



2012 ANNUAL INFORMATION FORM

– March 26, 2013 –

ELEMENT FINANCIAL CORPORATION

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FORWARD-LOOKING INFORMATION

Certain statements in this Annual Information Form, other than statements of historical fact, are forward-looking statements and may contain forward-looking information. Such statements are based upon Element Financial Corporation's ("Element" or the "Corporation") 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. Forward-looking statements are provided for the purposes of assisting the reader in understanding Element's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. 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 Annual Information Form 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 Annual Information Form speak only as of the date of this Annual Information Form.

Forward-looking statements and information in this Annual Information Form 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 plans for and timing of expansion of its services;
- Element's future growth plans (including growth resulting from acquisitions, such as the 2012 Significant Acquisitions (as defined herein));
- Element's expectations regarding its origination volumes;
- Element's plans to develop a new special purpose funding vehicle 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. Element cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither Element 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 Annual Information Form, 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 funding vehicle 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 each of the recently completed TLSI Acquisition, 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 Element Common Shares (as defined herein) 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; and
- litigation may negatively impact Element's financial condition.

The above risks, uncertainties, assumptions and other factors could cause Element's actual results, performance, achievements and experience to differ materially from Element's expectations, future results, performances or achievements expressed or implied by the forward-looking statements.

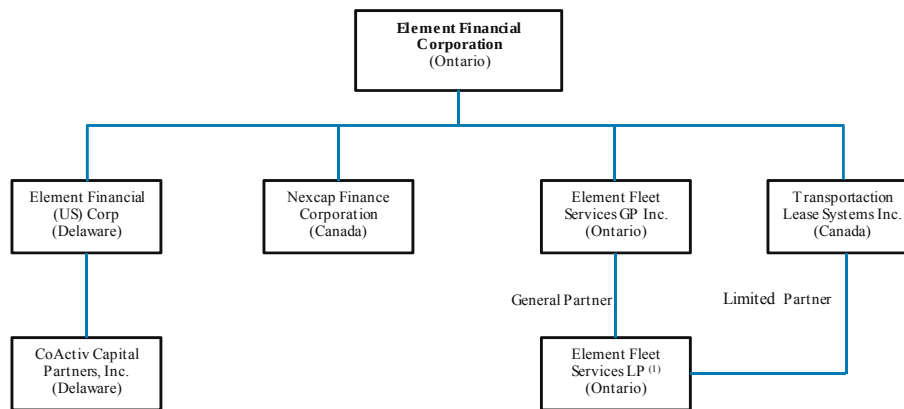
An investor should read this Annual Information Form with the understanding that Element's actual future results may be materially different from what is expected.

CORPORATE STRUCTURE

Element Financial Corporation was incorporated on May 11, 2007 under the *Ontario Business Corporations Act* (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 (a “CPC”) listed on the TSX Venture Exchange (the “TSXV”). The entity continuing from the amalgamation was “Element Financial Corporation”. On December 16, 2011, the Element Common Shares were listed and posted for trading on the Toronto Stock Exchange (the “TSX”) under the trading symbol “EFN”. On January 1, 2013, Element completed an internal reorganization by way of a short form vertical amalgamation pursuant to Articles of Amalgamation under the OBCA dated January 1, 2013. Pursuant to such amalgamation, Element amalgamated with CoActiv Canada (as defined herein) with the continuing entity being Element. See “*Development of the Business Over the Last Three Years – 2012 – CoActiv Acquisition*”.

The organization chart below indicates the inter-corporate relationships of the Corporation and its material subsidiary entities (and including their jurisdiction of incorporation in parenthesis) as of the date hereof. All such subsidiaries are wholly-owned.



Note:

- (1) Element Fleet Services LP was established in connection with the TLS Securitization Arrangement (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 “*Development of the Business Over the Last Three Years – 2012 – TLS Acquisition – TLS Securitization Agreement*”.

DEVELOPMENT OF THE BUSINESS OVER THE LAST THREE YEARS

2010

Element was founded in 2007 by Steve Sands, Element's Chief Credit Officer, as an Ontario-based equipment finance company. Element began originating equipment leases through small debt commitments from a number of life insurance companies. Element originated its first lease in 2008 and, from 2008 until 2010, grew its portfolio to approximately \$5.0 million of leases and loans.

In April 2010, Element was recapitalized and expanded into new Canadian markets under the leadership of Steven Hudson, Element's Chairman and Chief Executive Officer, in order to seize on the opportunities provided by the market disruption in the Canadian equipment finance industry due to the global economic crisis. Mr. Hudson became a director of Element on April 12, 2010, and spearheaded the establishment of a strong senior management team and the assembly of an experienced and talented origination, credit and administrative staff. As a result, Element was able to attract equity investment from a combination of institutional and high net worth investors and arrange significant debt commitments from leading life insurance companies, including The Canada Life Assurance Company and Sun Life Assurance Company of Canada.

2011

As at March 31, 2011, Element had assets of \$47.1 million and shareholders' equity of \$8.0 million.

April 2011 Unit Offering

On April 5, 2011, Element raised \$75.0 million from the issuance of 18,750,000 Element units at a price of \$4.00 per unit, which units consisted of Element common shares and rights to acquire Element common shares. In connection with such financing, Element was able to secure an additional debt commitment from The Manufacturers Life Insurance Company and a new revolving credit facility from a Schedule 1 Canadian bank.

Alter Moneta Acquisition

As of August 1, 2011, Element acquired substantially all of the assets and assumed certain liabilities of the Alter Moneta Group L.P. ("AM") for approximately \$160.2 million pursuant to an asset purchase agreement dated July 26, 2011 (the "Alter Moneta Acquisition"). In addition to a mature finance asset portfolio of leases and loans, the Alter Moneta Acquisition provided Element with an established back-office staff and systems with the capability to manage and process a large North American equipment finance portfolio and handle significant growth in business originations. The Alter Moneta Acquisition also provided Element with an experienced lease financing team and proven origination and asset management experience in the Province of Québec. In addition, the Alter Moneta Acquisition further enabled Element to expand its existing sales force into Québec to establish a national origination team.

October 2011 Private Placement

On October 28, 2011, Element completed a private placement of 41,700,000 subscription receipts (the "Subscription Receipts") at a price of \$4.20 per Subscription Receipt for \$175.1 million (the "October 2011 Private Placement"). Each Subscription Receipt entitled the holder to receive, for no additional consideration, one Element common share (the "Pre-Amalgamation Element Common Shares") immediately prior to the completion of the Amalgamation (as defined herein). Holders of Pre-Amalgamation Element Common Shares issued pursuant to the October 2011 Private Placement were entitled to receive, pursuant to the terms of the Amalgamation Agreement (defined below), one common share of the resulting amalgamated Element (the "Element Common Shares") for each Pre-Amalgamation Element Common Share so held.

Amalgamation and Qualifying Transaction

On October 28, 2011, Element and Mira entered into an amalgamation agreement (the “Amalgamation Agreement”), pursuant to which Element and Mira would merge by way of an amalgamation under the OBCA pursuant to Articles of Amalgamation (the “Amalgamation”) and, among other things, the shareholders of Element would hold the majority of the outstanding Element Common Shares and the name of the resulting issuer would be “Element Financial Corporation”. Mira was a CPC for the purposes of the policies of the TSXV, listed on the TSXV under the symbol “MIA.P” and a reporting issuer under applicable securities laws in Ontario, Alberta and British Columbia. The Amalgamation constituted Mira’s “qualifying transaction” pursuant to the rules and policies of TSXV.

On December 15, 2011, the Amalgamation was completed with Element Financial Corporation being the continuing entity. Pursuant to the Amalgamation Agreement, the predecessor Element’s by-laws became the amalgamated entity’s by-laws and the directors of the predecessor Element became the directors of the amalgamated continuing entity. Upon completion of the Amalgamation, Element’s shareholders held approximately 99% of the issued and outstanding common shares in the combined company that resulted from the Amalgamation. Mira’s common shares were de-listed from the TSXV concurrent with the completion of the Amalgamation. The Amalgamation constituted a reverse take-over of Mira by Element.

Concurrent with the completion of the Amalgamation, on December 16, 2011, the Element Common Shares were listed for trading on the TSX under the symbol “EFN”.

Element’s Financial Position at Year End 2011

At December 31, 2011, Element had total assets of \$416.7 million and shareholders’ equity of \$238.3 million.

2012

May 2012 Special Warrant Offering

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”). Each May 2012 Special Warrant entitled the holder to receive, upon exercise or deemed exercise thereof, for no additional consideration, one Element Common Share. The distribution of the Element Common Shares underlying the May 2012 Special Warrants was qualified by a prospectus dated August 9, 2012 and the underlying Element Common Shares were issued on August 14, 2012.

TLSI Acquisition

On May 14, 2012, Element entered into a share purchase agreement (the “TLSI Share Purchase Agreement”) to acquire the outstanding shares of TLSI Holdings Inc. (“TLSI”), the holding company of Transportation Lease Systems Inc. (“TLS”), from The Bank of Nova Scotia and the company’s other minority shareholders for aggregate consideration of approximately \$154.6 million plus debt (the “TLSI Acquisition”). The TLSI Acquisition closed on June 29, 2012.

The approximately \$527.6 million of funding required to complete the TLSI Acquisition was satisfied through a combination of \$127.6 million in cash (of which, approximately \$42.1 million was funded from the proceeds of the May 2012 Special Warrant Offering) with the balance funded from the proceeds of the TLS Securitization Funding Arrangement (as defined herein).

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. At the time of the TLSI Acquisition, TLS was Canada's fourth largest fleet leasing company.

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 \$30.0 million and earnings of \$7.8 million. Upon the closing of the TLSI Acquisition, TLSI had finance assets aggregating more than \$510.0 million.

Element filed a business acquisition report dated July 17, 2012 in respect of the TLSI Acquisition.

On January 1, 2013, TLS amalgamated with TLSI and two inactive subsidiaries of TLS. The continuing entity, organized pursuant to the *Canada Business Corporations Act*, is TLS.

TLS Securitization Arrangement

In connection with financing the purchase price of the TLSI Acquisition, TLS entered into a securitization arrangement (the "TLS Securitization Arrangement"), 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 Arrangement. The TLS Partnership and the related TLS Securitization Arrangement establish a permanent funding structure to enable TLS to securitize its future lease assets.

