	\$	\$
Cost	1,436,336	219,565	1,655,901	1,168,265	132,483	1,300,748
Accumulated depreciation	21,952	9,896	31,848	14,593	6,485	21,078
Net carrying amount	1,414,384	209,669	1,624,053	1,153,672	125,998	1,279,670

Rental revenue, net, consists of the following:

	For the three-month period ended	
	March 31, 2015	March 31, 2014
	\$	\$
Rental revenue	34,652	13,680
Amortization of equipment under operating leases	(8,671)	(3,506)
	25,981	10,174

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

5. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	March 31, 2015			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	2,513,801	0.81%	2,635,108	71,170
Term notes, in revolving period	1,076,610	0.74%	1,128,532	13,479
Variable-funding notes	1,678,054	1.78%	1,777,167	33,425
Other	2,055	5.00%	2,055	—
Vehicle management asset-backed debt	5,270,520	1.11%	5,542,862	118,074
Life insurance company term funding facilities	560,677	3.33%	535,889	56,553
Securitization programs	810,977	2.25%	1,078,691	42,191
Asset-backed securities	1,061,123	3.36%	1,374,868	28,641
Revolving senior credit facility (2)	1,127,608	2.24%	—	—
	8,830,905	1.77%	8,532,310	245,459
Deferred financing costs	(40,670)			
	8,790,235			
	December 31, 2014			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	\$	\$	\$
Term notes, in amortization period	1,603,795	0.90%	1,706,520	53,740
Term notes, in revolving period	928,080	0.64%	987,471	11,619
Variable-funding notes	2,304,015	1.83%	2,430,823	36,873
Other	8,818	5.55%	15,278	—
Vehicle management asset-backed debt	4,844,708	1.30%	5,140,092	102,232
Life insurance company term funding facilities	572,956	3.42%	544,683	56,531
Securitization programs	753,090	2.31%	984,557	39,192
Asset-backed securities	505,824	3.37%	679,390	14,520
Revolving senior credit facility (2)	1,106,072	2.83%	—	—
	7,782,650	1.91%	7,348,722	212,475
Deferred financing costs	(31,255)			
	7,751,395			

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

The Company was in compliance with all financial and reporting covenants with all of its lenders at March 31, 2015 and December 31, 2014.

Vehicle management asset-backed debt

Term notes, in amortization period

During the quarter, US \$800 million of revolving notes were converted into amortizing notes.

Term notes, in revolving period

During the quarter, the Company issued US \$850 million of term notes. The proceeds from this issuance were used to pay down the variable-funding notes.

Variable-funding notes

During the quarter, the Company combined two separate variable-funding note programs into a single program acquired as part of the PHH Arval acquisition resulting into a lower combined cost of debt.

As at March 31, 2015, the Company has available capacity of \$1,494,845 [December 31, 2014 - \$975,903] under its vehicle management asset-backed debt facilities.

Life insurance company term funding facilities

During the quarter and as a result of a similar increase in the Company's term revolving senior credit facility, the Company reduced the size of its un-utilized commitment from the Canadian life insurance companies by \$100 million subject to further re-set as the commitment is utilized. As a result, as at March 31, 2015, the Company has access to committed lines of funding of \$500,000 from four Canadian life insurance companies [December 2014 - \$600,000 from four Canadian life insurance companies]. As at March 31, 2015, the Company has access to \$263,942 [December 31, 2014 - \$318,376] of available financing under its life insurance company term funding facilities.

Securitization programs

As at March 31, 2015, the Company has available capacity of \$299,470 [December 31, 2014 - \$360,085] from these securitization programs.

Asset-backed securities

On March 3, 2015, the Company entered into a secured borrowing agreement with unrelated investors for US \$405,000 to fund eligible pools of finance assets in the Rail Finance vertical.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

March 31, 2015

Revolving senior credit facility

During the quarter, the Company syndicated an additional \$100 million of its term revolving senior credit facility, increasing the facility to \$2,050,000 at March 31, 2015 [December 31, 2014 - \$1,950,000]. As at March 31, 2015, the Company had available capacity of \$922,392 [December 31, 2014 - \$843,928] from the senior facility plus an unsyndicated facility amount of \$450 million.

