*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 March 6, 2013

# ELEMENT FINANCIAL CORPORATION

**$150,350,000**
**19,400,000 Common Shares**

This short form prospectus qualifies the distribution of 19,400,000 common shares (the "Common Shares") of Element Financial Corporation (the "Corporation" or "Element") at a price of $7.75 per Common Share for aggregate gross proceeds to the Corporation of $150,350,000 (the "Offering"), assuming no exercise of the Over-Allotment Option (as defined herein).

The outstanding Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the trading symbol "EFN". The TSX has conditionally approved the listing of the offered Common Shares on the TSX. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before May 21, 2013. On February 19, 2013, the last day of trading before the announcement of the Offering, the closing price of the Common Shares on the TSX was $8.27. On March 5, 2013, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was $8.66.

**The Underwriters (as defined herein) may offer the Common Shares at a price lower than that stated below. See "Plan of Distribution".**

GMP Securities L.P. ("GMP"), Barclays Capital Canada Inc. ("Barclays"), BMO Nesbitt Burns Inc. ("BMONB", and together with GMP and Barclays, the "Joint Bookrunners"), RBC Dominion Securities Inc., Cormark Securities Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., and Manulife Securities Incorporated (collectively, with the Joint Bookrunners, the "Underwriters") as principals, conditionally offer the Common 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 (as defined herein) 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". The offering price was determined by negotiation between the Corporation and the Underwriters. In connection with the Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares 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".

**BMONB is an affiliate of a Canadian chartered bank (i) that is a lender to the Corporation under the Warehouse Line (as defined herein), (ii) that is a lender to a U.S. affiliate of the Corporation under a U.S. securitization facility, and (iii) that, through an affiliate, is the lender to or investor under Canadian securitization funding facilities to which the Corporation or its affiliates have transferred and will transfer finance assets and related property or interests therein. The Canadian securitization funding facilities are established with a Canadian asset-backed conduit administered by BMONB. Furthermore, RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank that is a lender to a Canadian affiliate of the Corporation under the Nexcap Line (as defined herein). Consequently, the Corporation may be considered a "connected issuer" to each of BMONB and RBC Dominion Securities Inc. within the meaning of National Instrument 33-105 – *Underwriting Conflicts*.**

**See "Relationship between Element and Certain Underwriters".**

## Price: $7.75 per Common Share

| | Price to the Public(1) | Underwriters' Fee (1)(2) | Net Proceeds to the Corporation (1)(3) |
|---|---|---|---|
| Per Common Share | $7.75 | $0.34875 | $7.40125 |
| Total | $150,350,000 | $6,765,750 | $143,584,250 |

(1) The Corporation has granted to the Underwriters an over-allotment option (the "Over-Allotment Option") to purchase on the same terms up to 2,910,000 additional Common Shares, exercisable at any time until the date that is 30 days following the Closing Date (as defined herein). If the Over-Allotment Option is 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 $172,902,500, $7,780,613 and $165,121,887, respectively. This short form prospectus qualifies the grant of the Over-Allotment Option, as well as the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option. A purchaser who acquires any of the Common Shares forming part of the Underwriters' over-allocation position acquires such Common Shares under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

(2) Element paid a fee equal to $0.34875 per share for each Common Share sold (the "Underwriters' Fee").

(3) Before deduction of expenses of the Offering payable by the Corporation estimated at $1,500,000.

| Underwriters' Position | Maximum Size | Exercise Period | Exercise Price |
|---|---|---|---|
| Over-Allotment Option | Option to acquire up to an additional 2,910,000 Common Shares | 30 days following the Closing Date | $7.75 per share |

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 closing of the Offering will occur on March 8, 2013 or on such other date as the Corporation and the Underwriters may agree (the "Closing Date"). A book-entry only certificate representing the Common Shares distributed hereunder will be issued in registered form to CDS Clearing and Depository Services Inc. ("CDS"), or its nominee, and will be deposited with CDS on the Closing Date. A purchaser of such Common Shares will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the shares are purchased. See "Book-Entry Only System".

The head and registered office of the Corporation is located at 161 Bay Street, Suite 4600, Toronto, Ontario, M5J 2S1. Unless otherwise specifically stated, all dollar amounts in this short form prospectus are expressed in Canadian dollars.

Provided the Common Shares remain listed on a designated stock exchange (including the TSX), the Common Shares will generally be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder for trusts governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax-free savings account ("TFSA"). See "Eligibility for Investment".

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 Common Shares 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.

**An investment in the Common Shares 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 Common Shares. See "Note Regarding Forward-Looking Statements" and "Risk Factors" in this short form prospectus and in the AIF (as defined herein).**

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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 plans for and timing of expansion of its services;
- Element's future growth plans (including growth resulting from acquisitions, such as the CoActiv Acquisition and the Nexcap Acquisition (each as defined herein));
- Element's expectations regarding its origination volumes;
- Element's plans to develop a new special purpose fund to finance Element Capital's deal pipeline;
- 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 expectations regarding expansion into new verticals;
- 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;
- 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;
- inability to attract institutional investors to invest in Element's new special purpose fund to finance Element Capital's deal flow;
- 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;
- Element's ability to successfully integrate the recently completed CoActiv Acquisition and Nexcap Acquisition into its operations and to achieve the anticipated benefits and synergies of such acquisitions;
- Element's ability to successfully compete in the U.S. equipment financing 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 press release dated February 19, 2013 in respect of Element's unaudited financial results for the fourth quarter and year ended December 31, 2012;

(b) the business acquisition report of Element dated January 29, 2013 relating to the recently completed Nexcap Acquisition and the financial statements contained therein (the "Nexcap BAR");

(c) the business acquisition report of Element dated January 15, 2013 relating to the recently completed CoActiv Acquisition and the financial statements contained therein (the "CoActiv BAR");

(d) the material change report dated January 7, 2013 in respect of the Nexcap Acquisition;

(e) the unaudited comparative interim financial statements of Element and the notes thereto as at and for the nine-month period ended September 30, 2012;

(f) the management's discussion and analysis of financial condition and results of operations for the nine-month period ended September 30, 2012 (the "Corporation's Interim MD&A");

(g) the material change report dated November 19, 2012 in respect of the CoActiv Acquisition and the November 2012 Special Warrant Offering (as defined herein);

(h) the business acquisition report of Element dated July 17, 2012 relating to the acquisition of TLSI Holdings Inc. (“TLSI”) and the financial statements contained therein (the “TLSI BAR”);

(i) the material change report dated May 25, 2012 in respect of the TLSI Acquisition (as defined herein) and the May 2012 Special Warrant Offering (as defined herein);

(j) the management information circular of Element dated May 14, 2012 in connection with the annual meeting of the shareholders of Element held on June 19, 2012 (the “Circular”);

(k) the annual information form of Element for the nine-month period ended December 31, 2011 dated March 21, 2012 (the “AIF”);

(l) the audited financial statements of Element and the notes thereto as at and for the nine-month period ended December 31, 2011, together with the report of the auditors thereon; and

(m) the management’s discussion and analysis of financial condition and results of operations of Element for the nine-month period ended December 31, 2011 (the “Corporation’s Annual MD&A”).

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.

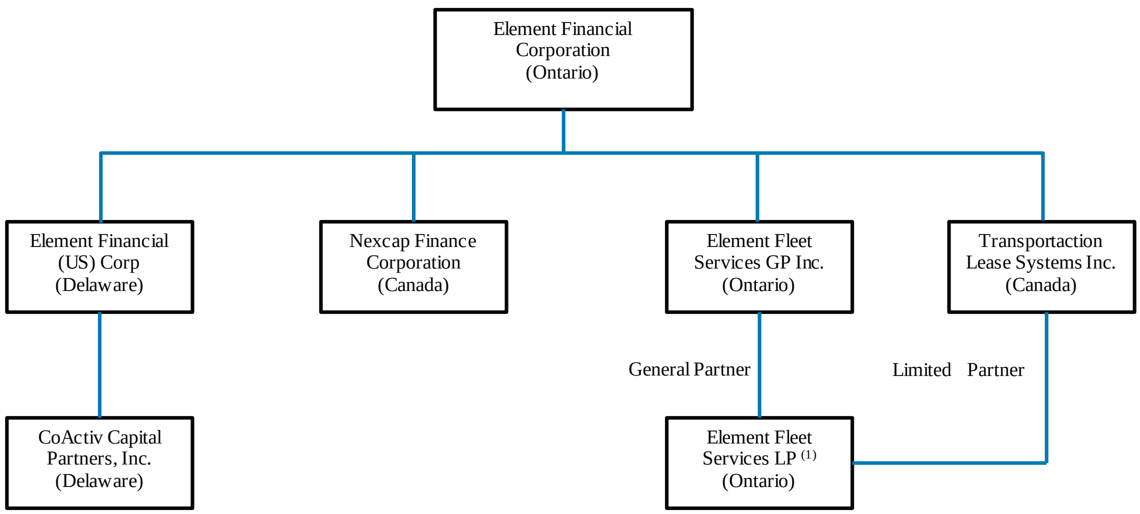
**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed 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.**

## ELEMENT FINANCIAL CORPORATION

Element Financial Corporation was incorporated on May 11, 2007 under the *Business Corporations Act* (Ontario) (the "OBCA"). The head and registered office of Element is located at 161 Bay Street, Suite 4600, Toronto, Ontario, M5J 2S1.

On August 23, 2011, Element restated its Articles of Incorporation. 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 organization chart below indicates the intercorporate relationships of the Corporation and its material subsidiary entities (and including their jurisdiction of incorporation in parenthesis) as of the date hereof.




*Note*:

(1) Element Fleet Services LP was established in connection with the TLS Securitization Arrangements (as defined herein) as a permanent funding structure to enable TLS (as defined herein) to securitize its future lease assets. It is indirectly wholly owned by the Corporation. For additional information on such arrangements, see "Recent Developments - Securitization of the TLS Assets".

## SUMMARY DESCRIPTION OF THE BUSINESS

### Business Overview

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 and conditional sales contracts. Element originates the vast majority of its equipment financings through its employee sales force, who focus on equipment vendors and direct equipment users. 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 its own vendor and direct relationships; and
- funds its activities through commitments from institutional investors rather than accepting deposits from the public.

Element is led by Steven Hudson, the Chairman and Chief Executive Officer of Element. Mr. Hudson has extensive experience in the equipment finance industry, including 14 years as chief executive officer of Newcourt Credit Group Inc. ("Newcourt"), a company he founded. Under Mr. Hudson's leadership, Newcourt went public in early 1994, completed numerous acquisitions and experienced significant organic growth prior to the merger of Newcourt with The CIT Group, Inc. in 1999. Under Mr. Hudson's leadership, Newcourt completed a number of acquisitions, including AT&T Capital Corporation, Commcorp Financial Services Inc. (CIBC Equipment Leasing) and the asset finance operations of Lloyd's Bank and grew its portfolio finance assets from $100 million to approximately $35 billion at the time of its sale to CIT.

Bradley Nullmeyer was appointed President of the Corporation, effective September 1, 2012. In addition to overseeing Element's North American operations, Mr. Nullmeyer has primary responsibility for building out Element's vendor finance unit. Mr. Nullmeyer was one of Newcourt's founding partners and was responsible for growing Newcourt's vendor finance origination volumes, which increased at an average rate of 110 percent per year over five years from $933 million in 1994 to $18.4 billion in 1998. During this period, Mr. Nullmeyer established several world-class vendor finance programs for major equipment manufacturers including Dell Computers, Western Star Trucks, Avaya (formerly Lucent Technologies) and Snap-on Corporation.