The first transaction under the TLS Securitization Arrangement 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 \$400.0 million of floating rate asset-backed notes. The asset-backed notes were purchased by a securitization conduit administered by a Schedule 1 Canadian Bank. The \$400.0 million of initial proceeds from the TLS Securitization Arrangement were applied to repay indebtedness incurred at closing to repay TLS approximately \$373.0 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.

November 2012 Special Warrant Offering

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

CoActiv Acquisition

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 (collectively, "Marubeni") for aggregate consideration of approximately \$300.0 million including repayment of debt to Marubeni (the "CoActiv Acquisition"). Pursuant to the CoActiv Stock Purchase Agreement: (a) Element acquired all of the outstanding shares of CoActiv Capital Partners Canada Inc. ("CoActiv Canada"), a wholly owned subsidiary of CoActiv, 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. On March 6 2013, Element and Marubeni agreed on an immaterial adjustment of the purchase price payable pursuant to the CoActiv Stock Purchase Agreement.

The approximately \$298.3 million funding required for the completion of the CoActiv Acquisition was satisfied through a combination of approximately \$22.0 million from cash on hand and short term borrowings,

approximately \$77.3 million from the net proceeds of the November 2012 Special Warrant Offering and approximately \$199.0 million from new securitization arrangements for the acquired finance assets.

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 \$315.0 million.

Element filed a business acquisition report dated January 15, 2013, in respect of the CoActiv Acquisition.

On January 1, 2013, Element amalgamated with CoActiv Canada. The continuing entity, organized pursuant to the *OBCA*, is Element.

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 Schedule 1 Canadian bank, and CoActiv Canada entered into a securitization funding transaction with a Canadian asset-backed securitization conduit administered by an affiliate of a Schedule 1 Canadian bank (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 \$199.3 million.

Element has agreed to guarantee the performance of certain obligations of CoActiv and Element Funding U.S., LLC in connection with the CoActiv Securitization Transactions. Following the amalgamation of Element and CoActiv Canada completed on January 1, 2013, obligations of CoActiv are now obligations of Element.

Nexcap Acquisition

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 \$20.0 million plus the assumption of Nexcap’s existing net debt (the “Nexcap Acquisition”, and together with the TLSI Acquisition and the CoActiv Acquisition, the “2012 Significant Acquisitions”). 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 \$20.0 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 \$78.0 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 \$113.0 million.

Element filed a business acquisition report dated January 29, 2013, in respect of the Nexcap Acquisition.

Element's Financial Position at Year End 2012

At December 31, 2012, Element had total assets of \$1.5 billion and shareholders' equity of \$423.4 million.

2013 Recent Developments

February 2013 Intention to Establish Element Equipment Finance Fund

On February 20, 2013, Element announced its intention to establish a new special purpose funding vehicle, expected to be known as the Element Equipment Finance Fund, to complement Element's existing securitization and syndication arrangements. Element anticipates that the funding vehicle will focus on secured equipment financing transactions in the \$1.5 million to \$25 million range and will be capitalized with equity and debt from Element and institutional investors. Currently, Element anticipates closing the funding vehicle in the second quarter of 2013 depending on when funding commitments from institutional investors can be formalized. See "*Funding Model – Funding Arrangements – Future Funding Arrangements*".

March 2013 Equity Financing

On March 12, 2013 Element announced the closing of a bought deal offering of 22,310,000 common shares, at a price of \$7.75 per Common Share, for aggregate gross proceeds of \$172,902,500. The net proceeds of the offering will be used to finance the origination of finance assets, including funding Element's contribution to the new funding vehicle.

DESCRIPTION OF THE BUSINESS

Element is an independent financial services company that originates, co-invests in and manages asset-based financings with operations in both Canada and the United States. Element originates the financing of a broad range of equipment and capital assets by way of secured loans, financial leases and conditional sales contracts. Element originates the vast majority of its equipment financings through its employee sales force, which focuses 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 of finance assets to approximately \$35.0 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. During the 1994 to 1999 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 expand relationships with equipment vendors and direct relationships with customers.

OVERVIEW OF ASSET-BASED FINANCE INDUSTRY

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

Commercial Finance

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

The commercial finance segment of the market has experienced strong growth in recent years as a result of increased capital and infrastructure spending, increased machinery and equipment expenditures and the continuing

trend of consolidation in the industry as larger participants build market share through acquisitions and the outsourcing by equipment manufacturers, dealers and distributors of their asset-based financing requirements. Within the commercial finance market, the Corporation is focusing its activities on establishing formal vendor finance programs as a basis for originating asset finance business.

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

Corporate Finance

The corporate finance segment of the asset-based finance market generally involves large structured asset finance transactions. Financing in this market is required by corporations, institutions and government acquiring capital assets such as 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.

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 that were not replaced as quickly as might ordinarily be expected due to the economic and financing issues arising under the 2008 financial crisis, and (ii) corporate and institutional borrowers seeking to diversify their sources of debt capital by dealing directly with asset-based lenders.

OVERVIEW OF ELEMENT’S BUSINESS VERTICALS

Element has organized its activities and operations around four core verticals: (i) Element Finance, (ii) Element Capital, (iii) Element Fleet, and (iv) Element Services.

Element Finance

Element Finance is Element’s commercial finance vertical and 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 \$5.0 million. The equipment financing industry is the second largest provider of debt financing to business customers and consumers after banks and credit unions. In general, the Canadian and U.S. equipment finance industry is served by three main industry participants: independent lease finance companies like Element (including U.S.-based commercial leasing companies), captive finance companies owned by manufacturers and distributors, and Canadian and U.S. banks.

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.

Element Finance primarily originates its equipment finance assets directly through its relationships with equipment vendors. 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. To further assure the quality of its equipment finance assets, Element emphasizes the creditworthiness of the ultimate lessee or borrower, the value of the financed assets and the creditworthiness of the vendor. 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 primarily originates its equipment finance assets through its six specialized business unit platforms:

- Transportation and Construction Finance – provides vendor finance in the transportation, construction, forestry and material handling markets;
- 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;
- 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; and
- Golf Equipment Finance – provides vendor finance in the golf equipment market.

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

Transportation and Construction Finance

The Transportation and Construction group provides equipment financing for customers operating in the transportation and construction equipment markets. Element enjoys vendor relationships and supplies equipment financing to established Canadian transportation and construction equipment vendors, which account for approximately 80% of the unit's new business volume. Typical equipment financed includes heavy and medium duty trucks, highway trucks, highway trailers, vacuum trucks, tow trucks, utility trucks, passenger coaches, and all types of "yellow iron" equipment, including excavators, backhoes, graders, cranes, dump trucks and loading equipment. Element does not currently finance automobiles or light trucks for consumer use.

Commercial and Industrial Finance

The Commercial and Industrial group provides equipment financing for customers operating in the commercial and industrial equipment markets. Element enjoys vendor relationships and supplies equipment financing to customers of established Canadian and U.S. commercial and industrial equipment vendors, which account for approximately 50% of the unit's new business volume. Typical equipment financed includes metal working, wood working, plastic injection moulding machinery, fabricating machinery, skid steers, lift trucks and scissor lifts.

Healthcare Equipment Finance

The Healthcare Equipment group provides equipment financing to healthcare providers, including medical and dental practitioners, as well as veterinarian clinics, pharmacies and hospitals. Typical equipment financed includes patient care equipment, ranging from radiology equipment and magnetic resonance imaging machines to dental chairs, and related assets. The Healthcare Equipment group also provides financing for practice purchases,

office construction and technology upgrades. For practitioners, the Healthcare Equipment group requires life, disability and property insurance in an amount equal to the value of the financed assets as a condition to providing financing.

The Canadian healthcare industry is characterized by significant government regulation, low to moderate growth, established healthcare providers and constraints on public funding. Element believes that healthcare providers will increasingly look to private sector sources of financing to fund capital expenditures, representing a significant opportunity for growth in the Healthcare group's business.

Element is one of a limited number of companies in Canada that specialize in providing equipment financing to the healthcare industry. The Canadian healthcare equipment finance market has significant barriers to entry. Participants seeking entry must develop considerable industry knowledge and expertise while also overcoming the high degree of loyalty to existing financing relationships which healthcare practitioners have historically demonstrated. Element believes that its success in the healthcare equipment financing industry is the result of the detailed industry knowledge of its staff, the relationships which it has developed with healthcare practitioners and equipment vendors and the efficiency of Element's portfolio management system.

Office Products and Technology Finance

The Office Products and Technology Finance group provides equipment financing for the acquisition of a variety of office products and technology equipment through established vendor relationships. Element enjoys major vendor relationships and originates equipment financing to a wide spectrum of smaller companies to large corporations and public entities. Typical equipment financed includes computer hardware, document imaging equipment, broadcast equipment, point of sale equipment and security systems.

Franchise Finance

The Franchise Finance group provides equipment financing for Canadian and U.S. customers operating well established franchise businesses. Element enjoys vendor relationships and supplies equipment financing to customers of established, national franchise companies for capital acquisition and equipment replacement campaigns for their franchise networks. Typical equipment financed includes restaurant equipment, technology assets and point of sale equipment.

Golf Equipment Finance

The Golf Equipment Finance group provides equipment financing for customers operating in the golf equipment market. Element enjoys vendor relationships and supplies equipment financing to customers of established Canadian golf and turf care equipment vendors, which account for virtually all of the unit's new business volume. Typical equipment financed includes gas and electric golf carts, turf care equipment and excavators.

Element Capital

Element Capital, established in January 2012, is Element's corporate finance vertical, which is characterized by transactions that are generally 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 focuses on originating large equipment financing and leasing transactions that range in size from \$5.0 million to over \$150.0 million 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. Element Capital's Montreal-based team has a particular focus on civil aviation and aerospace financing, and its Calgary-based team focuses primarily on the equipment financing needs of the energy industry. These teams are augmented by the capabilities of Element's senior management team in Toronto.

Financing in the corporate finance market is required by corporations, institutions and government entities 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 banks. 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. 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 U.S. banks.