Restricted funds

Restricted funds include cash reserves of \$245,459 as at March 31, 2015 [December 31, 2014 - \$212,475] and cash accumulated in the collection account of \$272,678 as at March 31, 2015 [December 31, 2014 - \$223,213].

6. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	March 31, 2015	December 31, 2014
	\$	\$
Convertible debentures issued	345,000	345,000
Convertible debenture synthetic discount	(39,860)	(41,853)
	305,140	303,147

Each Debenture is convertible into common shares at the option of the holder of a Debenture, 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 agreement.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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March 31, 2015

7. SHARE CAPITAL

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

	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Common shares	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	#	\$	#	\$	#	\$	#	\$
Balance, December 31, 2013	4,600,000	110,387	—	—	—	—	188,935,301	1,323,897
Exercise of options	—	—	—	—	—	—	597,958	6,081
Exercise of non- employee options	—	—	—	—	—	—	109,322	155
Issuance of shares, net of costs	—	—	5,126,400	124,744	5,321,900	129,994	74,416,500	917,891
Effects of changes in future tax rates on share issue costs	—	(12)	—	—	—	—	—	79
Balance, December 31, 2014	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	264,059,081	2,248,103
Exercise of options	—	—	—	—	—	—	35,085	204
Balance, March 31, 2015	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	264,094,166	2,248,307

Preferred share dividends

During the three-month period ended March 31, 2015, the Company paid \$6,109 in preference share dividends [three-month period ended March 31, 2014 - \$2,162].

As at March 31, 2015, the un-accrued cumulative preference share dividends were \$67 [December 31, 2014 - \$67].

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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March 31, 2015

8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the three-month period ended March 31:

	2015	2014
	\$	\$
[a] Stock options	5,206	3,719
[b] Deferred share units ["DSU"]	1,164	475
[c] Performance share units ["PSU"]	166	—
	6,536	
	6,536	
Allocated as:		
Share-based compensation	6,536	4,194
	6,536	
	6,536	

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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March 31, 2015

[a] Employee and director stock options

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

	Number of options	Weighted average exercise price
	#	\$
Outstanding, December 31, 2013	13,892,390	8.71
Granted	3,383,266	14.05
Forfeited	(168,386)	13.42
Exercised	(597,958)	7.79
Outstanding, December 31, 2014	16,509,312	9.79
Granted	6,578,043	15.93
Forfeited	(123,529)	12.42
Exercised	(49,254)	6.60
Outstanding, March 31, 2015	22,914,572	11.54

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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March 31, 2015

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

	Unit	Three-month period ended March 31, 2015	Year ended December 31, 2014
Weighted average share price	\$	15.93	14.05
Average term to exercise	Years	7.0	7.0
Share price volatility	%	26.6	31.0
Weighted average expected annual dividend yield	%	0	0
Risk-free interest rate	%	0.98	1.87

[b] Deferred share units

During the three-month period ended March 31, 2015, the Company granted 47,593 DSUs [three-month period ended March 31, 2014 – 42,721 DSUs]. During the three-month period ended March 31, 2015, nil DSUs were redeemed [three-month period ended March 31, 2014 - 3,482 DSUs].

As at March 31, 2015, 1,572,046 DSUs remain outstanding and the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was \$26,913 [December 31, 2014 – 1,524,453 DSUs and \$21,556, respectively].

[c] Performance share units

During the three-month period ended March 31, 2015, the Company granted 130,595 PSUs in connection with awards granted in fiscal 2014 as part of the PHH Arval acquisition [three-month period ended March 31, 2014 – nil]. During the three-month period ended March 31, 2015, 739,133 PSUs vested and redeemed, and 5,793 PSUs were forfeited [three-month period ended March 31, 2014 - nil and nil].

As at March 31, 2015, 774,702 PSUs remain unvested and outstanding and the fair value of PSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was \$5,296 [December 31, 2014 – 1,389,033 PSUs and \$11,441, respectively]. The PSUs vest on achievement of specific performance conditions over 2015 and 2016.