Element has an experienced executive management team with experienced executives leading each of Element's core business verticals having an average of approximately 20 years of diversified asset finance and equipment finance industry experience. Element utilizes its management team's extensive experience in the equipment financing industry and its industry relationships to maintain and further grow relationships with equipment vendors and direct relationships with customers.

Element currently operates in two distinct target markets of the asset-based finance market: (i) commercial finance and (ii) corporate finance. Element has organized its activities and operations around four core verticals: (i) Element Finance, (ii) Element Capital, (iii) Element Fleet, and (iv) Element Services.

**Element Finance**

Element Finance is Element's commercial finance vertical. Element Finance offers asset-based sales through select strategic relationships with equipment manufacturers, dealers and distributors (collectively, "vendors"). Element Finance provides its financial services through six distinct business units:

- Transportation and Construction Finance – provides vendor finance in the transportation, construction, forestry and material handling markets;
- Golf Equipment Finance – provides vendor finance in the golf equipment market;
- Commercial and Industrial Finance – provides vendor finance in the commercial and industrial markets;
- Healthcare Equipment 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 – provides vendor finance in the office products and technology equipment markets; and
- Franchise Finance – provides sponsored finance arrangements to assist franchisee networks fund the cost of equipment related to capital campaigns, re-model costs and re-imaging programs.

Element Finance focuses on the mid-ticket finance segment of the equipment finance industry. The mid-ticket finance segment of the equipment finance industry involves financing for the acquisition of equipment ranging in value from approximately $10,000 to over $5 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 Canadian and U.S. banks.

Element originates its equipment finance assets in specific segments of the equipment finance market, with a current focus on the transportation and construction, golf equipment, commercial and industrial, healthcare, office products and technology and franchise finance equipment market verticals. To assure the quality of its equipment finance assets, Element emphasizes the creditworthiness of the end-user or borrower, the value of the financed assets and the creditworthiness of the vendor. Element Finance has assembled an industry-leading sales force, and has 155 employees covering Canada and the United States with offices in Toronto, Montreal, Calgary, Burlington and Horsham, Pennsylvania.

Element Finance has identified three key objectives for the development of its equipment financing business: (i) target specific segments of the mid-ticket 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.

The CoActiv Acquisition completed on November 30, 2012 (see "Recent Developments – Acquisition of CoActiv") provided Element with access to an established business platform in the United States and Canada, with built-in expertise in delivering manufacturer-supported equipment financing programs, expanding Element's presence in both the United States and Canada. Moreover, the CoActiv Acquisition provided Element with 15 new vendor finance programs with leading equipment manufacturers and their dealer networks in the construction, industrial, office products and technology markets, as well as franchise capital equipment acquisition programs, which served to strengthen and expand on Element Finance's existing business unit platforms. Through these manufacturer and franchisor supported sales financing programs, Element has been connected with an established and diversified base of more than 11,000 customer accounts in the United States and Canada that includes a wide range of end-users - from Fortune 500 companies to small and medium sized businesses to local municipalities. Element believes that the CoActiv transaction is an important step in Element's growth strategy and provides a platform which will allow Element to serve the sales financing needs of equipment manufacturers that are active on both sides of the Canada-U.S. border. As in Canada, Element's principal competitors in the commercial finance segment of the United States market will be a wide variety of market participants, including banks, captive finance companies and independent finance companies.

The Nexcap Acquisition completed on January 18, 2013 (see "Recent Developments – Acquisition of Nexcap") provided Element with a tuck-in acquisition that is expected to offer supplemental origination volumes derived from various vendor finance relationships with leading Canadian technology and transportation equipment manufacturers in Canada. The Nexcap Acquisition is expected to strengthen Element's direct financing and vendor financing support to equipment dealers, distributors and manufacturers in the Canadian market and provide the portfolio with exposure to a particular focus on technology and transportation equipment. By leveraging off of Element's existing platform, Element believes it can supplement these established origination volumes by bringing a broader range of sales financing tools to these distribution channels and build deeper and more durable relationships with these customers.

Element Finance primarily originates its equipment finance assets directly through its six specialized business unit platforms and its relationships with equipment vendors, as well as through relationships with select third-party brokers. Unlike many of its competitors, Element Finance does not rely on third-party brokers to originate a significant portion of its business due to the higher incidence of losses from this type of business. Element Finance is supported by Element Services which provides comprehensive asset management services.

Historically, Element Finance's core origination business has been in the Transportation and Construction business unit. However, Element Finance expects a material portion of future growth in its origination business to come from the Golf Equipment, Commercial and Industrial, Healthcare Equipment, Office Products and Technology and Franchise business units. Element Finance believes that the diversification of its existing business unit platforms will provide it with protection from economic cycles.

**Element Capital**

Element Capital, established in January 2012, is Element's corporate finance vertical, which 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, which is characterized by smaller transactions of a homogeneous nature and shorter duration. However, the transactions across Element's business verticals are similar in that they are secured by tangible business-critical assets, are self-amortizing (in that payments include a portion of principal repayment), and are structured to ensure that the financed asset values provide sufficient coverage for the principal balance outstanding over the term of the loan or lease.

Element Capital originates large equipment financing and leasing transactions that range in size from $5 million to $150 million or more with a duration ranging from 36 to 84 months. These transactions typically apply to the financing of a single high-value asset, such as a corporate jet, but may also extend to the financing of a group of mid-value assets, such as various pieces of construction machinery operated by a single obligor, that, in aggregate, move the transaction size in the range noted above.

Element Capital originates these larger, longer-duration equipment financing transactions through its teams of knowledgeable equipment finance specialists who have established networks of contacts with both manufacturers and end-users of various types of equipment. These teams have expertise in sectors that include civil aviation (both fixed-wing and rotary), road and rail transportation, mining, construction and energy. The Element Capital team of 10 people is led by Tony Bergeron, who has more than 20 years of commercial banking and equipment finance experience, with an extensive background in civil aviation financing, and includes Christian de Broux, who served for eight years as Chief Risk Officer at GE Capital Canada and has more than 23 years of commercial banking, credit underwriting and equipment finance experience. In addition to this Montreal-based team, Element Capital has an origination team in Calgary which focuses on the energy industry, and is augmented by the capabilities of Element's senior management team in Toronto led by Steven Hudson and other senior managers of Element who have well-developed networks and expertise serving the large equipment financing market in North America.

Financing in the corporate finance market is required by corporations, institutions and governments acquiring capital assets such as aircraft, toll highways, railway rolling stock and transportation fleets. Transactions in this market differ significantly from those in the commercial finance market in terms of their complexity. 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. In the case of Element Capital, 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.

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. Asset-based lenders have also been aggressively pursuing lending opportunities as a means of diversifying their investment portfolios. The principal competitors of Element Capital in the corporate finance market are GE Capital, CIT, Key Equipment Finance, HSBC, Bank of America Equipment Finance, PNC Equipment Finance and other Canadian and US banks.

The corporate finance market is more difficult to penetrate because it requires: (i) an origination network that is developed over many years from serving the manufacturers and end-users of a particular asset class; (ii) a deep level of knowledge regarding underwriting and structuring credit, based on the manner in which the values of these assets change over time as a result of age, use, maintenance, technological innovation and economic cycles; and (iii) knowledge of and access to funding sources in which the originator has developed a working relationship that allows syndicate structures to be put together efficiently on a transaction-by-transaction basis.

Element Capital 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), Element Capital'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.

**Element Fleet**

Element Fleet'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. Element Fleet was established as a new business vertical following the completion of the acquisition of TLSI on June 29, 2012 (see "Recent Developments – Acquisition of TLSI"). At the time of the TLSI Acquisition, TLS was Canada's fourth largest fleet leasing company (originally established in 1980) and provided Element with a portfolio of more than $430 million of lease assets. The TLSI Acquisition accelerated the growth of Element through the strength of its platform and through extensive 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.

Element Fleet 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 broad vendor 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. Element's competitors in the vehicle fleet leasing and fleet management solutions market include Canadian based fleet management companies, such as Foss National Leasing and Dynamic Leasing Canada, as well as Canadian subsidiaries of U.S.-based fleet management companies, such as GE Capital Fleet Services and PHH Arval.

Element Fleet operates across Canada and currently manages over 750 fleets representing over 23,000 leased vehicles. With 120 employees, Element Fleet has a national focus with offices in Toronto, Montreal, Edmonton, Calgary, Vancouver and a presence in Winnipeg.

**Element Services**

Element Services is the administrative unit of Element responsible for managing the capital structure of Element and for providing cost-effective growth, control and support services such as credit and risk management, customer services, financial reporting and information technology support to the Element Finance, Element Capital, and Element Fleet verticals. In addition, Element Services is responsible for managing the capital structure of the Corporation, including the management of Element's various funding programs with banks and institutional investors/lenders.

Element Services is divided into five principal operating units:

- Treasury;
- Credit and Risk Management;
- Financial Management;
- Information Technology; and
- Legal.

*Treasury*

The Treasury group is responsible for ensuring the Corporation's liquidity and access to capital is obtained at attractive pricing as well as managing relationships with bank and institutional lenders. Treasury also manages certain financial risks generated in the normal course of business, such as interest rate and currency risks.

*Credit and Risk Management*

The Credit and Risk Management group is led by the Corporation's Chief Credit Officer and is responsible for prudent and proper underwriting and portfolio management of Element's credit risk.

In connection with these core functions, Element has developed a series of credit management philosophies that are specific to the granting of credit to customers and adapted to each specific vertical, commercial and corporate asset type, as well as a credit manual and vertical-specific credit underwriting manuals in order to provide effective credit and risk management of Element's portfolio.

Element believes that effective credit management is critical to the success of Element's portfolio. The board of directors of the Corporation (the "Board of Directors") has approved, through the Board of Directors' Credit Committee, a credit manual which sets forth the business objectives, strategies, credit philosophies and credit guidelines that are to be followed by Element in considering prospective new business financings within its business units and for managing its existing asset portfolio. Element's senior management team regularly reviews and monitors the credit manual to ensure consistency between Element's business objectives and strategies and current economic conditions. By following a disciplined and consistent approach in its daily business operations, Element believes it can manage credit risks in a reasonable and prudent manner.

Element has also developed a series of credit management philosophies that are specific to the granting of credit to its customers, adapted to each specific business unit and equipment type. The Board of Directors has approved, through the Credit Committee, credit underwriting manuals which set forth business and credit philosophies and parameters and credit standards for each business unit. Element's credit adjudication policy requires strict adherence to these credit underwriting manuals. This credit evaluation process, as specified in each of the credit underwriting manuals, sets out detailed procedures by which proposed transactions are presented, reviewed and assessed by a credit officer and ultimately approved or declined. These credit underwriting manuals are regularly reviewed and approved by the Credit Committee, as well as by the providers of Element's Term Funding Facilities (as defined herein), each of whom also regularly conduct reviews and audits of Element's compliance with its credit procedures.

In general, Element's credit underwriting guidelines include:

- having a defined and consistent approach to the assessment and underwriting process used for reviewing new credit applications;
- using a prudent combination of judgment and a credit rating system when considering an application for a new credit exposure;
- ensuring all new transactions are correctly credit rated so that, in combination with ongoing monitoring of existing exposures, the overall level of credit risk in the portfolio can be accurately quantified and monitored on an ongoing basis;
- creating reasonable and prudent policies regarding overall credit exposures to business lines, geographic areas and individual customer exposures;
- setting formal and prudent individual approval levels, based on the experience and knowledge of the individual and Credit Committee authorities for the approval of credit granting – such credit authorities are also based on a combined or consolidated exposure to the customer as opposed to individual credit requests;
- constant monitoring of the portfolio for credit quality, various exposures and arrears performance and reporting on same to the Credit Committee on a monthly basis and the Board of Directors on a quarterly basis; and
- quickly identifying and addressing potential or actual accounts that may or have become credit impaired.