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 "*Development of the Business Over the Last Three Years – 2012 – TLSI Acquisition*". 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 \$480.0 million of lease assets. The TLSI Acquisition accelerated the growth of Element through the strength of TLS' 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 unit 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 unit 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 underwriting policies and procedures 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 general credit manual and vertical-specific credit underwriting guidelines that 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 specific 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'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.

Element takes a disciplined approach to risk management in managing the growth of its portfolio. 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 below industry norms which is reflective of the Company's diligent and consistent approach to underwriting as well as generally favourable economic conditions. Delinquencies for the year ended December 31, 2012 remain low at 0.28% of total finance receivables.

Financial Management

The Financial Management unit 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 2012 Significant Acquisitions.

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 unit 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.

Element utilizes robust financial management information systems including: (i) Lease Plus (manufactured by Lease Team Inc.), a well-developed, industry leading lease management software with sophisticated reporting capabilities, the ability to process significant growth and manage a large portfolio, which is used by numerous leasing companies in both Canada and the U.S.; (ii) Cognos, an IBM data warehouse which is updated on a daily basis and provides comprehensive reporting capabilities; and (iii) Great Plains, a product of Microsoft, a highly recognized general ledger system. All systems are interfaced with each other in order to provide Element with a seamless systems solution. Element has integrated, and intends to further integrate, the asset portfolios acquired as part of the 2012 Significant Acquisitions in these systems. Element believes its financial management systems provide it with the ability to process significant growth and manage a significantly larger portfolio as it continues to grow its origination business and consider business acquisitions.

Legal

The Legal unit 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 mid-ticket equipment financing through its Element Finance vertical, strengthen its funding capacity within the large-equipment finance market through its Element Capital vertical and continue cross-selling integrated services and expanding volumes to new and existing customers within its Element Fleet vertical.

Element's growth strategy is based on three broad initiatives: (i) capitalizing on organic opportunities by leveraging established customer relationships and by continuing to "build out" its existing capabilities on both sides of the Canadian-U.S. border; (ii) developing new strategic vendor relationships with manufacturers, dealers and distributors; and (iii) completing selected tuck-in acquisitions, that can broaden the Corporation's base of vendor and dealer relationships, and transformational acquisitions, that move the Corporation toward its mission of becoming North America's most successful independent equipment finance company.

This approach to organic, new vendor, and acquisitive growth is founded upon a number of considerations:

(i) Since the CoActiv Acquisition in November 2012, Element is now operationally capable of serving equipment vendors that have customers on both sides of the Canada-US border.

(ii) While the CoActiv Acquisition expanded Element's presence in the United States, the Corporation's capabilities in some business verticals are more developed in Canada than is now the case within its U.S. operations and the opposite is also true in other areas.

(iii) As Element's relationships with existing vendors mature, it hopes to transition those into more extensive and integrated service offerings.

(iv) With the strategic transactions and activities completed during 2012, Element now has the operational infrastructure in place to increase the number of independent equipment manufacturers, dealers and distributors that rely on Element to provide equipment finance transactions for their customers.

(v) Element believes that the 2008 market disruption within the North American equipment finance industry continues to provide opportunities for Element to expand its origination staff by hiring experienced teams with well-established origination relationships and to pursue strategic and accretive acquisition opportunities. Element intends to continue pursuing a disciplined approach to such opportunities.

Capitalize on Organic Opportunities

Leverage Existing Customer Relationships

With the acquisition of CoActiv in November 2012, Element obtained operational capabilities within the U.S. to complement its existing Canadian capabilities. The Corporation is now able to provide equipment financing for Element's existing vendor relationships on both sides of the border. Since that acquisition, Element has been in discussions with several existing vendor relationships to better serve their needs in this manner. Examples of this strategy have already been realized and the Corporation is encouraged by the interest expressed by existing relationships in expanding Element's business on both sides of the Canada-U.S. border.

Deepen Existing Capabilities

Within its recently acquired U.S. operations, there are well developed strengths in certain verticals including financing of technology and office products, franchise equipment and construction equipment. These are areas of the Canadian operation were not as developed but are now being enhanced, particularly combined with the recent Nexcap Acquisition, utilizing the expertise and reputation of Element's newly acquired U.S.-based management team.

Similarly, the Canadian operation has extensive expertise in vehicle fleet financing, healthcare finance and transportation equipment finance. These are areas in which the existing U.S. operation is not, currently, as well developed.

Element intends to build upon the mutual strengths of each of its Canadian and U.S. operations in a disciplined manner and in a way that leverages the skills and expertise of management and personnel on either side of the border. Element also intends to build these strengths in each geographic region by hiring experienced teams and by way of acquisitions as described below.

Hire/Expand New Origination Teams

Element intends to expand upon its industry-leading sales force by continuing to hire experienced and established origination staff with proven equipment vendor relationships and portfolio opportunities, as well as retaining talented underwriting, administration and financial reporting executives and managers.

Element believes that the 2008 market disruption created a "market dislocation" which left a number of undercapitalized participants in the equipment finance market with experienced teams and established origination platforms looking for opportunities to partner with a well-capitalized firm. Management believes that there continues to exist an opportunity for Element to further build out its origination platforms by attracting experienced teams with established relationships in the North American equipment finance market.

The funding vehicle for Element Capital

During 2012, Element established the Element Capital vertical. This involved hiring a new team and putting in place the related credit, syndication, operational and governance structures. With these building blocks

now in place, a focus for Element in 2013 will be on expanding access to financing for large financing transactions applicable to this segment.

Element anticipates that the proposed special purpose funding vehicle targeted to close during the second quarter of 2013 and focusing on secured equipment financing transactions in the \$1.5 million to \$25 million range, will significantly improve Element Capital's relationships with key vendors and better position Element to compete in this segment.

Fleet Services

Element established the Element Fleet business vertical following the completion of the TLSI Acquisition in June 2012. 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 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. Within the Fleet business, Element intends to expand cross-selling efforts for its service programs, obtain new Fleet customers and increase origination volumes with existing Fleet customers. In addition, Element intends to leverage existing Fleet customer relationships to also become customers within Element Finance and Element Capital. For further information related to Element Fleet, see "*Description of the Business – Overview of Element's Business Verticals – Element Fleet*".

Element believes that these organic growth efforts described above will provide Element with a balanced origination team possessing national coverage and regional diversification and breadth of service capabilities and asset-type expertise in both Canada and the U.S.

Develop New Strategic Vendor Relationships

Element believes its executive management team's experience in the equipment financing industry provides Element with access to key decision makers at equipment vendors across North America, thereby enabling it to develop and enhance equipment vendor relationships in each of Element's core verticals.

As part of developing and enhancing vendor relationships, Element seeks to establish itself effectively as a business partner of its vendors through the establishment of comprehensive arrangements, including joint ventures, designed to develop, promote and administer equipment financing programs for such vendors' customers. Element typically provides the vendor with assistance and advice as to interest rates, down payments, repayment maturities, documentation, collections, liquidations, marketing and related matters. Although Element seeks and often obtains a preferred relationship with vendors pursuant to these programs, these arrangements do not obligate Element to approve any financing transactions which do not meet its credit standards or require the vendor to refer all of its financing transactions to Element.

Pursue Strategic Acquisitions and Other Partnerships

Element is positioned to capitalize on opportunities to expand its business through potential acquisition and partnership opportunities that arise from the current market dislocation that began in 2008. Element believes that this market dislocation, though perhaps moderating recently, will continue to present acquisition and partnership opportunities for Element. Element believes that it has excellent access to capital, a highly experienced management team and a broad network of relationships that provide it with a strong capability to opportunistically complete accretive transactions and develop long-term strategic partnerships.

Pursue Strategic Acquisitions

Since early 2010, Element has undertaken a prudent and disciplined approach in reviewing numerous acquisition opportunities. While Element takes a disciplined approach to opportunities it is willing to pursue, it believes that significant strategic and accretive opportunities exist. This strategic pursuit resulted in Element completing two significant acquisitions during the financial year ended December 31, 2012 (the TLSI Acquisition

and the CoActiv Acquisition), and completing an additional tuck-in acquisition (the Nexcap Acquisition) on January 18, 2013.

Element's acquisitive growth objectives are currently focused on:

- acquisitions of independent equipment leasing companies within Element's core equipment and vendor markets;
- acquisitions of captive finance companies and portfolios; and
- acquisitions of leasing businesses and portfolios from financial institutions.

Element's focus for these acquisitive growth objectives will concentrate on opportunities within the North American market that are within Element's core verticals and that possess processing capabilities and strong local management teams. As part of Element's strategy, Element may acquire established origination teams and platforms in order to provide increased national coverage and regional diversification and/or strengths in desirable business verticals.

Further, acquisition activities will be focused on businesses or portfolios that are a strategic fit in terms of back-office, systems and originations capabilities, have the required infrastructure to continue to operate and grow independently without straining Element's existing infrastructure and offer accretion to Element from a net income and return on equity perspective.

Element's experienced management team has successfully completed numerous industry acquisitions and integrations. Element management's experience provides Element with a disciplined approach to acquisition opportunities. During late 2012 and early 2013, Element has evaluated numerous acquisition opportunities and management expects to continue doing so. Element believes that Element management's past experience in the equipment financing and financial services industries provides Element with the skills and experience to effectively identify and evaluate acquisition opportunities.

2012 Significant Acquisitions

The TLSI Acquisition completed on June 29, 2012 (see "*Development of the Business Over the Last Three Years – 2012 – TLSI Acquisition*") provided Element with an immediate presence in the vehicle fleet leasing industry and led to the creation of the Element Fleet business vertical. 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 \$480.0 million of lease assets. The TLSI Acquisition accelerated the growth of Element through the strength of TLS' 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. Currently, 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.

The CoActiv Acquisition completed on November 30, 2012 (see "*Development of the Business Over the Last Three Years – 2012 – CoActiv Acquisition*") 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.

The Nexcap Acquisition, announced in late December 2012 and completed on January 18, 2013 (see “*Development of the Business Over the Last Three Years – 2012 – Nexcap Acquisition*”), 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.