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9. OTHER REVENUE ITEMS

Other revenue items consist of the following for the three-month period ended March 31:

	2015	2014
	\$	\$
Syndication fees	9,327	1,430
Fleet management and servicing fees	38,586	4,666
Prepayment charges	1,727	1,196
Wholesale program fees	—	563
Others	3,333	2,884
	52,973	10,739

10. NOTES RECEIVABLE

Notes receivable of \$46,698 at March 31, 2015 [December 31, 2014 - \$45,299] represent loans to certain employees and officers of the Company. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. The loans were granted in order to help finance the purchase of the Company's shares and are secured by the shares purchased and are full recourse to the employee.

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

	Three-month period ended March 31, 2015	Year ended December 31, 2014
	\$	\$
Notes receivable, beginning of year	45,299	35,239
Additions	2,400	9,152
Interest income	310	1,107
Repayments [interest and principal]	(1,311)	(199)
Notes receivable, end of year	46,698	45,299

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11. EARNINGS PER SHARE

Basic earnings per share is as follows for the three-month periods ended March 31:

	<u>2015</u>	<u>2014</u>
Net income attributable to shareholders	\$ 49,497	\$ 15,836
Cumulative dividends on preferred shares	\$ (6,109)	\$ (2,442)
Net income available to common shareholders	<u>\$ 43,388</u>	<u>\$ 13,394</u>
Weighted average number of common shares outstanding - basic [number]	<u>264,066,026</u>	189,214,813
Basic earnings per share	<u>\$ 0.16</u>	<u>\$ 0.07</u>

Diluted earnings per share is as follows for the three-month periods ended March 31:

	<u>2015</u>	<u>2014</u>
Net income available to common shareholders adjusted for the effects of dilution	<u>\$ 43,388</u>	<u>\$ 13,394</u>
Weighted average number of common shares outstanding - basic [number]	<u>264,066,026</u>	189,214,813
Dilutive stock options and warrants [number]	<u>5,495,184</u>	4,898,920
Weighted average number of common shares outstanding - diluted [number]	<u>269,561,210</u>	194,113,733
Diluted earnings per share	<u>\$ 0.16</u>	<u>\$ 0.07</u>

Instruments outstanding at March 31, 2015 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive for the periods presented, include 11,111,859 stock options for the three-month period ended March 31, 2015 [three-month period ended March 31, 2014 - 3,455,543].

In addition, the convertible debentures [note 6] were excluded from the diluted earnings per share calculation as these were anti-dilutive for the period ended March 31, 2015.

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12. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposures to share-based compensation.

Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three-month period ended March 31:

	2015	2014
	\$	\$
Foreign exchange agreements recorded in other revenue items	(3,417)	(5,218)
Fair value change recorded in other revenue items from hedge ineffectiveness	—	347
Fair value changes recorded in other comprehensive income	(30,820)	(3,664)

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Notional amounts and fair values of derivative instruments

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

	March 31, 2015	December 31, 2014
	\$	\$
Notional principal		
Derivative assets		
Interest rate contracts	755,444	886,338
Foreign exchange agreements	302,999	35,875
Total return swaps	30,234	30,596
	<u>1,088,677</u>	<u>952,809</u>
Derivative liabilities		
Interest rate contracts	2,152,930	1,927,943
Foreign exchange agreements	254,012	172,227
Total return swaps	—	9,377
	<u>2,406,942</u>	<u>2,109,547</u>
Fair values		
Restricted funds - collateral posted	3,360	7,550
Derivative assets		
Interest rate contracts	2,886	3,643
Foreign exchange agreements	4,694	1,426
Total return swaps	6,892	677
	<u>14,472</u>	<u>5,746</u>
Derivative liabilities		
Interest rate contracts	14,554	10,548
Foreign exchange agreements	991	419
Total return swaps	—	229
	<u>15,545</u>	<u>11,196</u>

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Fair values of derivatives designated in hedging relationships

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

	March 31, 2015	December 31, 2014
	\$	\$
Interest rate contracts	(11,668)	(6,843)
Foreign exchange agreements	3,703	1,007
Total return swaps	6,892	448
	(1,073)	(5,388)

Offsetting of Derivative Assets and Liabilities

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

	Gross amounts of recognized financial instruments before netting on the Statement of Financial Position	Gross amounts of recognized financial instruments set-off in the Statement of Financial Position	Net amount of financial instruments presented in the Statement of Financial Position	Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Statement of Financial Position		
				Amounts subject to an enforceable master netting agreement	Collateral	Net Amount
As at March 31, 2015						
Derivative financial instrument assets	14,472	—	14,472	8,296	—	6,176
Derivative financial instrument liabilities	15,545	—	15,545	8,296	3,360	3,889
As at December 31, 2014						
Derivative financial instrument assets	5,746	—	5,746	1,282	—	4,464
Derivative financial instrument liabilities	11,196	—	11,196	1,282	7,550	2,364

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13. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value.