In conjunction with Element's credit underwriting guidelines, Element has also developed a series of general underwriting philosophies which are employed throughout Element's business units. In general, Element's underwriting philosophies include the following:

- employing experienced and knowledgeable internal origination teams that are familiar with the equipment product lines and industry segments in which they are originating new business applications;
- transacting new business through *bona fide* equipment dealers and vendors that are known to Element and its employees;
- following Element's "Know Your Customer" philosophy which constitutes a major component of effectively managing Element's credit risks and is instrumental in significantly reducing and managing the possibility of fraudulent activity;
- vetting and approving any financial intermediaries, such as third-party agents, that wish to submit new business applications to Element, which includes the completion of an application and intermediary agreement;
- employing a network of dependable and reliable bailiffs to quickly assist in the procuring of Element's security on delinquent or impaired accounts as quickly as possible, thereby helping to reduce potential losses on those accounts; and
- maintaining an accurate database on Element's customers and a credit file on each individual customer which can be easily referenced in the event of any issues, changes or delinquencies that may arise.

Element believes that effective risk management against fraud is critical to the success of Element's portfolio. Element has developed controls for the risks that result from fraud, which includes careful adherence to Element's underwriting, documentation and internal control procedures. Element requires staff to be aware of the potential for fraud and to remain diligent in identifying and reporting to senior management any suspicious activities. Types of fraud that Element is exposed to generally fall into one of three primary categories: (i) vendor/dealer fraud; (ii) customer fraud; and (iii) employee fraud.

Element takes a number of steps to protect against vendor/dealer fraud by adhering to the policies and procedures documented in each of its credit underwriting and documentation manuals. Element primarily protects against customer fraud at the underwriting stage. Element's underwriting staff is experienced at identifying warning signs associated with risks related to customer fraud. Element protects against employee fraud by maintaining a culture which focuses on the highest standard of business ethics and conduct by all employees, where Element's staff are encouraged to identify and report unusual or irregular activities. As a member of the Canadian Finance & Leasing Association ("CFLA"), Element and its staff abide by the CFLA's Code of Ethics, which serves as the guiding principles for all members engaged in the business of leasing and asset-based financing. Element has also adopted a written Code of Business Conduct and Ethics that applies to directors, officers and employees. The CFLA Code of Ethics and Element's Code of Business Conduct and Ethics have been made available to each of its directors, officers and employees. Element has also established internal control procedures throughout the business process to reduce the risks of employee fraud.

In managing the growth of its portfolio, Element takes a disciplined approach to risk management. Element finances equipment in market segments that it understands and has the expertise to underwrite and manage and has adopted specific underwriting guidelines for each of the different equipment market segments that it finances. Portfolio risk is diversified across the full range of asset classes with concentration limits on market segments as a percentage of Element's overall portfolio.

The current portfolio concentration limits are subject to ongoing review by senior management and the Board of Directors' Credit Committee and are adjusted in response to changes in market conditions and the addition of new product lines and market verticals.

The business mix of Element's portfolio will be monitored and adjusted over time to reflect market and industry conditions as well as the performance of the portfolio by asset class and risk rating category. Element has established documented policies and procedures in key risk areas including credit, documentation and collections. Element limits its exposure to individual customers by maintaining maximum exposure limits per customer account.

Element's equipment finance portfolio consists of those assets which it owns and manages. Certain of the financial features and financial performance of the equipment portfolio summarized below have a direct influence on Element's cost of funds and its ability to generate new financing transactions.

Portfolio growth has assisted Element in diversifying its lending across equipment classes and geographically thereby reducing concentration risks.

Element's portfolio continues to perform well with delinquency and credit losses well below industry norms. Portfolio delinquency and losses are expected to rise with the growth of the portfolio; however, such delinquency and losses are projected by Element to be within industry norms for a commercial portfolio within Element's designated equipment finance asset classes. Delinquencies for the year ended December 31, 2012 remain low at 0.28% of total finance receivables.

*Financial Management*

The Financial Management group is led by the Corporation's Chief Financial Officer and is responsible for administration and financial reporting, information technology, tax and audit and documentation system services to Element's verticals. The growth in the number of employees engaged in the activities of Financial Management has paralleled the growth in Element's new business origination volumes, including those acquired through the TLSI Acquisition, the CoActiv Acquisition and the Nexcap Acquisition.

The administration branch of the Financial Management division is responsible for ensuring that originated finance assets are not funded by Element until all credit and documentation conditions are satisfied and all required security is perfected. Services provided by this division include document administration, review and approval, funding, account set-up and activation, account maintenance, invoicing, correspondence tracking, insurance tracking and security registrations. The portfolio of assets owned and managed by Element is monitored with the assistance of a comprehensive software package. Element has also invested in cost-effective financial reporting computer systems.

*Information Technology*

The Information Technology group is led by the Corporation's Chief Technology Officer and provides information technology application support to Element's operations while being also responsible for security, archiving, infrastructure, communication, disaster recovery and office support management. Element has established back-up arrangements and disaster recovery solutions in the event of a failure in its principal systems.

*Legal*

The Legal group is led by the Corporation's Senior Legal Counsel and provides legal services to support Element's existing verticals and day-to-day corporate operations and compliance.

## Growth Strategy

Element's primary objectives are to enhance its current position as a provider of equipment financing to medium-sized businesses, primarily within the mid-ticket market segment and strengthen its presence in the large equipment finance market through its Element Capital vertical, continue growth in its Element Fleet vertical and to increase Element's overall brand recognition within the equipment finance industry. Element's growth strategy is based on three initiatives: (i) leveraging the Corporation's North American capabilities to organically grow its established customer relationships, including leveraging the new customer relationships acquired through the CoActiv Acquisition and Nexcap Acquisition; (ii) adding selected tuck-in acquisitions that can broaden the Corporation's base of vendor and dealer relationships, similar to the Nexcap Acquisition completed on January 18, 2013; and (iii) identifying transformational acquisitions that move the Corporation toward its goal of becoming North America's most successful independent equipment finance company.

This approach to both organic and acquisitive growth is founded upon a number of considerations:

(i) Prior to the CoActiv Acquisition, most of Element's business had been generated in Canada, where Element continues to have a well-developed origination network. Through the CoActiv Acquisition, Element expanded its presence in the United States and intends to increase its investment in originations into other geographic regions across Canada and the United States.

(ii) Element seeks to maintain consistent credit quality standards while continuing to pursue strategies designed to increase the number of independent equipment dealers and other origination sources that generate and develop lease customers.

(iii) Element continues to target strategies to further penetrate its existing origination sources, including pursuing new vendor relationships and expanding upon its existing relationships.

(iv) Element believes that the market disruption and lack of access to capital in the Canadian equipment finance industry as a result of the global economic crisis beginning in 2008 has created the opportunity for Element to expand its origination staff by hiring experienced teams who have well established origination relationships.

(v) Element believes that significant strategic and accretive opportunities exist in the North American equipment leasing industry and Element intends to pursue a disciplined approach to such opportunities.

For additional discussion on the key components of Element's growth strategy, see the AIF, which is incorporated by reference into this prospectus.

## Funding Model

From its inception in 2007 to December 31, 2012, Element has obtained in aggregate approximately $1.55 billion in equity capital and funding combined. In 2012 alone, Element substantially strengthened its balance sheet by increasing its equity capital by almost $200 million in gross proceeds pursuant to two private placements of special warrants. See "Recent Developments - Special Warrant Offering – November 23, 2012" and "Recent Developments – Special Warrant Offering – May 31, 2012". This substantially enhanced equity base will allow Element to leverage its balance sheet with additional debt capital, to support growth in equipment finance asset originations.

The funding strategy used for equipment finance assets that Element originates is determined by the nature of the assets and achieving efficiency in execution. The funding model uses a combination of Element's own cash resources, secured borrowing facilities (see "- Funding Arrangements") and syndication. The size, duration, and single obligor limits of the equipment finance asset influences the funding decision. In general, Element Finance mid-ticket business units originate assets that match the desired quality and term profiles of the Canadian life insurance companies and, as a result, Element has implemented term funding facilities with four life insurance companies (the "Term Funding Facilities"). The large ticket Element Capital transactions are better suited to the syndication model. The Element Fleet assets have a shorter duration, lower asset size and are suited to the revolving secured borrowing funding structure. As there is overlap in the nature of the assets from each of these business units, the funding models are not exclusive to the business unit. A typical equipment finance transaction is funded through Element's committed Funding Arrangements.

There are a number of steps involved in the funding of Element's equipment finance assets:

(i) Element originates and funds equipment finance transactions in accordance with its specific credit underwriting guidelines for each vertical (including business units within such vertical, as applicable). The Corporation can use a combination of available cash on hand and/or its Warehouse Line to fund the asset (see "- Funding Arrangements").

(ii) For equipment finance assets of less than $5 million, Element accumulates equipment finance transactions for a period of time, typically in the range of one to four weeks, and packages the transactions in discrete tranches for funding through one of its Funding Arrangements. For equipment finance assets of greater than $5 million, Element syndicates a *pari passu* participating interest in the asset, and retains servicing responsibilities.

(iii) The proceeds received from the funding facility are used by Element to repay (if any) amounts borrowed under the Warehouse Line, and any cash reserve requirements within the permanent funding facility, with the remaining balance of the term funding proceeds released to Element.

(iv) Transactions are match funded on a duration and interest rate basis. The financing term equal to the amortization of the underlying equipment finance transactions. Fixed and floating interest rates are matched, through aligning the assets and funding facility and through interest rate swaps. Element recognizes interest income and associated interest expense over the term of the equipment finance transactions.

As part of its planning and corporate governance process, Element, on an on-going basis, monitors developments in the capital markets to ensure efficient structures and execution of its funding arrangements. See "- Funding Arrangements".

**Funding Arrangements**

The Corporation's primary sources of funding are: (i) cash flows from operating activities; (ii) the Warehouse Line; (iii) the Term Funding Facilities; (iv) revolving secured borrowings; and (v) equity. As at December 31, 2012, Element had shareholders' equity of $423,425,000, and secured borrowings of $989,128,000. Growth in the Corporation's lease originations will require the ongoing availability of secured borrowings sufficient to accommodate such growth. At the date of hereof, the Corporation has access to committed funding facilities of $407,982,000.

*Equity*

In 2012, the Corporation completed two special warrant financings: (i) the May 2012 Special Warrant Offering; and (ii) the November 2012 Special Warrant Offering. See "Recent Developments – Special Warrant Offering – May 31, 2012" and "Recent Developments – Special Warrant Offering – November 23, 2012".

As at December 31, 2012, Element had shareholders' equity of $423,425,000, as summarized in the chart below:

| *(in 000's)* | **As at December 31, 2012 $** | As at December 31, 2011 $ |
|---|---|---|
| Shareholders' equity | | |
| Paid-up capital | **330,578** | 243,637 |
| Special Warrants | **101,975** | — |
| Contributed surplus | **5,712** | 2,625 |
| Comprehensive income / (loss) | **(499)** | — |
| Accumulated deficit | **(14,341)** | (7,921) |
| Total shareholders' equity | **423,425** | 238,341 |

*Secured Borrowings*

The following table is a summary of the Corporation's secured borrowings as at December 31, 2012 and 2011:

| *(in 000's)* | **2012** $ | **2011** $ |
|---|---|---|
| Secured borrowings from Canadian life insurance companies | **309,609** | 86,495 |
| Secured borrowings from a non-related Canadian trust | **11,111** | 87,946 |
| Revolving secured borrowings from non-related trusts | **605,754** | — |
| | **926,474** | 174,441 |
| Revolving general borrowings, secured by the totality of the Corporation's assets | **68,899** | — |
| | **995,373** | 174,441 |
| Deferred financing costs | **(6,245)** | (1,924) |
| | **989,128** | 172,517 |

*Warehouse Line*

The Corporation has a traditional full recourse warehousing facility (the "Warehouse Line") used by the Corporation to fund eligible lease contracts prior to funding under the Term Funding Facilities, secured by a general security agreement providing security over all assets of the Corporation (including a second charge on assets over which the securitization facility lenders have priority). The Warehouse Line is subject to cross default against defaults under any other funding agreements.