Explore Partnering Opportunities with Financial Institutions

Element expects that opportunities will exist over the next few years for it to partner with major financial institutions through financing arrangements or the creation of “private label” equipment leasing business. Element believes that such potential partners may show interest in the equipment finance segment due to the ability to drive commercial banking business through a leasing platform, but that such potential partners currently do not have the expertise to provide this product. Given Element’s broad experience and track record in equipment financing and leasing, it believes that financial institutions seeking to invest in the equipment finance segment will view Element as an attractive strategic partner, and that such partnerships with major financial institutions could provide Element with additional funding and client bases that would amplify its origination capabilities.

FUNDING MODEL

From its inception in 2007 to December 31, 2012, Element has obtained approximately \$1.55 billion in aggregate equity capital and committed debt financing. In 2012 alone, Element substantially strengthened its balance sheet by increasing its equity capital by almost \$200.0 million in gross proceeds pursuant to two private placements of special warrants. See “*Development of the Business Over the Last Three Years – 2012 – May 2012 Special Warrant Offering*” and “*Development of the Business Over the Last Three Years – 2012 – November 2012 Special Warrant Offering*” for further information. Furthermore, in early 2013, Element completed an offering of Common Shares for gross proceeds of approximately \$173.0 million pursuant to a prospectus dated March 6, 2013 (the “2013 Common Share Offering”). This substantially enhanced equity base is expected to allow Element to leverage its balance sheet with additional debt capital, to support growth in equipment finance asset originations.

The funding strategy used for the various equipment finance assets that Element originates is determined by the nature of the underlying assets and execution efficiency. 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’s mid-ticket business units originate assets that match the investment quality and duration required by 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 a syndication funding model (see “- *Funding Arrangements Future Funding Arrangements*”). 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 financed by each of these business units, the funding models are not exclusive to any such business unit.

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 \$5.0 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 Term Funding Facilities. For equipment finance assets of

greater than \$5.0 million, Element syndicates *pari passu* participating interests in the asset, and retains servicing responsibilities.

(iii) The proceeds received from the Term Funding Facilities are used by Element to repay 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, with 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) the revolving secured borrowings; and (v) equity. As at December 31, 2012, Element had shareholders' equity of \$423.4 million, and secured borrowings of \$989.1 million. Growth in the Corporation's lease originations will require the ongoing availability of secured borrowings sufficient to accommodate such growth. As of the date hereof, the Corporation has access to committed sources of liquidity of \$417.9 million.

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 "*Development of the Business Over the Last Three Years – 2012 – May 2012 Special Warrant Offering*" and "*Development of the Business Over the Last Three Years – 2012 – November 2012 Special Warrant Offering*". In early 2013, Element also completed the 2013 Common Share Offering.

As at December 31, 2012, Element had shareholders' equity of \$423.4 million, as summarized in the chart below:

<i>(in 000's)</i>	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:

<i>(in 000's)</i>	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 secured borrowing 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 \$75.0 million from the \$25.0 million limit at March 31, 2012. The facility was further increased to \$125.0 million at November 30, 2012 to accommodate the growing activity levels and originations.

On January 18, 2013, a warehouse line of \$9.0 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 no recourse. The Term Funding Facilities are not cross-collateralized 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, bringing the total facilities to \$360.7 million. Approximately \$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 two Canadian banks for \$59.6 million were assumed as part of the Nexcap Acquisition. These facilities had available commitments of \$21.5 million available as at December 31, 2012.

Non-revolving secured financing – Canadian trust

Non-revolving secured financing from a 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 Alter Moneta Acquisition. As at December 31, 2012, the balance outstanding under this facility was \$11.1 million. The facility was fully repaid in March 2013.

Revolving secured borrowings

A revolving secured borrowing facility from a Canadian trust was established in the principal amount of \$400.0 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 \$400.0 million to \$435.0 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 \$50.0 million on November 30, 2012 to finance the Canadian assets acquired as part of the CoActiv Acquisition. This facility is non-revolving and any amounts advanced and repaid under the facility cannot 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\$250.0 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 facility from a financial institution wholly owned by the Government of Canada was assumed in the principal amount of \$50.0 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:

<i>(in 000's)</i>	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, and 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 income was a loss of \$1.2 million.

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 (including the proposed new funding vehicle). 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.

As announced on February 20, 2013, Element is also seeking to establish a new special purpose funding vehicle, expected to be known as the Element Equipment Finance Fund to complement Element's existing securitization and syndication arrangements. Element anticipates that the funding vehicle will focus on secured equipment financing transactions originated by Element Capital 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 funding vehicle in the range of 70% to 80%, Element believes it can significantly increase returns on the capital it contributes to the funding vehicle. The new funding vehicle is expected to be established in the second quarter of 2013.

COMPETITION

Element's markets are highly competitive and characterized by various competitive factors. In Canada and the United States, Element faces competition from a number of industry participants in the commercial finance market, including independent lease finance companies, captive finance companies owned by manufacturers and distributors, Canadian and U.S. banks and third-party brokers. While some of the larger competitors provide lease financing to the marketplace, they do not tend to focus on mid-ticket leases to small and medium-sized businesses. Generally, Element's principal competitors are entities with operations on a smaller scale than Element that do not have the financial strength, back-office capabilities and sales force of Element. Element competes with its principal competitors on the basis of, among other things, interest rates for lease and loan financings, quality of customer service, the ability to establish, maintain and grow relationships with vendors and direct relationships with customers, origination capabilities, the ability to identify and properly risk assess origination sources, and access to capital to fund originations. Element believes it is well positioned to compete with its competitors by means of having an experienced management team with a track record of success, superior access to capital, a large and highly experienced in-house sales team with rapid customer response times and a creative structuring approach, as well as strong relationships with end-user customers and vendors and financial institution partnerships. Many small and medium-sized independent leasing companies who compete in the same mid-ticket segment as Element are suffering from a number of challenges which Element believes provide it with competitive advantages. Element believes that many independent leasing companies have over-leveraged balance sheets that are no longer acceptable to their funders, an inability to access adequate equity and debt capital, higher than anticipated net write-offs as a result of overly aggressive lending practices prior to the global credit crisis, excessive operating expenditures that are out of line with static or shrinking portfolios, aggressive "gain on sale" accounting practices that have masked poor profitability metrics, and inadequate succession planning whereby many owner-operators are reaching retirement age with no obvious buyers to take over the business. Similarly, Element believes that the Schedule 1 Canadian banks that have leasing operations in Canada are more focused on small-ticket vendor programs and larger investment grade equipment financings, and consequently do not have a strong focus on the mid-market equipment leasing space in which Element specializes.

Element Finance's principal competitors in the commercial finance market include, among others, MAXIUM Financial Services Inc., Bodkin Leasing Corporation, Lift Capital Corporation, and subsidiaries of Schedule 1 Canadian banks, such as Roynat Lease Finance and TD Equipment Finance (formerly Capital Underwriters Corporation). As a result of the CoActiv Acquisition and Element's expansion into the U.S. commercial finance market, its competitors now also include, among others, Capital Source Inc., Marlin Business Services Corp., Newstar Financial Inc., and other U.S.-based commercial leasing companies and U.S. banks.

In the corporate finance market, dominant U.S. participants have curtailed their activities in both the U.S. and Canada. Canadian and U.S. banks are still very active in their respective markets but are financing with tighter credit conditions, longer processes and more restrictive terms. The corporate finance market is more difficult to penetrate than the commercial finance market 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's primary competitors in the corporate finance market are: GE Capital, CIT, Key Equipment Finance, HSBC, PNC Equipment Finance, Bank of America Equipment Finance, and other Canadian and U.S. banks.

The competition in the fleet business is likely to remain aggressive. U.S. participants are expected to attempt to leverage their U.S. customer relationships to win business of such customers' Canadian subsidiaries and have assigned Canadian sales teams in furtherance of this strategy. Canadian participants can be expected to try to prevent a loss of business to U.S. participants. Due to cost to customers of changing fleet service providers, the ability of participants to retain existing customers is relatively strong in the fleet leasing market.

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

EMPLOYEES

As of December 31, 2012, Element and its subsidiaries had 298 employees. Following the completion of the Nexcap Acquisition in January 2013, Element's workforce increased to 335 employees. None of Element's employees is represented by a collective bargaining agreement and it has never experienced any work stoppages. 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 and 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.

RISK FACTORS

An investment in the securities of Element involves significant risks. Investors should carefully consider the risks described below before deciding to purchase Element's securities. If any of the following or other risks occur, Element's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted.

RISKS RELATING TO ELEMENT'S BUSINESS

Global Financial Markets and General Economic Conditions May Adversely Affect Element's Results

Recent events in the financial markets have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, financial developments seemingly unrelated to Element or to its industry may materially adversely affect Element over the course of time. For example, general volatility in the equity markets could hurt Element's ability to raise capital for the financing of acquisitions or other reasons.

Moreover, a reduction in credit, combined with reduced economic activity, may materially adversely affect businesses and industries that collectively constitute a significant portion of Element's customer base and may make it more difficult for Element to maintain new business origination and the credit quality of new business at the levels currently forecast. As a result, these customers may need to reduce their purchases and reliance on Element's services, or Element may experience greater difficulty in receiving payment for its services. Delinquencies, non-accruals and credit losses generally increase during economic slowdowns or recessions. Therefore, to the extent that economic and business conditions are unfavourable, Element's non-performing assets may become elevated and the value of Element's portfolio is likely to decrease.

Adverse economic conditions also may decrease the estimated value of the collateral securing some of Element's loans and leases. Further or prolonged economic slowdowns or recessions could lead to financial losses in Element's portfolio and a decrease in Element's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Element's business, operating results, and financial condition.

Lack of Funding May Limit Element's Ability to Originate Leases

Element is dependent upon its ability to secure funding for its loans and leases to customers and to fund its existing obligations. While Element actively pursues new sources of funding, there can be no assurance that such additional financing will be obtained. In the past, Element has obtained the cash required for its operations through the issuance of equity interests to institutional and accredited investors, by borrowing money through the Term Funding Facilities and Warehouse Line, and the syndication and securitization of certain of Element's leases and loans. Element may not be able to continue to access these or other sources of funds.

At December 31, 2012, Element had liquidity of \$418.0 million available to fund future originations representing approximately 6 to 9 months' of its Element Finance business. The Corporation believes that it will be able to continue to increase these facilities as the Company continues to grow.