The Company's capitalization is as follows:

	March 31, 2015	December 31, 2014
	\$	\$
Secured borrowings	8,790,235	7,751,395
Convertible debentures	305,140	303,147
Total debt	9,095,375	8,054,542
Accounts payable and accrued liabilities	324,987	368,113
	9,420,362	8,422,655
Shareholders' equity	3,058,637	2,830,951
	12,478,999	11,253,606

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14. SEGMENTED INFORMATION

For management purposes, the Company is organized into one business segment, which primarily operates in Canada, US and Other.

Geographic information as at and for the three-month period ended March 31, is as follows:

	2015				2014			
	Canada	US	Other	Total	Canada	US	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Net financial income	39,331	93,095	1,292	133,718	24,811	18,631	1,525	44,967
Non-current assets								
Finance receivables	3,193,897	5,948,035	75,674	9,217,606	2,197,737	686,573	101,205	2,985,515
Equipment under operating leases	207,400	1,394,171	22,482	1,624,053	75,211	717,449	20,820	813,480
Goodwill	111,399	392,733	—	504,132	103,710	—	—	103,710
Other	112,612	327,871	—	440,483	41,231	41,889	—	83,120
	3,625,308	8,062,810	98,156	11,786,274	2,417,889	1,445,911	122,025	3,985,825

Geographic net financial income is based on the location of customers and non-current assets are based on the location of the assets. Segment non-current assets consist of [a] finance receivables, [b] equipment under operating leases; [c] property, equipment, and leasehold improvements; [d] intangible assets; and [e] goodwill.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Valuation methods and assumptions

Finance receivables and secured borrowings on finance receivables

The carrying value of finance receivables and secured borrowings approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. The finance receivables were credit-scored based on an internal model which is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value,

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guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Furthermore, it is not practical for the Company to estimate the fair value of its secured borrowings on finance receivables since, due to the limited sources of available funding for the type of business conducted by the Company, interest rates currently charged in the market for similar new borrowings are not readily available.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk.

Derivatives

The fair values of derivatives are presented in Note 12 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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16. STATEMENT OF CASH FLOWS

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

	For the three- month period ended March 31, 2015
	\$
Finance receivables <i>[note 3]</i>	
Balance at December 31, 2014	8,465,989
Originations [included in cash flows]	1,283,342
Repayments [included in cash flows]	(946,303)
Assets sold to syndications [included in cash flows]	(42,564)
Amounts transferred to equipment under operating leases	(55,741)
Amortization of deferred lease costs [adjustment to income in cash flows]	(3,801)
Provision for credit losses [adjustment to income in cash flows]	(3,227)
Impact of foreign exchange translation [excluded from cash flows]	519,911
Balance at March 31, 2015	9,217,606
Equipment under operating leases <i>[note 4]</i>	
Balance at December 31, 2014	1,279,670
Originations [included in cash flows]	174,090
Disposals [included in cash flows]	(91)
Amounts transferred from finance receivables	55,741
Amortization of equipment under operating leases [adjustment to income in cash flows]	(8,671)
Impact of foreign exchange translation [excluded from cash flows]	123,314
Balance at March 31, 2015	1,624,053

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	For the three- month period ended March 31, 2015
	<u>\$</u>
Secured borrowings <i>[note 5]</i>	
Balance at December 31, 2014	7,751,395
Net issuance [included in cash flows]	507,571
Increase in deferred financing costs [included in cash flows]	(14,020)
Amortization of deferred financing costs [adjustment to income in cash flows]	6,240
Impact of foreign exchange translation [excluded from cash flows]	<u>539,049</u>
Balance at March 31, 2015	<u>8,790,235</u>

17. COMPARATIVE FIGURES

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