On June 29, 2012, the Corporation increased the Warehouse Line to $75 million from the $25 million limit at March 31, 2012. The facility was further increased to $125 million at November 30, 2012 to accommodate the growing activity levels and originations.

On January 18, 2013, a warehouse line (the "Nexcap Line") of $9 million from a Canadian Schedule I financial institution was assumed as part of the Nexcap Acquisition.  This facility had $3.9 million outstanding at December 31, 2012.

*Secured borrowings – Term Funding Facilities*

The Term Funding Facilities are structured as limited recourse transactions with recourse only to the portfolios of finance receivables funded under these facilities, including cash reserves. Recourse to the Corporation is limited to 2% of the amounts outstanding under the facilities for all but one of the arrangements which has nil recourse. The Term Funding Facilities are not cross-collaterized to any facility with other lenders but are subject to cross-default against defaults in any other funding agreements.

During the year ended December 31, 2012, the Corporation renewed commitments from three of the existing life insurance companies resulting in an aggregate increase of the Term Funding Facilities of $165.7 million, and bringing the total availability under the facilities to $360.7 million, of which $223.9 million was available at December 31, 2012.  The Corporation believes it has significant capacity to increase these lines as the portfolio grows.

On January 18, 2013, Term Funding Facilities from Canadian life insurance companies and banks with $59.8 million outstanding were assumed as part of the Nexcap Acquisition. These facilities have commitments of $21 million available at December 31, 2012.

*Non-revolving secured borrowings – Canadian trust*

The non-revolving secured borrowing from the Canadian trust facility is structured as a sale and concurrent lease transaction and is non-recourse to the Corporation except for a cash reserve account. This facility was established to finance the assets acquired as part of the acquisition of Alter Moneta Group L.P. (the "AM Securitization Funding Facility"). As at December 31, 2012, the balance outstanding under this facility was $11.1 million. Management expects this facility to be fully repaid during the second quarter of 2013.

*Revolving secured borrowings*

A revolving secured borrowing facility from a Canadian trust was established in the principal amount of $400 million on June 29, 2012 to finance the assets acquired as part of the TLSI Acquisition. On September 6, 2012, the Corporation increased its secured borrowing facility previously set-up to finance the assets of TLSI from $400 million to $435 million to accommodate the growth in the origination activities of this business. This facility is revolving and any amounts repaid under the facility can be re-borrowed. As at December 31, 2012, an amount of $402.6 million had been drawn against this facility.

A revolving secured borrowing from a Canadian trust facility was established in the principal amount of $50 million on November 30, 2012 to finance the Canadian assets acquired as part of the CoActiv Acquisition. This facility is revolving and any amounts repaid under the facility can be re-borrowed. As at December 31, 2012, an amount of $25.8 million had been drawn against this facility.

A U.S. dollar revolving secured borrowing from a trust facility was established in the principal amount of US$250 million on November 30, 2012 to finance the U.S. assets acquired as part of the CoActiv Acquisition. This facility is revolving and any amounts repaid under the facility can be re-borrowed. As at December 31, 2012, an amount of US$178.3 million had been drawn against this facility.

A revolving secured borrowing from a Canadian trust facility was assumed in the principal amount of $50 million on January 18, 2013 as part of the Nexcap Acquisition. This facility is revolving and any amounts repaid under the facility can be re-borrowed. As at December 31, 2012, an amount of $5.2 million had been drawn against this facility.

Element's available sources of liquidity as at December 31, 2012 are shown in the following chart:

| *(in 000's)* | **As at December 31, 2012** | As at December 31, 2011 |
|---|---|---|
| | **$** | $ |
| Cash and cash equivalents | **9,997** | 151,086 |
| Warehouse Line | | |
| Facility | **125,000** | 25,000 |
| Utilized against Facility | **68,899** | — |
| | **56,101** | 25,000 |
| Secured borrowings – term funding facilities | | |
| Facilities available | **360,748** | 195,000 |
| Utilized against available Facilities | **136,898** | 43,086 |
| | **223,850** | 151,914 |
| Non-revolving secured borrowings – Canadian Trust | | |
| Facility | **11,111** | 87,946 |
| Utilized against Facility | **11,111** | 87,946 |
| | **—** | — |
| Revolving secured borrowings – Canadian Trust | | |
| Facility | **435,000** | — |
| Utilized against Facility | **402,640** | — |
| | **32,360** | — |
| Revolving secured borrowings – Canadian Trust | | |
| Facility | **50,000** | — |
| Utilized against Facility | **25,773** | — |
| | **24,227** | — |
| Revolving secured borrowings –Bank Trust | | |
| Facility (US $250,000) | **248,725** | — |
| Utilized against Facility (US $178,250) | **177,341** | — |
| | **71,384** | — |
| Total available sources of capital, end of period | **417,919** | 328,000 |

The Corporation has significant resources available to continue funding projected growth. Finance receivables are securitized on a regular basis to ensure cash is always available to fund new transactions. Cash levels are monitored closely by management. In addition, the Corporation adheres to a strict policy of matching the maturities of owned finance assets and the related debt as closely as possible in order to manage its liquidity position.

The contractual maturity of the secured borrowings outstanding as at December 31, 2012 and 2011, versus maturity of the finance receivables is as follows:

| *(in 000's)* | **2012** | | | **2011** | | |
|---|---|---|---|---|---|---|
| | **Secured borrowings** $ | **Finance receivables** $ | % | **Secured borrowings** $ | **Finance receivables** $ | % |
| Maturity | | | | | | |
| Within 1 year | **345,116** | **420,032** | **82.2** | 75,737 | 86,506 | 87.6 |
| In 1 to 3 years | **453,593** | **620,874** | **73.1** | 73,774 | 95,328 | 77.4 |
| In 3 to 5 years | **125,576** | **229,075** | **54.8** | 24,780 | 46,921 | 52.8 |
| After 5 years | **2,189** | **30,022** | **7.3** | 150 | 2,428 | 6.2 |
| | **926,474** | **1,300,003** | **71.3** | 174,441 | 231,183 | 75.5 |

*Contractual Obligations*

In addition to the obligations relating to secured borrowings previously discussed, the Corporation has the following contractual obligations relating its head office and regional offices under operating leases:

| *(in 000's)* | Total $ | Less than 1 year $ | 1 to 3 years $ | 4 to 5 years $ | After 5 years $ |
|---|---|---|---|---|---|
| Operating leases | 6,347 | 1,583 | 2,960 | 1,691 | 113 |

*Derivatives and Hedging*

From time to time, the Corporation enters into derivative transactions primarily in order to hedge interest rate exposure resulting from its floating rate debt obligations. The Corporation will enter into interest rate swap transactions whereby the Corporation will pay a fixed rate of interest and receive a floating rate of interest, with the notional amounts of the derivatives matched to the expected amortization of the related debt. The Corporation has designated these instruments as cash flow hedges and the changes in fair value of the effective portions of the hedging instrument are recognized through other comprehensive income, interest settlements on these interest rate swaps are applied to the related interest expense on the debt through the statement of operations.

The Corporation will also enter into foreign exchange forward agreements to hedge its exposures to foreign currency risk on foreign denominated finance receivables and its net investment in foreign subsidiaries. Fair value changes on the foreign exchange forward agreements and settlements on the foreign exchange forward contracts are recognized through other comprehensive income, and are transferred to income on the settlement of the related hedged finance receivable or on the disposition of the related foreign subsidiary.

As at December 31, 2012, the Corporation had net derivative liabilities of $0.9 million on notional balances of $526.7 million and the fair value changes recorded through other comprehensive loss was $1.2 million.

*Interest Rate Risk*

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In order to mitigate interest rate risk, the Corporation structures its secured borrowing arrangements to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving facilities and the interest received on the underlying finance receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances, matching the interest rate basis requires that the Corporation enters into interest rate swaps in order to align the interest rate variability.

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

To the extent that finance receivables are not part of a secured borrowing program, the Corporation manages its interest rate risk exposure by limiting the number of floating rate contracts that it has with its customers. As at December 31, 2012, the percentage of the total lease portfolio and the loan portfolio that had fixed interest rates was 80.6% and 92.5%, respectively.

After considering the fixed interest rate spread on the secured borrowing programs and high exposure to fixed rate finance receivables described above, the Corporation's interest rate risk is limited to cash and restricted cash, floating rate finance receivables which are neither hedged nor part of a match-funded secured borrowing arrangement, and senior revolving credit facility. Based on its exposure as at December 31, 2012, the Corporation estimates that a 50 basis point increase or decrease in interest rates would not have a significant impact on the Corporation's earnings.

*Future Funding Arrangements*

Element may consider obtaining further debt financing facilities through term bank debt, public term funding programs and other institutional debt or syndication facilities. With the increased equity capital base, and anticipated growth plans for originations, Element also expects to increase some of its existing funding facilities during 2013.

## Employees

As of date hereof, Element had 323 employees. None of Element's employees is represented by a collective bargaining agreement and it has never experienced any work stoppage. Element has employment, non-solicitation and non-competition agreements with each of its senior executives and originators. Element considers its relations with its employees to be good. In addition, Element views its employees as an important competitive advantage. Historically, Element has been successful in retaining its key employees including members of its senior management team. Element's senior management team has an in depth knowledge of equipment finance, and of the independent financial services industry in general, with an average of 20 years of diversified asset finance and equipment finance industry experience.

# RECENT DEVELOPMENTS

## Fourth Quarter and 2012 Financial Results

On February 19, 2013, Element issued a press release announcing its unaudited financial results for the three-month period ended December 31, 2012 and the annual results for the fiscal year ended December 31, 2012. Element had record origination levels of $689.3 million contributing to revenue of $57.9 million, operating income of $14.9 million and operating income per share of $0.14 (on an after-tax basis) for the twelve-month period ended December 31, 2012. As at December 31, 2012, Element had total assets of approximately $1.5 billion.

In addition, Element announced plans to establish a new special purpose fund, expected to be known as the Element Equipment Finance Fund (the "Fund"), as a funding vehicle to complete Element's existing securitization and syndication arrangements. Element proposes that the Fund will focus on secured equipment financing transactions in the $1.5 million to 25.0 million range and will be capitalized with equity from Element and debt from Element's institutional partners. With target leverage for the Fund in the range of 70% to 80%, Element believes it can significantly increase returns on the capital it contributes to the Fund.

Element's audited financial statements as at and for the fiscal year ended December 31, 2012 and related management's discussion and analysis of such financial results are expected to be released in March 2013 and will be available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

## Special Warrant Offering – November 23, 2012

On November 23, 2012, Element issued, on a private placement basis, 19,500,000 special warrants (the "November 2012 Special Warrants") at a price of $5.65 per November 2012 Special Warrant for gross proceeds of approximately $110.2 million (the "November 2012 Special Warrant Offering"). The issuance included after-tax transaction costs of approximately $8.2 million. Each

November 2012 Special Warrant entitled the holder to receive, upon exercise or deemed exercise thereof, for no additional consideration, one Common Share in the capital of Element. The distribution of the Common Shares underlying the November 2012 Special Warrants was qualified by a prospectus dated February 5, 2013. The Common Shares underlying the November 2012 Special Warrants were issued on February 6, 2013.