Concentration of Debt Financing Sources May Increase Element's Funding Risks

Element has obtained the secured borrowings from a limited number of financial institutions. Element's reliance on such financial institutions for a significant amount of its funding exposes Element to funding risks. If these financial institutions decided to terminate these secured borrowing arrangements, Element's operations could be materially adversely affected.

Proposed Establishment of New Special Purpose Funding Vehicle

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

Inability to Retain Employees May Limit Element's Ability to Grow Its Business

If Element is not able to attract and retain top employees, its ability to compete may be harmed. Element's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. In order to grow Element's business, it must attract and retain qualified personnel, especially origination and credit personnel with relationships with referral sources and an understanding of the equipment financing businesses and the industries in which Element's borrowers operate. In addition, in Element's effort to attract and retain critical personnel, Element may experience increased compensation costs that are not offset by either improved productivity or higher prices for Element's services.

Many of the financial institutions with which Element competes for experienced personnel may be able to offer more attractive terms of employment. If any of Element's key origination personnel leave, Element's new equipment finance origination volume from their business contacts may decline or cease. In addition, Element invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them and increases the costs of replacing them. These factors may have a material adverse effect on Element's ability to grow its business.

Loss of Key Personnel May Significantly Harm Element's Business

Element's performance is substantially dependent on the performance of its executive officers and key employees, including those referred to under "Directors and Officers". Further, Element does not maintain "key person" life insurance policies on any of its employees. The loss of the services of any of Element's executive officers or other key employees could significantly harm Element's business.

Element provides a competitive compensation package, which includes profit sharing and medical benefits as it continuously seeks to align the interest of employees and shareholders.

Competition for Vendor Equipment Finance May Affect Element's Relationships with Vendors

The vendor equipment finance business of Element is dependent upon its ability to enter into and maintain exclusive or preferred relationships with vendors. This market is highly competitive and there can be no assurance that such relationships can be maintained.

A Competitive Business Environment May Limit the Growth of Element's Business

Element's market segments are highly competitive and characterized by competitive factors that vary based upon product and geographic region. Element competes with a wide variety of competitors in Canada and the United States that include independent lease finance companies, captive finance companies owned by manufacturers and distributors, Canadian banks and third-party brokers.

Element competes primarily on the basis of pricing, terms and structure. If Element is unable to match its competitors' terms, Element could lose market share. Should Element match competitors' terms, it is possible that it could experience lower returns and/or increased losses. Element also may be unable to match competitors' terms as a result of Element's current or future financial condition. In addition, some of Element's competitors offer a broader range of financial, lending and banking services than Element does and can leverage their existing customer relationships to offer and sell services that compete directly with Element's services. Further, some of Element's competitors have greater financial, technical, marketing, origination and other resources than Element does. They may also have greater access to capital than Element does and at a lower cost than is available to Element. As a result of competition, Element may not be able to attract new customers, retain existing customers or sustain the rate of growth that Element has experienced to date, and Element's ability to profitably expand its portfolio and grow future revenue may decline. If Element's existing customers choose to use competing sources of credit to refinance their debt, Element's portfolio could be adversely affected.

Change in Interest Rates May Adversely Affect Element's Financial Results

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 its 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.

Credit Facilities May Limit Element's Operation Flexibility

Element's credit facilities, including its various securitization facilities, contain financial and non-financial covenants, such as requirements that Element comply with one or more of tangible net worth, consolidated debt to shareholders equity ratio, loan loss ratios and change of control provisions. Complying with such covenants may at times necessitate that Element forego other favourable business opportunities, such as acquisitions. Moreover, Element's failure to comply with any of these covenants would likely constitute a default under such facilities and could give rise to an acceleration of some, if not all, of Element's then outstanding indebtedness, which would have a material adverse effect on Element's business.

As of December 31, 2012, Element had \$1.1 billion in debt outstanding, and Element expects this amount to grow as it increases originations. In addition, from time to time Element may owe amounts under its Warehouse Line and may otherwise increase its debt to fund the growth of Element's business. While Element match funds its borrowings under the secured borrowing facilities, if the matched income earning assets securing the leases or loans underperform Element may to some extent have to utilize cash flow or capital resources to fund its debt service payments. If Element's cash flow and capital resources are insufficient to service amounts owed under the secured borrowing facilities, the Warehouse Line or any future indebtedness, as applicable, Element may be forced to reduce or delay capital expenditures, dispose of assets, issue equity or incur additional debt to obtain necessary funds, or restructure its debt, any or all of which could have a material adverse effect on Element's business, financial condition and results of operations. In addition, Element cannot guarantee that it would be able to take any of these actions on terms acceptable to Element, or at all, that these actions would enable Element to continue to satisfy its capital requirements or that these actions would be permitted under the terms of Element's various debt agreements.

Inability to Realize Benefits from Growth May Harm Element's Financial Condition

Element's inability to realize the potential benefits from its growth strategy may adversely impact its operating results. Element's ability to realize such benefits will be based on its management of growth and will require it to continue to build its operational, financial and management controls, human resource policies, and reporting systems and procedures. Element's ability to manage its growth will depend in large part upon a number of factors, including the ability of Element to rapidly:

- secure additional sources of funding to undertake strategic acquisitions, while implementing a prudent capital structure for Element;
- expand Element's internal operational and financial controls significantly, so that it can maintain control over operations and provide support to other functional areas as the number of personnel and size of its business increases;
- attract and retain qualified personnel in order to continue to develop Element's origination platforms and provide services that respond to evolving customer needs;
- develop support capacity for customers as sales increase, so that Element can provide post-sales support without diverting resources from origination efforts; and
- expand its network of vendor relationships to create an enhanced presence in the evolving marketplace for Element's services.

Element's inability to achieve any of these objectives could harm its business, financial condition and/or results of operations.

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 U.S. 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 eliminate all or any of its exposure to such fluctuations which may have a material adverse effect on Element's business and results of operations.

Element has Grown Very Rapidly Over the Last Two Years

Element has increased its assets from approximately \$47.1 million as at March 31, 2011 to approximately \$1.5 billion as at December 31, 2012.

Element's growth over the last two years has caused, and if its growth rate continues will continue to cause, significant demands on Element's credit underwriting, accounting, legal and operational infrastructure, and increased expenses. Element's future growth will depend, among other things, on its ability to maintain an operating platform and management systems sufficient to address its growth and will require Element to incur additional expenses and to commit additional senior management and operational resources. As a result, Element faces challenges in: (i) maintaining adequate financial and business controls; (ii) managing the credit underwriting process and monitoring credit risks and losses or delinquencies in Element's asset portfolio; (iii) implementing new or updated information and financial systems and procedures; and (iv) training, managing and appropriately sizing its work force and other components of its business on a timely and cost-effective basis.

There can be no assurance that Element will be able to manage its expanding operations effectively or that it will be able to continue to grow, and any failure to do so could adversely affect its ability to generate revenue and control its expenses.

Risks Relating to the 2012 Significant Acquisitions

While Element conducted substantial due diligence in connection with each of the TLSI Acquisition, the CoActiv Acquisition and the Nexcap Acquisition, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities for which Element is not sufficiently indemnified pursuant to the respective provisions of the applicable share purchase agreement. Any such unknown or undisclosed risks or liabilities in respect of the 2012 Significant Acquisitions could materially and adversely affect Element's financial performance and results of operations.

Element currently anticipates that each of the 2012 Significant Acquisitions 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 2012 Significant Acquisitions. All of these factors could cause dilution to Element's earnings per share or decrease or delay the anticipated accretive effect of the 2012 Significant Acquisitions and cause a decrease in the market price of Element Common Shares.

Risks Involved with Integrating TLSI, CoActiv and Nexcap

The TLSI Acquisition was completed on June 29, 2012, the CoActiv Acquisition was completed on November 30, 2012 and the Nexcap Acquisition was completed on January 18, 2013. In addition to the anticipated benefits, the recently completed 2012 Significant Acquisitions also pose additional risks to Element's business. The success of the 2012 Significant Acquisitions will depend, in part, on the ability of Element to realize the anticipated benefits of the 2012 Significant 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 2012 Significant Acquisitions will ultimately benefit Element. Any failure to successfully integrate CoActiv and/or Nexcap or failure to achieve the anticipated benefits of the 2012 Significant Acquisitions could have a material adverse effect on Element's business and results of operations.

Complications in Managing Acquisitions May Negatively Affect Element's Operating Results

Element does not currently have any agreement or commitments to acquire any businesses. However, Element continues to seek opportunities to acquire or invest in businesses that could expand, complement or otherwise relate to Element's current or future business. Element may also consider, from time to time, opportunities to engage in joint ventures or other business collaborations with third-parties to address particular market segments. These activities create risks such as: (i) the need to integrate and manage the businesses, operations, services, personnel and systems acquired with Element's own business, (ii) additional demands on Element's resources, systems, procedures and controls, (iii) disruption of Element's ongoing business, (iv) diversion of management's attention from other business concerns, and (v) potential for additional regulatory scrutiny. Moreover, these transactions could involve: (i) substantial investment of funds or financings by issuance of debt or equity securities; (ii) substantial investment with respect to technology transfers and operational integration; and (iii) the acquisition or disposition of businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of shareholders of Element or result in the issuance of, or assumption of, debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of Element's financial and other resources. Any such activity may not be successful in generating revenue, income or other returns to Element, and the resources committed to such activities will not be available to Element for other purposes. Moreover, if Element is unable to access capital markets on acceptable terms or at all, Element may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. Element's inability: (i) to take advantage of growth opportunities for its business, or (ii) to address risks associated with acquisitions or investments in businesses, may negatively affect Element's operating results. Additionally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce Element's earnings which, in turn, may have an adverse material effect on the price of Element Common Shares. If Element does complete such transactions, Element cannot be sure that they will ultimately strengthen its competitive position or that they will not be viewed negatively by customers, securities analysts or investors.

Credit Risks May Lead to Unexpected Losses

Element's net investment in finance assets for its own account and to be held for future term funding exposes Element to credit risk. Credit risk is the risk that Element will incur an unexpected loss because its customers and counterparties fail to discharge their contractual obligations. Credit risk arises principally through Element's finance receivables that are a result of transactions within the equipment finance industry and, as such, contain an element of credit risk in the event that obligors are unable to meet the terms of their agreements. Element is exposed to credit risk as it arises from events and circumstances outside of Element's control relating to adverse economic conditions, business failure or fraud. The types of fraud to which Element is exposed generally fall into one of three primary categories: (i) vendor/dealer fraud; (ii) customer fraud; and (iii) employee fraud. Excessive credit losses could adversely affect Element's ability to generate and fund new financings.