**Acquisition of Nexcap**

On December 27, 2012, Element entered into a share purchase agreement (the "Nexcap Share Purchase Agreement") to acquire all of the outstanding shares in the capital of Nexcap Finance Corporation ("Nexcap") for approximately $20 million plus the assumption of Nexcap's existing net debt (the "Nexcap Acquisition"). Pursuant to the Nexcap Share Purchase Agreement, Element acquired all of the outstanding shares in the capital of Nexcap from the Sherk Family Trust, 1397225 Ontario Limited and Mid Canada Asset Management Corp. The Nexcap Acquisition closed on January 18, 2013.

The approximately $20 million equity funding required for the completion of the Nexcap Acquisition was satisfied through a combination of cash on hand and short term borrowings. Element also assumed Nexcap's existing $78 million debt facilities.

Established in 2000, Burlington, Ontario-based Nexcap had originations of approximately $31.6 million for the year ended December 31, 2011, with more than 75 percent of this volume derived from various vendor finance relationships that Nexcap operates for leading technology and transportation equipment manufacturers in Canada.

For the year ended December 31, 2011, Nexcap had revenues of approximately $29.6 million and net income of approximately $4.7 million. For the nine-month period ended September 30, 2012, Nexcap had revenues of approximately $19.2 million and net income of approximately $3.0 million. As at September 30, 2012, Nexcap had assets aggregating more than $113 million.

**Acquisition of CoActiv**

On November 8, 2012, Element entered into a stock purchase agreement (the "CoActiv Stock Purchase Agreement") for the acquisition of 100% of CoActiv Capital Partners, Inc. ("CoActiv") from Marubeni Corporation and Marubeni America Corporation ("MAC") (collectively, "Marubeni") for aggregate consideration of approximately $300 million including repayment of debt to Marubeni (the "CoActiv Acquisition" and together with the Nexcap Acquisition, the "Acquisitions"). Pursuant to the Stock Purchase Agreement: (a) Element acquired all of the outstanding shares of CoActiv Capital Partners Canada Inc., a wholly owned subsidiary of CoActiv ("CoActiv Canada"), from CoActiv, and (b) a wholly-owned subsidiary of Element, Element Financial (US) Corp., acquired all of the outstanding shares of capital stock in CoActiv from Marubeni. The CoActiv Acquisition closed on November 30, 2012.

The approximately $300 million funding required for the completion of the CoActiv Acquisition was satisfied through a combination of approximately $22 million from cash on hand and short term borrowings, approximately $81 million from the net proceeds of the November 2012 Special Warrant Offering and approximately $198 million from new securitization arrangements for the acquired finance assets (see "- CoActiv Securitization Transactions").

CoActiv has expertise in delivering manufacturer supported equipment financing programs. Through its manufacturer and franchisor supported sales programs, CoActiv has established a diversified base of more than 11,000 customer accounts in the U.S. and Canada that includes a wide range of end-users – from Fortune 500 companies to small and medium sized businesses and local municipalities. For the years ended December 31, 2011 and December 31, 2012, CoActiv had consolidated originations of approximately $161.4 million and approximately $205.7 million, respectively.

For the year ended December 31, 2011, CoActiv had revenues of approximately $25.6 million and net income of approximately $2.5 million. For the nine-month period ended September 30, 2012, CoActiv had revenues of approximately $24.0 million and net income of approximately $4.5 million. As at September 30, 2012, CoActiv had assets aggregating more than $315 million.

**CoActiv Securitization Transactions**

Concurrent with the closing of the CoActiv Acquisition, CoActiv and Element Funding U.S., LLC, a newly formed special purpose entity, entered into a financing with a U.S. branch of a Canadian chartered bank that is an affiliate of BMONB, and CoActiv Canada entered into a securitization funding transaction with a Canadian asset-backed securitization conduit administered by BMONB (collectively, the "CoActiv Securitization Transactions"). Pursuant to the CoActiv Securitization Transactions, each of CoActiv and CoActiv Canada sold or concurrently leased, as applicable, substantially all of its finance assets in consideration for a purchase price or prepayment of rents in the aggregate amount of approximately $198 million.

Element has agreed to guarantee the performance of certain obligations of CoActiv, CoActiv Canada and Element Funding U.S., LLC in connection with the CoActiv Securitization Transactions.

**Acquisition of TLSI**

On May 14, 2012, Element entered into a share purchase agreement (the "TLSI Share Purchase Agreement") to acquire the outstanding shares of TLSI, the holding company of Transportaction Lease Systems Inc. ("TLS"), from The Bank of Nova Scotia ("BNS") and the company's other minority shareholders for aggregate consideration of approximately $146.7 million plus debt (the "TLSI Acquisition"). The TLSI Acquisition closed on June 29, 2012.

The approximately $527 million of funding to complete the TLSI Acquisition was satisfied through a combination of $127 million in cash (of which, approximately $42.1 million was funded from the proceeds of the May 2012 Special Warrant Offering (as defined herein)) and from the proceeds of an approximately $400 million financing transaction. The financing transaction involved the establishment of a securitization facility, under which TLS' vehicles and related lease assets may be sold from time to time to a newly formed special purpose entity, which in turn raises debt capital to finance such purchases. See – "Securitization of the TLS Assets" for further information.

TLS' 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. TLS, Canada's fourth largest fleet leasing company, has operated across Canada since 1980. BNS acquired a controlling interest in TLSI in 2009, which it sold as part of the TLSI Acquisition.

For the year ended June 30, 2011, TLSI had revenues of $45.1 million and earnings of $9.3 million. For the nine-month period ended March 31, 2012, TLSI had revenues of $30 million and earnings of $7.8 million. Upon closing of the TLSI Acquisition, TLSI had finance assets aggregating more than $510 million.

**Securitization of the TLS Assets**

In connection with financing the purchase price of the TLSI Acquisition, TLS entered into a securitization arrangement (the "TLS Securitization Arrangements"), under which eligible TLS vehicles and related lease assets may be sold from time to time to a newly formed special purpose entity (the "TLS Partnership"), which in turn raises debt capital to finance its purchases. Element has guaranteed the obligations of TLS under the TLS Securitization Arrangements. The TLS Partnership and the related TLS Securitization Arrangements establish a permanent funding structure to enable TLS to securitize its future lease assets.

The first transaction under the TLS Securitization Arrangements closed on June 29, 2012 and involved a sale of substantially all of TLS' vehicles and related lease assets to the TLS Partnership and the issuance by the TLS Partnership of approximately $400 million of floating rate asset-backed notes. The asset-backed notes were purchased by a securitization conduit administered by BMONB. The $400 million of initial proceeds from the TLS Securitization Arrangements were applied to repay indebtedness incurred at closing to repay TLS' approximately $375 million of outstanding indebtedness and to enable Element to pay the balance of the purchase price for the TLSI shares pursuant to the TLSI Share Purchase Agreement.

**Special Warrant Offering – May 31, 2012**

On May 31, 2012, Element issued, on a private placement basis, 16,595,900 special warrants (the "May 2012 Special Warrants) at a price of $5.25 per May 2012 Special Warrant for gross proceeds of approximately $87.1 million (the "May 2012 Special Warrant Offering"). The issuance included after-tax transaction costs of approximately $6.2 million. Each May 2012 Special Warrant entitled the holder to receive, upon exercise or deemed exercise thereof, for no additional consideration, one Common Share in the capital of Element. The distribution of the Common Shares underlying the May 2012 Special Warrants was qualified by a prospectus dated August 9, 2012. The Common Shares underlying the May 2012 Special Warrants were issued on August 14, 2012.

## DIRECTORS AND OFFICERS

### Directors

The following table sets forth the full name, province or state and country of residence and principal occupations for each current director of the Corporation:

| Name and Province/State and Country of Residence | Director since | Principal Occupation |
|---|---|---|
| Steven K. Hudson<br>Toronto, Ontario, Canada | 2010 | Chairman and Chief Executive Officer of the Corporation since 2011; previously Chief Executive Officer of Herbal Magic Inc. from 2009 to 2011 and Chief Executive Officer of Cameron Capital Corp. from 2005 to 2009. Founder and former CEO of Newcourt Credit Group Inc. |
| Bruce Smith<br>Toronto, Ontario, Canada | 2011 | Chief Operating Officer of the Corporation; previously the Managing Director and Senior Vice President of Vendor Finance at CIT Financial Ltd. from 2006 to 2011. |
| Fraser Clarke<br>Toronto, Ontario, Canada | 2010 | President and Chief Executive Officer of Herbal Magic Inc. since 2011; previously President and Chief Operating Officer of Herbal Magic Inc. from 2009 to 2011, President of 57146 NL & Lab Inc. from 2007 to 2009 and President and Chief Executive Officer of Hair Club for Men and Women Ltd. from 2002 to 2007. |
| Michael D. Harris, ICD.D<br>Toronto, Ontario, Canada | 2010 | Senior Business Advisor at Cassels Brock & Blackwell LLP, a Canadian law firm; previously Senior Business Advisor at Goodmans LLP from 2002 to 2010. |
| Pierre Lortie, ICD.D<br>St-Lambert, Québec, Canada | 2011 | Senior Business Advisor at Fraser Milner Casgrain LLP, a Canadian law firm; a director of Altair Nanotechnologies, Inc., Tembec, Inc. and Canam Group Inc. |
| Stephens B. Lowden<br>Port Carling, Ontario, Canada | 2010 | Corporate Director; a director of The Becker Milk Company Limited, SCITI Rocs Trust, SCITI Trust and Canadian Resources Income Trust. |
| Leslie Martin<br>Etobicoke, Ontario, Canada | 2010 | Founder and Chief Executive Officer of First Lady International Corporation, a marketer and distributor of hair and accessory products and the founder and Chief Executive Officer of Emperor (Far East) Ltd., a global producer of hair systems with operations in China and Far Eastern markets. |
| Dr. Steven Small, ICD.D<br>Toronto, Ontario, Canada | 2010 | Practicing anaesthesiologist and Corporate Director; Chairman of Capital Partners Corporation; director of Knightsbridge Human Capital Solutions and Herbal Magic. |
| Paul Stoyan, ICD.D<br>Toronto, Ontario, Canada | 2010 | Chairman of Gardiner Roberts LLP, a Canadian law firm. |
| Harold Bridge, ICD.D<br>Oakville, Ontario, Canada | 2011 | President of Kathar Enterprises Inc., a Toronto-based firm that provides corporate finance, mergers & acquisitions and financial advisory services to national and international clients; previously a senior partner at Deloitte & Touche LLP from 1967 until 2006. |

Officers Other Than Those Referred to Above:

| Name and Province/State and Country of Residence | Principal Occupation |
|---|---|
| Bradley Nullmeyer<br>Toronto, Ontario, Canada | President of North American operations since 2012, previously co-founder of Newcourt with lead responsibility for acquisitions, vendor finance programs and joint ventures and President of Vendor Finance for CIT USA. |
| Michel Béland<br>Toronto, Ontario, Canada | Chief Financial Officer of the Corporation since 2011; previously the Chief Operating Officer and Chief Financial Officer of MMV Financial Inc., a private equity-backed specialty finance company from 2007 to 2011 and a Senior Vice President and Chief Financial Officer at Isacsoft Inc. from 2003-2007. |
| J. Stephen Sands<br>Toronto, Ontario, Canada | Chief Credit Officer of the Corporation since 2007; previously held senior operational and credit underwriting position at Mercado Capital Corporation from 2004 to 2007. |
| Todd Hudson<br>Etobicoke, Ontario, Canada | Executive Vice President, Originations of the Corporation since 2009; previously President of Hathway Financial, a finance company that specialized in small to mid-sized commercial credits in the transportation, construction and industrial equipment markets from 2003 to 2009. |
| Tony Bergeron<br>Verdun, Québec, Canada | Executive Vice President, Element Capital, since 2011; previously Senior Vice President at GE Capital, a company offering loans, equipment leasing, cash flow programs, asset financing and other financial services in more than 35 countries worldwide from 1997 to 2011. |
| Chris Marshall<br>Toronto, Ontario, Canada | Secretary of the Corporation since February 23, 2012; previously General Counsel of MMV Financial Inc., a private equity-backed specialty finance company from 2007 to 2011 and an associate lawyer at Blake, Cassels & Graydon LLP from 2006 until 2007. Mr. Marshall reports to the Chief Financial Officer of the Corporation. |

## EXECUTIVE COMPENSATION

The Circular, which is incorporated by reference into the prospectus, includes a discussion of the significant elements of Element's executive compensation program, with particular emphasis on the process for determining compensation payable to: (i) the Chief Executive Officer; (ii) the Chief Financial Officer; (iii) each of Element's three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of Element's most recently completed financial year whose total compensation was, individually, more than $150,000 for that financial year; and (iv) each individual who would be an executive officer under (iii) above but for the fact that the individual was neither an executive officer of Element, nor acting in a similar capacity, at the end of the most recently completed financial year (each, a "Named Executive Officer").

*Overview*

Historically, the Corporation's Board of Directors has established the compensation for the Named Executive Officers based on the underlying philosophy of "pay for performance", with the majority of compensation paid in the form of performance bonuses and option grants. The performance of each Named Executive Officer is measured solely against general criteria and objectives based on such person's role at Element, which are discussed among the Compensation and Corporate Governance Committee (the "C&CG Committee"), senior management and the Named Executive Officer prior to the commencement of each year. Based on such discussions, the C&CG Committee makes annual compensation recommendations to the Board of Directors.

To assist in executing its responsibilities, the C&CG Committee engaged an independent compensation advisor, Global Governance Advisors ("GGA"), to provide advice. GGA was directly retained, instructed by, and reported to the C&CG Committee. All work conducted by GGA is pre-approved by the C&CG Committee and GGA does not provide any non-Board of Directors approved services to the organization. The C&CG Committee takes GGA's reports and recommendations into consideration when assessing compensation structure and awards, but ultimately make its own decisions and recommendations for the Board of Directors to approve.

*Benchmarking Compensation and Comparator Group*

Due to the complexity associated with Element and the much larger size associated with many of the appropriate comparators for recruitment purposes, GGA recommended a holistic approach be taken pertaining to the formation of the comparator group for compensation benchmarking purposes.

The market for talent for Element's Named Executive Officers is largely North American as Element is equally likely to recruit executives from Canadian or U.S. companies. For this reason, both Canadian and U.S. companies are included in the benchmark group. The Board of Directors recognizes that there are few publicly traded companies that are directly comparable to Element's scope of operations and thus the formation of the comparator group takes into account the following items:

(i) Element's scope of operations;
(ii) companies that compete within the same industry;
(iii) companies of similar size and/or complexity;
(iv) companies that have comparable financial characteristics that investors view similarly;
(v) companies that may be subject to similar external factors; and
(vi) geographical scope – North American in scope.

The comparator groups used in 2012 for compensation benchmarking purposes was composed of the following companies:

| | | | |
|---|---|---|---|
| Air Lease Corp. | CIT Group Inc. | HOMEQ Corp. | TAL International Group Inc. |
| CAI International Inc. | Equitable Group Inc. | Marlin Business Services Corp. | Textainer Holdings Ltd. |
| Capital Source Inc. | GATX Corp. | Newstar Financial Inc. | |
| Chesswood Group Ltd. | Home Capital Group Inc. | Seacube Container Leasing Ltd. | |

General survey data is incorporated within the benchmarking process to provide an added perspective. The survey data is used to complement the custom industry specific analysis of the comparator group. General financial industry data provides an overview of compensation levels in the marketplace utilizing companies based on comparable size to Element.

The C&CG Committee annually reviews the approach to compensation benchmarking for the Named Executive Officers and makes any necessary adjustments to the comparator group in order to ensure proper alignment.

*Compensation Components*

Element's annual compensation program for the Named Executive Officers consists of three key components: base salary; short-term incentives; and long-term incentives. Element's executive compensation policy does not include specific performance goals or similar conditions that are based on objective, identifiable measures. Rather, compensation is discretionary, albeit based on, and informed by, the performance of Element and the Named Executive Officer's contribution to that performance, as well as the personal performance of the Named Executive Officer. Factors considered in the determination of compensation to be paid to Named Executive Officers include an assessment of the execution of the Corporation's growth strategy (see "Summary Description of the Business -- Growth Strategy") through consideration of: (i) the Corporation's overall financial condition (having regard to the stage of the Corporation's development and the Corporation's rapid growth since early 2011), including a review of the Corporation's financial results, such as business volumes, revenues and after-tax operating income; and (ii) achievement of strategic initiatives in furtherance of the Corporation's growth strategy, including strategic acquisitions, integration of acquisitions and major financings and funding facilities.

*Risk Assessment of Compensation Programs*

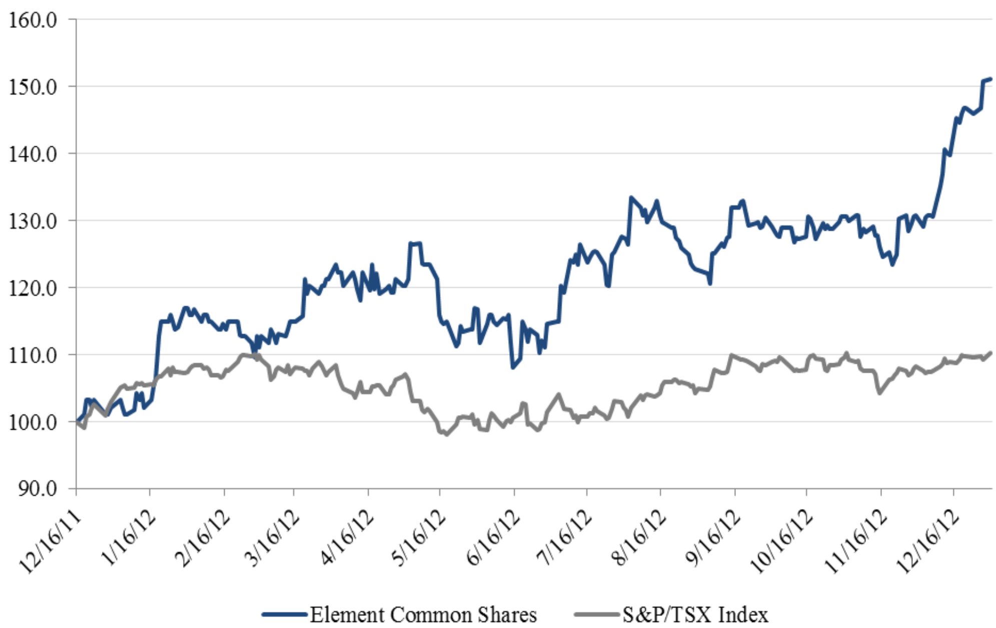
The Board of Directors has overall responsibility for the oversight of the Corporation's risk management, including in relation to all aspects of compensation. In this regard, the Board of Directors oversees the Corporation's compensation programs to ensure they do not encourage individuals to take inappropriate or excessive risks that could have a materially adverse effect on the Corporation. The Board of Directors, together with the C&CG Committee, considered the compensation programs of the Corporation to ensure that controls are in place to monitor and separate decision authorities related to key risks associated with Corporation's compensation and incentive plans. The Board of Directors and the C&CG Committee each also sought to ensure that the size of the rewards related to any given metric within the influence of a key decision maker was not significant enough to encourage excessive risk taking, and that the Corporation's compensation policies and practices are unlikely to have a materially adverse impact on the Corporation.

*Financial Instruments*

Pursuant to Element's Insider Trading Policy, directors and executive officers of Element are expressly prohibited from, directly or indirectly, undertaking any activities or engaging in trades in securities whereby the interests of such person making the trade are not aligned with those of Element (or would raise a particular concern regarding the same), including, but not limited to, purchasing financial instruments that are designed to hedge or offset a decrease in the market value of Element's Common Shares or other equity securities granted as compensation or otherwise held.

*Performance Graph*

The following graph shows the changes in the cumulative total shareholder return for $100 invested in the Common Shares on December 16, 2011, when the Corporation completed its amalgamation with Mira and the Common Shares were listed and posted for trading on the TSX, to the last trading day of December 2012 and is compared against the cumulative total shareholder returns of the S&P/TSX Composite Index, assuming the reinvestment of all dividends. The performance as set out in the graph does not necessarily indicate future price performance. The Corporation was unable to do a full year-over-year comparison as it was only a reporting issuer for the last two weeks in 2011.




From December 16, 2011 to December 31, 2011, total shareholder returns increased by approximately 2.13%. Total compensation for Named Executive Officers for that same period did not change. Over the one year period from December 31, 2011 to December 31, 2012, total shareholder returns increased by approximately 46.39%. Disclosure regarding total compensation for Named Executive Officers will be included in the Corporation's annual disclosure documents for the fiscal year ended December 31, 2012.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of Element effective September 30, 2012: (i) prior to the Acquisitions, the November 2012 Special Warrant Offering and the Offering; (ii) after giving effect to the Acquisitions and the November 2012 Special Warrant Offering, and (iii) after giving effect to the Acquisitions, the November 2012 Special Warrant Offering and the Offering. This table is presented and should be read in conjunction with (i) our consolidated unaudited financial statements as at and for the nine-month period ended September 30, 2012 and the related notes thereto and (ii) our consolidated unaudited *pro forma* financial statements as at and for the nine-month period ended September 30, 2012 and the related notes thereto included in the Nexcap BAR, both of which are incorporated by reference herein.

| Designation | Outstanding as at September 30, 2012 prior to giving effect to the Acquisitions, the November 2012 Special Warrant Offering and the Offering | Outstanding as at September 30, 2012 after giving effect to the Acquisitions and the November 2012 Special Warrant Offering(1)(2) | Outstanding as at September 30, 2012 after giving effect to the Acquisitions, the November 2012 Special Warrant Offering and the Offering(3) |
|---|---|---|---|
| **Cash and cash equivalents**…………................ | $12,690,000 | $16,507,000 | $158,591,250 |
| **Debt** | | | |
| Accounts payable and accrued liabilities………….... | $45,856,000 | $75,070,000 | $75,070,000 |
| Secured borrowings.............. | $720,297,000 | $1,002,018,000 | $1,002,018,000 |
| Total Debt………………. | $766,153,000 | $1,077,088,000 | $1,077,088,000 |
| **Shareholders' Equity** | | | |
| Common Shares(4).............. | $316,187,000 | $408,955,000 | $551,039,250 |
| Preferred Shares………… | Nil | Nil | Nil |
| Special Warrants………… | Nil | Nil | Nil |
| Total shareholders' equity…………………. | $316,187,000 | $408,955,000 | $551,039,250 |
| **Total capitalization**………. | $1,082,340,000 | $1,486,043,000 | $1,628,127,250 |

*Notes:*

(1) Represents consolidated capitalization of Element after giving effect to the issuance of Common Shares upon the exercise or deemed exercise of the November 2012 Special Warrants.
(2) Represents consolidated capitalization of Element after giving effect to the CoActiv Securitization Transactions entered into in connection with the CoActiv Acquisition.
(3) Represents consolidated capitalization of Element after giving effect to the Offering (after the Underwriters' Fee and the expenses of the Offering, but without giving effect to the exercise of the Over-Allotment Option).
(4) Represents shareholders' equity in Common Shares including accumulated deficit, contributed surplus and all comprehensive losses.