In order to manage credit risk, Element operates using a clearly identified set of policies and procedures throughout its business processes. This includes a detailed analysis of the value of collateral security, the applicant's financial condition and the ability to service the debt or lease obligations at inception and throughout the term of the lease or loan. Element also manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans.

Element's Provision for Credit Losses May Prove Inadequate

Element's business depends on the creditworthiness of its customers and their ability to fulfill their obligations to Element. Element maintains a provision for credit losses that reflects management's judgment of losses inherent in the portfolio. Element periodically reviews its provision for adequacy considering economic

conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets.

Element's provision for credit losses may prove inadequate and Element cannot assure that it will be adequate over time to cover credit losses in Element's portfolio because of adverse changes in the economy or events adversely affecting specific customers, industries or markets. Element reserves may not keep pace with changes in the creditworthiness of Element's customers or in collateral values. If the credit quality of Element's customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for equipment or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of Element's reserves for credit losses, it could have a material adverse effect on Element's business, results of operations, and financial position.

While credit losses have been minimal to date, Element has and will continue to provide for credit losses based on industry specific historical losses considering the categories, segmentation and distribution of the assets being financed and its customer base.

The Collateral Securing a Loan or a Lease May Not Be Sufficient

While most of Element's loans and leases are secured by a lien on specified collateral of the customer, there is no assurance that Element has obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect Element from suffering a partial or complete loss if the loan or lease becomes non-performing and Element moves to foreclose on the collateral. In such event, Element could suffer loan or lease losses which could have a material adverse effect on its revenue, net income, financial condition and results of operations.

When underwriting collateral, Element makes an estimate of the value of the collateral under a distressed disposition. The estimated realization value of equipment during the life of the lease is an important element in the leasing business. A decrease in the market value of leased equipment at a rate greater than the rate Element projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, would adversely affect the current realization values of such equipment.

Further, certain equipment realization values are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity.

The degree of realization risk varies by transaction type.

Concentration of Leases and Loans with a Particular Industry or Region May Negatively Impact Element's Financial Condition

Element specializes in certain broad industry segments, such as vehicle fleet leasing, manufacturing and industrial, transportation and construction, healthcare, golf equipment, office products and technology, and franchise finance. As a result, Element's portfolio currently has and may develop other concentrations of risk exposure related to those industry segments. If industry segments in which Element has a concentration of investments experience adverse economic or business conditions, Element's delinquencies, default rate and charge-offs in those segments may increase, which may negatively impact its financial condition and results of operations.

Concentration of Leases and Loans to Small and Mid-Sized Companies May Carry More Inherent Risk

Element's portfolio consists primarily of loans and leases to small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly-traded firms, loans to these types of companies may carry more inherent risk. The companies that Element finances generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Additionally, because most of Element's customers do not publicly report their

financial condition, Element is more susceptible to a customer's misrepresentation, which could cause Element to suffer losses on its portfolio. The failure of a customer to accurately report its financial position could result in Element providing loans or leases that do not meet its underwriting criteria, defaults in loan and lease payments, the loss of some or all of the principal of a particular loan or lease or non-compliance with loan or lease covenants. Accordingly, loans and leases made to these types of customers involve higher risks than loans and leases made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources. Numerous factors may make these types of companies more vulnerable to variations in results of operations, changes impacting their industry and changes in general market conditions.

Element's Quarterly Net Finance Income and Results of Operations are Difficult to Forecast and May Fluctuate Substantially

Element's quarterly net finance income and results of operations are difficult to forecast. Element may experience substantial fluctuations in net finance income and results of operations from quarter to quarter. Investors should not rely on Element's results of operations in any prior reporting period to be indicative of its performance in future reporting periods. Many different factors could cause Element's results of operations to vary from quarter to quarter, including:

- the success of Element's origination activities;
- credit losses and default rates;
- Element's ability to enter into financing arrangements;
- competition;
- seasonal fluctuations in Element's business, including the timing of transactions;
- costs of compliance with regulatory requirements;
- the timing and effect of any future acquisitions;
- personnel changes;
- changes in accounting rules;
- changes in prevailing interest rates;
- general changes to the Canadian, U.S. and global economies; and
- political conditions or events.

Element bases its current and future operating expense levels and its investment plans on estimates of future net finance income, origination activity and rate of growth. Element expects that its expenses will increase in the future, and Element may not be able to adjust its spending quickly enough if its net finance income falls short of Element's expectations. Any shortfalls in Element's net finance income, origination activity or in its expected growth rates could result in decreases in its share price.

Element is a Recently Organized Corporation with a Brief Operating History and Element has Incurred Losses in the Past and May Not Achieve Profitability in Future Periods

Given Element's limited operating history, Element's shareholders have little historical information upon which to evaluate its prospects, including its ability to generate originations on favourable terms or to enter into profitable finance contracts. Element cannot assure its shareholders that it will be able to implement its business objectives, that any of its objectives will be achieved or that Element will be able to operate profitably. The results of Element's operations will depend on several factors, including the availability of opportunities for the acquisition, disposition and leasing of equipment, Element's ability to capitalize on any such opportunities, the creditworthiness of Element's counterparties, the level of volatility of interest rates and commodities, the availability of adequate short- and long-term financing, conditions in the financial markets and other economic conditions, particularly as these conditions impact independent finance companies. Element's limited historical operations place it at a competitive disadvantage that Element's competitors may exploit.

Element anticipates that its operating expenses will increase in the near future as it continues to invest in its business and integrate the business of CoActiv and Nexcap. These efforts may prove more expensive than Element currently anticipates, and Element may not succeed in increasing its revenue sufficiently to offset these higher expenses. Element cannot be certain that it will be able to attain or increase profitability on a quarterly or annual

basis. If Element is unable to effectively manage these risks and difficulties as it encounters them, it may negatively impact Element's financial condition, results of operations or cash flows.

Litigation May Negatively Impact Element's Financial Condition

From time to time in the ordinary course of its business, Element may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Element to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on Element's business, operating results or financial condition.

RISKS RELATING TO OWNERSHIP OF ELEMENT COMMON SHARES

Volatile Market Price for Element Common Shares

The market price for Element Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Element's control, including the following:

- actual or anticipated fluctuations in Element's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which Element operates;
- addition or departure of Element's executive officers and other key personnel;
- release or expiration of lock-up or other transfer restrictions on outstanding Element Common Shares;
- sales or perceived sales of additional Element Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Element or its competitors;
- operating and share price performance of other companies that investors deem comparable to Element; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in Element's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of Element Common Shares may decline even if Element's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, Element's operations could be adversely impacted and the trading price of Element Common Shares may be materially adversely affected.

No Dividends

Element's current policy is to retain earnings to finance the growth and development of its origination business and to otherwise reinvest in its business. Therefore, Element does not anticipate paying cash dividends on Element Common Shares in the near future. Element's dividend policy will be reviewed from time to time by its Board of Directors in the context of Element's earnings, financial condition and other relevant factors. Until the time that Element does pay dividends, which it may never do, Element's shareholders will not be able to receive a return on their Element Common Shares unless they sell them.

Future Capital Requirements

Element may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;
- take advantage of opportunities, including more rapid expansion of Element's business or the acquisition of complementary businesses; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute Element's existing shareholders' percentage ownership of Element Common Shares. Capital raised through debt financing would require Element to make periodic interest payments and may impose restrictive covenants on the conduct of Element's business. Furthermore, additional financings may not be available on terms favourable to Element, or at all. A failure to obtain additional funding could prevent Element from making expenditures that may be required to implement Element's growth strategy and grow or maintain Element's operations.

While Element believes that its capacity to expand its existing secured borrowing facilities, its access to bank term and conduit funding combined with access to the issuance of equity will be sufficient to fund its normal operating and capital expenditures as Element grows, this ability to access necessary capital cannot be assured.

Future Sales of Element Common Shares by Existing Shareholders

Sales of a substantial number of Element Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Element Common Shares intend to sell Element Common Shares, could reduce the market price of Element Common Shares.

Holders of options to purchase Element Common Shares ("Element Options") will have an immediate income inclusion for tax purposes when they exercise their Element Options (that is, tax is not deferred until they sell the underlying Element Common Shares). As a result, these holders may need to sell Element Common Shares purchased on the exercise of Element Options in the same year that they exercise their Element Options. This may result in a greater number of Element Common Shares being sold in the public market, and fewer long-term holds of Element Common Shares by Element's management and employees.

Publication of Inaccurate or Unfavourable Research by Securities Analysts or Other Third-Parties

The trading market for Element Common Shares relies in part on the research and reports that securities analysts and other third-parties choose to publish about Element. Element does not control these analysts or other third-parties. The price of the Element Common Shares could decline if one or more securities analysts downgrade Element or if one or more securities analysts or other third-parties publish inaccurate or unfavourable research about Element or cease publishing reports about Element.

DESCRIPTION OF SHARE CAPITAL

GENERAL

The authorized capital of Element consists of an unlimited number of Element Common Shares and an unlimited number of preferred shares, issuable in series (the "Preferred Shares"). As at December 31, 2012, there were 83,041,999 issued and outstanding Element Common Shares and no issued and outstanding Preferred Shares. As at March 12, 2013, following the exercise of the November 2012 Special Warrants and completion of the 2013 Common Share Offering (including the exercise of the over-allotment option), there were 125,414,499 Element Common Shares issued and outstanding. The following is a summary of the rights, privileges, restrictions and conditions attaching to the Element Common Shares and the Preferred Shares.

ELEMENT COMMON SHARES

Each Element Common Share entitles the holder to (i) one vote at all meetings of shareholders (except meetings at which only holders of a specified class of shares are entitled to vote), (ii) to receive, subject to the holders of another class of shares, any dividend declared by Element, and (iii) to receive, subject to the rights of the holders of another class of shares, the remaining property of Element on the liquidation, dissolution or winding up of Element, whether voluntary or involuntary.