## TRADING PRICE AND VOLUME

The 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.

| Month | High ($) | Low ($) | Volume |
|---|---|---|---|
| ***2013*** | | | |
| March (1-5) | 8.80 | 8.60 | 1,843,455 |
| February | 8.78 | 7.83 | 19,550,955 |
| January | 8.08 | 7.03 | 24,904,244 |
| ***2012*** | | | |
| December | 7.17 | 6.01 | 6,758,048 |
| November | 6.29 | 5.71 | 7,511,942 |
| October | 6.20 | 5.95 | 6,283,203 |
| September | 6.35 | 5.65 | 7,273,857 |
| August | 6.35 | 5.69 | 7,149,361 |
| July | 6.02 | 5.35 | 4,673,581 |
| June | 5.50 | 4.98 | 4,658,980 |
| May | 6.00 | 5.05 | 3,934,095 |
| April | 5.80 | 5.36 | 2,487,189 |
| March | 5.70 | 5.20 | 2,635,231 |
| February | 5.50 | 5.09 | 3,410,111 |

On February 19, 2013, the last trading day prior to the announcement of the Offering, the closing price of the Common Shares on the TSX was $8.27. On March 5, 2013, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was $8.66.

## PRIOR SALES

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), excluding the Special Warrants, 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 |
|---|---|---|
| November 23, 2012 | 19,500,000(1) | $5.65 |
| March 5, 2012 to March 5, 2013 | 12,500(2) | $2.50 |
| March 5, 2012 to March 5, 2013 | 14,521(3) | $4.20 |
| March 5, 2012 to March 5, 2013 | 39,154(4) | $3.23 |
| March 5, 2012 to March 5, 2013 | 562,500(5) | $4.00 |
| March 5, 2012 to March 5, 2013 | 4,863,074(6) | $7.36 |
| May 31, 2012 | 16,595,900(7) | $5.25 |

*Notes:*

(1) On November 23, 2012, the Corporation issued 19,500,000 November 2012 Special Warrants, on a private placement basis, at a price of $5.65 per November 2012 Special Warrant. The distribution of the Common Shares underlying the November 2012 Special Warrants was qualified by a prospectus dated February 5, 2013 and the Common Shares underlying such November 2012 Special Warrants were issued on February 6, 2013. See "Recent Developments – Special Warrant Offering - November 23, 2012".

(2) Represents 12,500 Common Shares issued on the exercise of options to purchase Common Shares by a former director of the Corporation.

(3) Represents 14,521 Common Shares issued on the exercise of options to purchase Common Shares by a former officer of the Corporation.

(4) Represents 39,154 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.

(5) Represents 562,500 Common Shares issued on the exercise of broker warrants to purchase Common Shares.

(6) Represents 4,863,074 options to purchase Common Shares issued pursuant to the Corporation's stock option plan.

(7) On May 31, 2012, the Corporation issued 16,595,900 May 2012 Special Warrants, on a private placement basis, at a price of $5.25 per May 2012 Special Warrant. The distribution of the Common Shares underlying the May 2012 Special Warrants was qualified by a prospectus dated August 9, 2012. See "Recent Developments – Special Warrant Offering - May 31, 2012".

## 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 103,104,499 Common Shares and no Preferred Shares issued and outstanding. Following the completion of this Offering (assuming no exercise of the Over-Allotment Option), there will be 122,504,499 Common 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 rateably 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 Common Shares will amount to approximately $142,084,250, assuming no exercise of the Over-Allotment Option, and approximately $163,621,887 if the Over-Allotment Option is exercised in full and, in both cases, after deducting the Underwriters' Fee and estimated expenses of the Offering.

The Corporation intends to use the net proceeds of the Offering to originate and finance, directly and indirectly, finance assets. Provided the Corporation ultimately determines to proceed with the proposed establishment of the Fund, it intends to use approximately $100 million of the net proceeds of the Offering to finance assets through such entity. Any financing through the Fund is expected, to the extent determined advisable by the Corporation, to be supplemented by leverage incurred by the Corporation or the Fund, as applicable.

## BOOK-ENTRY ONLY SYSTEM

The Common Shares will generally be issued in "book-entry only" form and must be purchased, transferred, converted or redeemed through participants ("Participants") in the depository service of CDS. Each of the Underwriters is a Participant or has arrangements with a Participant. On the Closing Date, the Corporation will cause one or more certificate(s) (including book-entry only certificates or such other form of evidence of ownership) representing the Common Shares to be delivered to the Underwriters and registered in the name of CDS or such other name or names as the Underwriters may notify the Corporation. In general, no holder of Common 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 Participant acting on behalf of such holder. Each holder of Common Shares will receive a customer confirmation of purchase from the registered dealer from which the Common 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 Common Shares.

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

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

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated February 22, 2013 among the Corporation and the Underwriters, the Corporation has agreed to sell, and the Underwriters have severally agreed to purchase, as principals, subject to compliance with the terms and conditions contained therein and to all necessary legal requirements, on March 8, 2013 or such other date as may be agreed upon by the parties, all but not less than all of the 19,400,000 Common Shares at an aggregate price of $150,350,000 payable in cash to the Corporation against delivery of the Common Shares.

In consideration for their services in connection with the Offering, the Corporation has agreed to pay the Underwriters a fee equal to $0.34875 per Common Share sold. The total Underwriters' Fee (assuming no exercise of the Over-Allotment Option) will be $6,765,750. All fees payable to the Underwriters will be paid on account of services rendered in connection with the Offering and will be paid out of the proceeds of the Offering.

The Corporation has granted to the Underwriters the Over-Allotment Option, whereby they may purchase up to an additional 2,910,000 Common Shares, being a number equal to 15% of the number of Common Shares sold in the Offering. The Underwriters may exercise the Over-Allotment Option solely for the purpose of covering over-allotments and for market stabilization purposes as permitted pursuant to applicable Canadian securities laws. The Underwriters may exercise the Over-Allotment Option at any time until the date that is 30 days following the Closing Date. If the Underwriters exercise the Over-Allotment Option in full, the Underwriters will receive an aggregate fee of approximately $7,780,613, being $0.34875 per Common Share sold under the Offering (including the Over-Allotment Option). This short form prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares issuable upon the exercise of the Over-Allotment Option.

The Underwriting Agreement provides that the Underwriters may, at their discretion, terminate their obligations thereunder upon the occurrence of certain stated events or if 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. The Underwriters are, however, obligated to take up and pay for all the Common Shares if any Common Shares are purchased under the Underwriting Agreement.

The Underwriters may not, throughout the period of distribution, bid for or purchase the Common Shares. 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 Common Shares. 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 Common Shares 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 Joint Bookrunners, which consent may not be unreasonably withheld or delayed, issue, or announce the issuance of any Common Shares or any securities convertible into or exercisable to acquire Common Shares for 90 days following the Closing Date, 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 Common Shares 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 and, subject to certain exemptions, may not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement enables the Underwriters to offer and resell the Common Shares that they have acquired pursuant to the Underwriting Agreement to certain "qualified institutional buyers" (as such term is defined in Rule 144A under the U.S. Securities Act) and "accredited investors" (as such term is defined in Rule 501(a) of Regulation D under the U.S. Securities Act) in the United States, provided such offers and sales are made in transactions that are exempt from the registration requirements of the U.S. Securities Act. The Underwriters have agreed that they will not offer or sell the Common Shares within the United States or to, or for the account of, U.S. Persons except as permitted in the Underwriting Agreement.

The Underwriters propose to offer the Common Shares 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 Common Shares 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 Common Shares 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 Common Shares, was made through negotiations between the Corporation and the Underwriters.

The TSX has conditionally approved the listing of the offered Common Shares on the TSX. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before May 21, 2013. On February 19, 2013, the last day of trading before the announcement of the Offering, the closing price of the Common Shares on the TSX was $8.27. On March 5, 2013, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSX was $8.66.

## RELATIONSHIP BETWEEN ELEMENT AND CERTAIN UNDERWRITERS

BMONB is an affiliate of a Canadian chartered bank that is a lender to the Corporation under the Warehouse Line. In addition, the AM Securitization Funding Facility is administered by BMONB. Furthermore, BMONB is an affiliate of a Canadian chartered bank that, through one or more affiliates, is the lender to or investor in (a) a $435 million securitization funding facility under which an affiliate of the Corporation has transferred and will transfer finance assets and related property or interests therein pursuant to the TLS Securitization Arrangements ("the "TLSI Securitization Funding Facility") and (b) $300 million aggregate securitization funding facilities under which the Corporation or its affiliates have transferred and will transfer finance assets and related property or interests therein pursuant to the CoActiv Securitization Transactions (the "CoActiv Securitization Funding Facilities"). Consequently, the Corporation may be considered a "connected issuer" to BMONB under applicable securities laws in certain Canadian Provinces and Territories. As at December 31, 2012, there was $68.9 million outstanding under the Warehouse Line. The Corporation is in compliance with the terms of the Warehouse Line and, since the execution of the Warehouse Line, there has been no breach or waiver of a breach of the Warehouse Line. Indebtedness under the Warehouse Line 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 manner since the Warehouse Line was entered into. As at December 31, 2012, there was $11.1 million outstanding under the AM Securitization Funding Facility. The Corporation is in compliance with the terms of the AM Securitization Funding Facility and, since the execution of the AM Securitization Funding Facility, there has been no breach or waiver of a breach of the AM Securitization Funding Facility. The financial position of the Corporation has not changed in any material manner, since the AM Securitization Funding Facility was entered into. As at December 31, 2012, there was $402.6 million outstanding under the TLSI Securitization Funding Facility. The Corporation and the affiliates of the Corporation are in compliance with the terms of the TLSI Securitization Funding Facility and since the execution of the TLSI Securitization Funding Facility, there has been no breach or waiver of a breach of the TLSI Securitization Funding Facility. The financial position of the Corporation has not changed in any material manner, since the TLSI Securitization Funding Facility was entered into. As at December 31, 2012, there was approximately $204.1 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 manner since the CoActiv Securitization Funding Facilities were entered into. The net proceeds from the Offering will not be applied for the benefit of the lenders or investors under any of the Warehouse Line, the AM Securitization Funding Facility, the TLSI Securitization Funding Facility or the CoActiv Securitization Funding Facilities (see "Use of Proceeds" for further information).

RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank that is a lender to an affiliate of the Corporation under the Nexcap Line. Consequently, the Corporation may be considered a "connected issuer" to RBC Dominion Securities Inc. under applicable securities laws in certain Canadian Provinces and Territories. As at December 31, 2012, there was $3.9 million outstanding under the Nexcap Line. The Corporation's affiliate is in compliance with the terms of the Nexcap Line and, since the Nexcap Acquisition, there has been no breach or waiver of a breach of the Nexcap Line. The financial position of the Corporation has not changed in any material manner since the Corporation assumed the Nexcap Line in connection with the Nexcap Acquisition. The net proceeds from the Offering will not be applied for the benefit of the lender under the Nexcap Line.

The decision to issue the Common Shares and the terms of the distribution, including the price of the Common Shares, were made through negotiations between the Corporation and the Underwriters. The lenders under any of the Warehouse Line, the AM Securitization Funding Facility, the TLSI Securitization Funding Facility, the CoActiv Securitization Funding Facilities or the Nexcap Line did not have any involvement in such decision or determination, but have been advised of the issuance and terms thereof.

The Corporation intends to use a portion of the net proceeds from the Offering to originate and finance, directly and indirectly, finance assets and such portion of the net proceeds will not be applied for the benefit of BMONB, RBC Dominion Securities Inc. or their respective affiliates with whom Element may be considered a "connected issuer", other than BMONB's and RBC Dominion Securities Inc.'s respective shares of the Underwriters' Fee, paid by Element.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Corporation, and Wildeboer Dellelce LLP, counsel to the Underwriters, the Common Shares, provided they are listed on a designated stock exchange (which currently includes the TSX) or 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 and the regulations thereunder for a trust governed by an RRSP, an RRIF, a registered education savings plan, a deferred profit sharing plan, a registered disability savings plan or a TFSA.

The 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, (ii) has a "significant interest" as defined in the Tax Act in Element, or (iii) has a "significant interest" as defined in the Tax Act in a corporation, partnership or trust with which Element does not deal at arm's length for purposes of the Tax Act. Proposed amendments to the Tax Act released on December 21, 2012 (the "December 2012 Proposals") propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Proposals, the Common Shares will generally not be a "prohibited investment" if the Common Shares are "excluded property" as defined in the December 2012 Proposals for trusts governed by a TFSA, RRSP or

RRIF.

Holders or annuitants should consult their own tax advisors with respect to whether Common Shares would be prohibited investments, including with respect to whether the Common Shares would be "excluded property" as defined in the December 2012 Proposals.

## RISK FACTORS

An investment in the Common Shares involves certain risks, including those risks described in the "Risk Factors" section of the AIF. Prospective purchasers of the Common Shares should consider carefully these risks, the risk factors related to the Common Shares set forth below, as well as the other information contained in and incorporated by reference in this short form prospectus before purchasing or acquiring any Common Shares.

### Risks Relating to the Corporation

*Risks Relating to the Acquisitions*

While Element conducted substantial due diligence in connection with both the CoActiv Acquisition and the Nexcap Acquisition, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of CoActiv or Nexcap for which Element is not sufficiently indemnified pursuant to the respective provisions of the CoActiv Stock Purchase Agreement and/or the Nexcap Share Purchase Agreement. Further, Element is currently in the process of completing a post-closing audit of CoActiv and Nexcap to determine if any purchase price adjustments are required pursuant to the respective provisions of the CoActiv Stock Purchase Agreement and the Nexcap Share Purchase Agreement. Any such unknown or undisclosed risks or liabilities and any upward adjustment of the purchase price under either the CoActiv Stock Purchase Agreement or the Nexcap Share Purchase Agreement could materially and adversely affect Element's financial performance and results of operations.

Element currently anticipates that both the CoActiv Acquisition and the Nexcap 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 each of the CoActiv Acquisition and the Nexcap Acquisition. All of these factors could cause dilution to Element's earnings per share or decrease or delay the anticipated accretive effect of both the CoActiv Acquisition and Nexcap Acquisition and cause a decrease in the market price of the Common Shares.

*Risks Involved with Integrating CoActiv and Nexcap*

The CoActiv Acquisition was completed on November 30, 2012 and the Nexcap Acquisition was completed on January 18, 2013. The recently completed Acquisitions pose additional risks to Element's business. The success of the Acquisitions will depend, in part, on the ability of Element to realize the anticipated benefits of the Acquisitions, including cost savings and through complementary growth opportunities. The integration of each of CoActiv and Nexcap is in the early stages. Element cannot be certain that it will successfully integrate each of CoActiv and Nexcap or that the Acquisitions will ultimately benefit Element. Any failure to successfully integrate CoActiv and/or Nexcap or failure to achieve the anticipated benefits of the Acquisitions could have a material adverse effect on Element's business and results of operations.

*Risks Involved with Pro Forma Financial Statements*

Each of the TLSI BAR, the CoActiv BAR and the Nexcap BAR contains *pro forma* financial statements. Such *pro forma* financial statements have been prepared using certain of Element's, TLSI's, CoActiv's and Nexcap's 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 TLSI Acquisition and the Acquisitions will differ from such *pro forma* financial statements. Any potential synergies that may be realized after consummation of the TLSI Acquisition and the Acquisitions 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 TLSI Acquisition and Acquisitions. Undue reliance should not be placed on such *pro forma* financial statements.

*Risks Related to Additional Indebtedness*

Following completion of the TLSI Acquisition and the Acquisitions, Element and its affiliates will have incurred significant amounts of indebtedness and related obligations, including under the TLSI Securitization Funding Facility and the CoActiv Securitization Funding Facilities (together, the "Funding Facilities"). Element's ability to finance additional amounts under the Funding Facilities will depend upon the eligibility of the lease assets for inclusion under the Funding Facilities and compliance with the terms and conditions of the Funding Facilities, including financial covenants. Potential negative consequences of the leverage assumed by Element in connection with the TLSI Acquisition and the Acquisitions include limitations on Element's ability to obtain additional debt, equity or securitization financing; instances in which Element is unable to meet or sustain the financial covenants contained in its funding agreements or to generate cash sufficient to make required debt payments, which circumstances would have the potential of accelerating the maturity of some or all of Element's outstanding indebtedness; limitations on Element's ability to finance the growth of its business and operations; and limitations on Element's ability to execute business development activities to support its growth strategies.

*Expansion into the United States*

The CoActiv Acquisition represents an expansion of Element's business and operations into the U.S. equipment financing marketplace. The business of equipment financing in the U.S. is highly fragmented and competitive. This may impede Element's ability to sustain its operations at its current levels or generate growth in revenues or operation income, which could have a material adverse impact on Element. Further, revenues, operating costs and capital expenditures of operations in the U.S. may be denominated in U.S. dollars. As a result, a portion of Element's operations will be exposed to fluctuations in the exchange rate. Element has adopted a strategy to off-set its exposure to fluctuations in the exchange rate and any risks related thereto; however, there can be no assurance that such strategy will mitigate some or all of its exposure, if any, to such fluctuations which may have a material adverse effect on Element's business and results of operations.

*Proposed Establishment of New Special Purpose Fund*

Element has announced plans to establish the Fund as a funding vehicle to complement Element's existing securitization and syndication arrangements. There can be no assurance that the Fund will be established nor that institutional investors to capitalize such Fund will be secured. Any failure to establish the Fund in a timely fashion, or at all, will impact Element's ability to provide the necessary financing for Element Capital's deal pipeline which could have a material adverse effect on Element's business and results of operations.

**Risks Relating to the Common Shares**

*The market value of the Common Shares will be affected by a number of factors and, accordingly, their trading prices will fluctuate*

From time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Common Shares for reasons unrelated to the Corporation's performance. The value of the Common Shares are also subject to market fluctuations based upon factors which influence the Corporation's operations, such as legislative or regulatory developments, competition, technological change and global capital market activity.

The value of Common Shares will be affected by the general creditworthiness of the Corporation. The Corporation's AIF, Corporation's Interim MD&A and the Corporation's Annual MD&A are incorporated by reference in this short form prospectus and discuss, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

The market value of the Common Shares may also be affected by the Corporation's financial results and political, economic, financial and other factors that can affect the capital markets generally, the stock exchanges on which the Common Shares are traded and the market segment of which Element is a part.

*Future Sales or Issuances of Securities*

The Corporation may sell additional Common Shares or other securities in subsequent offerings. The Corporation may also issue additional securities to finance future activities. The Corporation cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Common Shares. Sales or issuances of substantial numbers of Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices of the Common Shares. Upon the completion of this Offering and in the event the Over-Allotment Option is exercised in full and assuming no stock options are exercised during such period, a total of 125,414,499 Common Shares will be issued and outstanding. With any additional sale or issuance of Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

## ADDITIONAL INFORMATION

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

In addition to the disclosure appearing under the heading "Cease Trade Orders, Bankruptcies, Penalties or Sanctions" in Element's management information circular dated May 14, 2012 incorporated by reference in this short form prospectus, Element notes as follows: from September 1, 2001 to July 31, 2003, Mr. Béland, Chief Financial Officer of the Corporation, was the Executive Vice President and Chief Financial Officer of Microforum Inc., which sought and obtained protection under the *Companies' Creditors Arrangement Act* in February 2003. During the period from February 2003 through July 2003, Mr. Béland acted as the restructuring officer of Microforum Inc.

## 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 (Canadian Firm), 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.

Ernst & Young LLP (U.S. Firm), as auditors of CoActiv, has advised the Corporation that it is independent in accordance with the American Institute of Certified Public Accountants' Code of Professional Conduct.

BDO Canada LLP, as auditors of Nexcap, 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 TLSI until July 12 2012, has advised the Corporation that it was, of such date, independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## 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 Common Shares will be Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

## PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces 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, 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. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

## AUDITORS' CONSENT

We have read the short form prospectus of Element Financial Corporation ("Element") dated March 6, 2013 relating to the distribution of 19,400,000 common shares of Element. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the abovementioned short form prospectus of our report to the shareholders of Element on the consolidated balance sheets of Element as at December 31, 2011, March 31, 2011 and April 1, 2010 and the consolidated statements of operations, changes in shareholders' equity and cash flows for the nine-month period ended December 31, 2011 and the year ended March 31, 2011. Our report is dated February 23, 2012.

*"Ernst & Young LLP"*
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 6, 2013

**AUDITORS' CONSENT**

The Board of Directors of Transportaction Lease Systems Inc. (formerly TLSI Holdings Inc.)

We have read the short form prospectus dated March 6, 2013 relating to the sale and issue of 19,400,000 common shares of Element Financial Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the Board of Directors of TLSI Holdings Inc. (the "Entity") on the consolidated financial statements of the Entity, which comprise the consolidated balance sheet as at June 30, 2011 and 2010 , the consolidated statements of operations, retained earnings and cash flows for each of the years in the two-year period ended June 30, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated July 12, 2012.

*"KPMG LLP"*
Chartered Accountants, Licensed Public Accountants
March 6, 2013
Toronto, Canada

**AUDITORS' CONSENT**

We have read the short form prospectus of Element Financial Corporation ("Element") dated March 6, 2013 relating to the distribution of 19,400,000 common shares of Element. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, including through incorporation by reference, in the above-mentioned short form prospectus, of our report to the directors of Nexcap Finance Corporation ("Nexcap") on the consolidated balance sheets of Nexcap as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income and retained earnings and cash flows for the years ended December 31, 2011 and December 31, 2010. Our report is dated January 25, 2013.

*"BDO Canada LLP"*
Chartered Accountants, Licensed Public Accountants
Burlington, Ontario
March 6, 2013

**CERTIFICATE OF ELEMENT**

Date: March 6, 2013

This short form prospectus, together with the documents incorporated herein 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*"<br>Chief Executive Officer | By: (signed) "*Michel Béland*"<br>Chief Financial Officer |

**On Behalf of the Board of Directors**

| | |
|---|---|
| By: (signed) "*Steven Small*"<br>Director | By: (signed) "*Harold Bridge*"<br>Director |

## CERTIFICATE OF THE UNDERWRITERS

Date: March 6, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein 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.

| GMP SECURITIES L.P. | BARCLAYS CAPITAL CANADA INC. | BMO NESBITT BURNS INC. |
|---|---|---|
| By: (signed) "*Neil Selfe*" | By: (signed) "*Bruce Rothney*" | By: (signed) "*Peter Myers*" |

**RBC DOMINION SECURITIES INC.**

By: (signed) "*John Bylaard*"

| CORMARK SECURITIES INC. | SCOTIA CAPITAL INC. | TD SECURITIES INC. |
|---|---|---|
| By: (signed) "*Roger Poirier*" | By: (signed) "*David Garg*" | By: (signed) "*Jonathan Broer*" |

**NATIONAL BANK FINANCIAL INC.**

By: (signed) "*Darin Deschamps*"

**MANULIFE SECURITIES INCORPORATED**

By: (signed) "*William Porter*"