PREFERRED SHARES

The Preferred Shares may at any time and from time to time be issued in one or more series. The directors of Element may fix, before the issuance thereof, the number of Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series, including, without limitation, any voting rights, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms and conditions of redemption or purchase, any conversion rights, and any rights on the liquidation, dissolution or winding-up of Element, any sinking fund or other provisions, the whole to be subject to the issuance of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of the series.

The Preferred Shares of each series shall, with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of Element, whether voluntary or involuntary, rank on a parity with the Preferred Shares of every other series and be entitled to preference over the Element Common Shares. 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.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

The Element Common Shares are currently listed on the TSX under the trading symbol “EFN”. The following table sets forth the reported intraday high and low prices and the trading volume for the Element Common Shares on the TSX on a monthly basis for 2012.

<u>Month</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
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
January	5.55	4.70	7,342,409

PRIOR SALES

The following table provides details regarding all securities not listed or quoted on a marketplace that have been issued by the Corporation in 2012.⁽⁷⁾⁽⁸⁾

<u>Date</u>	<u>Number of Securities Issued</u>	<u>Issue Price Per Security</u>
January 18, 2012	371 ⁽¹⁾	\$3.23
January 24, 2012	143,950 ⁽²⁾	\$5.30
February 1, 2012	70,000 ⁽²⁾	\$5.40
February 7, 2012	2,000 ⁽²⁾	\$5.40
February 16, 2012	464 ⁽¹⁾	\$3.23
March 12, 2012	3,482 ⁽¹⁾	\$3.23
March 12, 2012	2,000 ⁽²⁾	\$5.32
March 19, 2012	10,000 ⁽²⁾	\$5.40
May 7, 2012	20,000 ⁽²⁾	\$5.40
May 18, 2012	52,347 ⁽²⁾	\$5.39
May 31, 2012	16,595,900 ⁽³⁾	\$5.25
July 3, 2012	25,000 ⁽²⁾	\$5.39
July 17, 2012	15,863 ⁽¹⁾	\$3.23
August 17, 2012	270,546 ⁽²⁾	\$6.10
August 23, 2012	19,345 ⁽¹⁾	\$3.23
September 4, 2012	600,000 ⁽²⁾	\$5.76
September 4, 2012	515,000 ⁽²⁾	\$5.74
October 1, 2012	6,000 ⁽²⁾	\$6.13
October 4, 2012	14,521 ⁽⁴⁾	\$4.20
October 4, 2012	12,500 ⁽⁵⁾	\$4.20
October 15, 2012	10,000 ⁽²⁾	\$5.98
November 15, 2012	5,000 ⁽²⁾	\$6.01
November 19, 2012	5,000 ⁽²⁾	\$5.86
November 23, 2012	19,500,000 ⁽⁶⁾	\$5.65

Notes:

- (1) Represents Element Common Shares issued on the exercise Element Options (as defined herein) issued to former directors of Mira and other holders of options to purchase Mira common shares in connection with the Amalgamation.

- (2) Represents Element Options issued pursuant to the Corporation's stock option plan. On February 22, 2013, Element issued 3,106,430 Element Options pursuant to the Corporation's stock option plan at a price of \$8.06 per Element Option.
- (3) 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 Element Common Shares underlying the May 2012 Special Warrants was qualified by a prospectus dated August 9, 2012 and the underlying Element Common Shares were issued on August 14, 2012. See "*Development of the Business Over the Last Three Years – 2012 – May 2012 Special Warrant Offering*".
- (4) Represents Element Common Shares issued on the exercise of Element Options by a former officer of the Corporation.
- (5) Represents Element Common Shares issued on the exercise of Element Options by a former director of the Corporation.
- (6) 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 Element Common Shares underlying the November 2012 Special Warrants was qualified by a prospectus dated February 5, 2013 and the Element Common Shares underlying such November 2012 Special Warrants were issued on February 6, 2013. See "*Development of the Business Over the Last Three Years – 2012 – November 2012 Special Warrant Offering*".
- (7) On January 15, 2013 and January 18, 2013, Element issued 281,250 Element Common Shares and 281,250 Element Common Shares, respectively, pursuant to the exercise of broker warrants to purchase Element Common Shares at an exercise price of \$4.00 per Element Common Share.
- (8) On March 12, 2013, Element issued 22,310,000 Element Common Shares at a price of \$7.75 per Element Common Share pursuant to the 2013 Common Share Offering.

DIRECTORS AND OFFICERS

D I R E C T O R S

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: The term of each director's service as a director of the Corporation lasts until Element's next annual meeting of shareholders.

Name and Province/State and Country of Residence	Director since	Principal Occupation
Steven K. Hudson ⁽¹⁾⁽³⁾ 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 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 ⁽²⁾ 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 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 ⁽³⁾ St-Lambert, Québec, Canada	2011	Senior Business Advisor at Fraser Milner Casgrain LLP, a Canadian law firm; a director of Arianne Resources Inc., Group Canam Inc. and Tembec Inc.
Stephens B. Lowden ⁽²⁾ 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 ⁽¹⁾ 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 ⁽¹⁾⁽²⁾⁽³⁾ 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 ⁽¹⁾ Toronto, Ontario, Canada	2010	Chairman of Gardiner Roberts LLP, a Canadian law firm.
Harold Bridge, ICD.D ⁽²⁾ 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.

(1) Member of the Compensation and Corporate Governance Committee.

(2) Member of the Audit Committee.

(3) Member of the Credit Committee.

OFFICERS

The following table sets forth the full name, province or state and country of residence and principal occupations for each current officer of the Corporation other those already listed under “Directors” above.

Name and Province/State and Country of Residence	Principal Occupation
Bradley Nullmeyer Toronto, Ontario, Canada	President since 2012; previously the Co-Chief Executive Officer of OTEC Research from 2007 to 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 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. Previously Chief Financial Officer and Senior Vice President Operations Newcourt Credit Group USA.
J. Stephen Sands 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 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 Verdun, Québec, Canada	Executive Vice President, Element Capital, since 2011; previously Senior Vice President at GE Capital, a company offering equipment loans, equipment leasing, cash flow programs, asset financing and other financial services in more than 35 countries worldwide. Held various strategic positions from 1997 to 2011 at GE Capital in the General Aviation, Transportation, Construction and Manufacturing industry segments.
Chris Marshall Toronto, Ontario, Canada	Senior Legal Counsel & Corporate Secretary since 2012; previously General Counsel of MMV Financial Inc., a private equity-backed specialty finance company from 2007 to 2011.

- (1) 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.

VOTING SECURITIES

As at December 31, 2012, the directors and officers of Element as a group owned, or controlled or directed, directly or indirectly 6,693,186 Element Common Shares, representing 6.5% of the outstanding common shares (after giving effect to the exercise November 2012 Special Warrants then outstanding) in the capital of the Corporation.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of Element, except as otherwise disclosed elsewhere in this annual information form, no director or executive officer of Element, no person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of the outstanding securities of Element and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years that has materially affected or is expected to materially affect Element or its subsidiaries.

AUDIT COMMITTEE

AUDIT COMMITTEE'S MANDATE

The mandate of the Audit Committee is attached as Appendix A to this Annual Information Form.

COMPOSITION OF AUDIT COMMITTEE

The members of the Audit Committee are Harold D. Bridge (Chair), Stephens B. Lowden and Fraser Clarke. Each member of the Audit Committee is independent (as defined in National Instrument 52-110 – *Audit Committees* (“NI 52-110”)) and none receives, directly or indirectly, any compensation from Element other than for service as a member of the Board of Directors and its committees. All members of the Audit Committee are financially literate (as defined under NI 52-110).

RELEVANT EDUCATION AND EXPERIENCE OF AUDIT COMMITTEE MEMBERS

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

Harold Bridge

Mr. Bridge is the President and Chief Executive Officer of Kathar Enterprises Inc., a corporate finance, merger & acquisitions, corporate governance, and financial advisory services firm. From 1967 to 2006, Mr. Bridge served as a partner in the financial advisory, audit and consulting services practice at Deloitte & Touche LLP and as Executive Vice President and Director at Deloitte & Touche Corporate Finance Canada Inc. Mr. Bridge has served as Chairman of the International Examination Review Board for the Corporate Finance Designation (CF) for the Canadian Institute of Chartered Accountants (CICA). Mr. Bridge has lectured on corporate finance, mergers and acquisitions, taxation and leasing issues at the World Bank, the Conference Board of Canada, Queen's University and the University of Toronto as Associate Professor of Accounting and Special Lecturer in Advanced Accounting and Finance. Mr. Bridge holds a Bachelor of Commerce degree in Finance & Accounting from the University of Toronto, a Masters of Business Administration degree in Finance and Operations Research from Queen's University, is a Fellow of the Ontario Institute of Chartered Accountants (FCA), an ICD.D designation from the Institute of Corporate Directors & Rotman School of Management and a Corporate Finance designation from the CICA.

Fraser Clarke

Mr. Clarke is the President and Chief Executive Officer of Herbal Magic, a position he has held since February 2011. Mr. Clarke was previously President and Chief Operating Officer of Herbal Magic from February 2009 to February 2011. Mr. Clarke was President of 57146 NL & Lab Inc. from August 2007 to February 2009. From October 2002 to July 2007 Mr. Clarke was President and Chief Executive Officer of Hair Club. Prior to this role, Mr. Clarke was an Associate at CCC Investment Banking and an Associate at Ernst & Young LLP. Mr. Clarke holds a Bachelor of Commerce from Memorial University and is a designated CA and C.F.A.

Stephens B. Lowden

Mr. Lowden has over 30 years of experience as a financial consultant in corporate finance, mergers and acquisitions, divestitures, process improvement, marketing, strategic planning, governance and executive compensation. Mr. Lowden previously served as Managing Partner of Ernst & Young LLP Toronto, and as Executive Partner of the firm. He left private practice to serve as President of Gardiner Group Capital and Vice Chairman and CEO of Gardiner Oil and Gas. Mr. Lowden is a Fellow of the Ontario Institute of Chartered Accountants and holds a Bachelor of Commerce degree from the University of Toronto.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted requirements regarding pre-approval of non-audit services as part of its Audit Committee Mandate. The Audit Committee Mandate requires that the Audit Committee must approve in advance any retainer of the auditors to perform any non-audit service to Element (together with all non-audit service fees) that it deems advisable in accordance with applicable requirements and Board approved policies and procedures. The Audit Committee must consider the impact of such service and fees on the independence of the auditor. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee; however, the decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

AUDIT FEES

Ernst & Young LLP has served as Element's auditing firm since August 11, 2010. Fees payable by Element for the fiscal years ended December 31, 2012 and December 31, 2011 to Ernst & Young and its affiliates were \$813,931 and \$892,000, respectively, as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Audit Fees	\$455,000	\$264,000
Audit-Related Fees	\$214,531	\$493,000
Tax Fees	Nil	\$22,000
Other Fees	\$144,400	\$113,000
TOTAL	\$813,931	\$892,000

The nature of each category of fees is described below.

Audit Fees

Audit fees were paid for professional services rendered by the auditor in connection with the audit of Element's annual financial statements for the years ended December 31, 2012 and December 31, 2011, respectively. In addition, audit fees were paid for services provided in connection with the review of Element's interim financial statements.

Audit Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of Element's financial statements and are not reported under the audit fee items above. Audit-related fees during the current period relate primarily to services provided in connection to the multiple issuances of Element Common Shares, the adoption of International Financial Reporting Standards (IFRS), the Amalgamation, the receipt of a listing on the TSX and the 2012 Significant Acquisitions.

Tax Fees

Tax fees were paid for tax compliance, including assistance with the completion of routine tax schedules and calculations.

Other Fees

Other fees were paid for services other than audit fees, audited-related fees and tax fees described above. Other fees in the current fiscal period relate primarily to due diligence services provided to Element. Other fees in the prior fiscal period relate to assistance with documentation of internal controls.

PROCEDURES FOR COMPLAINTS

In accordance with NI 52-110, Element has established procedures for the receipt, retention and treatment of complaints received by Element regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of Element of concerns regarding questionable accounting or auditing matters. For further information respecting these procedures, see “Appendix A – Element Financial Corporation Audit Committee Mandate” of this Annual Information Form.

TRANSFER AGENT AND REGISTRAR

The Element Common Shares are transferable at the principal offices of its transfer agent and registrar, Computershare Investor Services Inc. in Toronto.

EXPERTS

Ernst & Young LLP is Element’s external auditor. Ernst & Young LLP has advised that it is independent with respect to Element within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

MATERIAL CONTRACTS

Except for those contracts entered into in the ordinary course of business, Element has entered into the following material contracts:

- the underwriting agreement dated May 31, 2012 between Element and a syndicate of underwriters in connection with the May 2012 Special Warrant Offering (see “*Development of the Business Over the Last Three Years – 2012 – May 2012 Special Warrant Offering*”);
- the TLSI Share Purchase Agreement (see “*Development of the Business Over the Last Three Years – 2012 – TLSI Acquisition*”);
- the underwriting agreement dated November 23, 2012 between the Corporation and a syndicate of underwriters in connection with the November 2012 Special Warrant Offering (see “*Development of the Business Over the Last Three Years – 2012 – November 2012 Special Warrant Offering*”);
- the CoActiv Stock Purchase Agreement (see “*Development of the Business Over the Last Three Years – 2012 – CoActiv Acquisition*”); and
- the Nexcap Share Purchase Agreement (see “*Development of the Business Over the Last Three Years – 2012 – Nexcap Acquisition*”).

Copies of such material contracts are available under Element’s profile on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the ordinary course of business, Element and certain of its subsidiaries are party to legal proceedings. Element believes that each such proceeding constitutes a routine legal matter incidental to the business conducted by Element or its subsidiaries. Although Element cannot determine the ultimate outcome of any outstanding claims, based on its current knowledge, Element does not expect that the ultimate disposition of any of these proceedings will have a material adverse effect on its consolidated earnings, cash flow or financial position.

During the financial year ended December 31, 2012: (i) there have been no penalties or sanctions imposed against Element by a court relating to securities legislation or by a securities regulatory authority; (ii) there have been no other penalties or sanctions imposed by a court or regulatory body against Element that would likely be considered important to a reasonable investor in making an investment decision; and (iii) Element has not entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

ADDITIONAL INFORMATION

Additional information relating to Element may be found on SEDAR at www.sedar.com. Information including directors' and officers' remuneration and indebtedness, principal holders of Element's securities and securities authorized for issuance under Element's stock option plan is, where applicable, contained in its latest Management Proxy Circular. Additional financial information is provided in the financial statements for the year ended December 31, 2012 and the accompanying Management's Discussion and Analysis dated March 19, 2013, which have been filed on SEDAR.

APPENDIX A

ELEMENT FINANCIAL CORPORATION AUDIT COMMITTEE MANDATE

1. Introduction

The Audit Committee (the “**Committee**” or the “**Audit Committee**”) of Element Financial Corporation (“**Element**” or the “**Corporation**”) is a committee of the Board of Directors (the “**Board**”). The Committee shall oversee the accounting and financial reporting practices of the Corporation and the audits of the Corporation’s financial statements and exercise the responsibilities and duties set out in this Audit Committee Mandate (this “**Mandate**”).

This Mandate was adopted by the Board on December 14, 2011, and became effective immediately upon the completion of the listing of the Corporation’s common shares on the Toronto Stock Exchange.

2. Membership

Number of Members

The Committee shall be composed of three or more members of the Board.

Independence of Members

Each member of the Committee must be independent. “Independent” shall have the meaning, as the context requires, given to it in National Instrument 52-110 Audit Committees, as may be amended and/or replaced from time to time.

Chair

At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a Chair of the Audit Committee. The Chair shall be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee’s compliance with this Mandate, work with management to develop the Audit Committee’s annual work-plan and provide reports of the Audit Committee to the Board.

Financial Literacy of Members

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

Term of Members

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board. Unless a Chair is elected by the Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

3. Meetings

Number of Meetings

The Committee may meet as many times per year as necessary to carry out its responsibilities.

Calling of Meetings

The Chair, any member of the Audit Committee, the external auditors, the Chair of the Board or Lead Director, or the Chief Executive Officer or the Chief Financial Officer may call a meeting of the Audit Committee by notifying the Corporation's Secretary who will notify the members of the Audit Committee. The Chair shall chair all Audit Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit Committee present may appoint a chair from their number for a meeting.

Minutes; Reporting to the Board

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

Attendance of Non-Members

The external auditors are entitled to attend and be heard at each Committee meeting. In addition, the Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

Meetings without Management

The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present.

Procedure

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board.

Access to Management and Outside Advisors

In discharging the forgoing duties and responsibilities, the Audit Committee shall have unrestricted access to management and employees of the Corporation and to the relevant books, records and systems of the Corporation as considered appropriate. The Audit Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities. The Corporation shall provide appropriate funding, as determined by the Board, for the services of these advisors.

4. Duties and Responsibilities

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any exchange upon which securities of the Corporation are traded, or any governmental or regulatory body exercising authority over the Corporation, as are in effect from time to time (collectively, the "Applicable Requirements").

Financial Reports

(a) General

The Audit Committee is responsible for overseeing the Corporation's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Corporation. The auditors are responsible for auditing the Corporation's annual consolidated financial statements and for reviewing the Corporation's unaudited interim financial statements.

(b) Review of Annual Financial Reports

The Audit Committee shall review the annual consolidated audited financial statements of the Corporation, the auditors' report thereon and the related management's discussion and analysis of the Corporation's financial condition and results of operation ("MD&A"). After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the annual financial statements and the related MD&A.

(c) Review of Interim Financial Reports

The Audit Committee shall review the interim consolidated financial statements of the Corporation, the auditors' review report thereon and the related MD&A. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.

(d) Review Considerations

In conducting its review of the annual financial statements or the interim financial statements, the Audit Committee shall:

- (i) meet with management and the auditors to discuss the financial statements and MD&A;
- (ii) review the disclosure in the financial statements;
- (iii) review the audit report or review report prepared by the auditors;
- (iv) discuss with management, the auditors and legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;
- (v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;
- (vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under Canadian generally accepted principles applicable to publicly accountable enterprises;
- (vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;
- (viii) review management's report on the effectiveness of internal controls over financial reporting;

- (ix) review the factors identified by management as factors that may affect future financial results;
- (x) review results of the Corporation's audit committee whistleblower hotline program; and
- (xi) review any other matters related to the financial statements that are brought forward by the auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.

(e) **Approval of Other Financial Disclosures**

The Audit Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Corporation, press releases disclosing, or based upon, financial results of the Corporation and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated.

Auditors

(a) **General**

The Audit Committee shall be responsible for oversight of the work of the auditors, including the auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.

(b) **Nomination and Compensation**

The Audit Committee shall review and, if advisable, select and recommend for Board approval the external auditors to be nominated and the compensation of such external auditor. The Audit Committee shall have ultimate authority to approve all audit engagement terms and fees, including the auditors' audit plan.

(c) **Resolution of Disagreements**

The Audit Committee shall resolve any disagreements between management and the auditors as to financial reporting matters brought to its attention.

(d) **Discussions with Auditors**

At least annually, the Audit Committee shall discuss with the auditors such matters as are required by applicable auditing standards to be discussed by the auditors with the Audit Committee.

(e) **Audit Plan**

At least annually, the Audit Committee shall review a summary of the auditors' annual audit plan. The Audit Committee shall consider and review with the auditors any material changes to the scope of the plan.

(f) **Quarterly Review Report**

The Audit Committee shall review a report prepared by the auditors in respect of each of the interim financial statements of the Corporation.

(g) **Independence of Auditors**

At least annually, and before the auditors issue their report on the annual financial statements, the Audit Committee shall obtain from the auditors a formal written statement describing all relationships between the auditors and the Corporation; discuss with the auditors any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and

independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the auditors belong and other Applicable Requirements. The Audit Committee shall take appropriate action to oversee the independence of the auditors.

(h) Evaluation and Rotation of Lead Partner

At least annually, the Audit Committee shall review the qualifications and performance of the lead partner(s) of the auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors.

(i) Requirement for Pre-Approval of Non-Audit Services

The Audit Committee shall approve in advance any retainer of the auditors to perform any non-audit service to the Corporation (together with all non-audit service fees) that it deems advisable in accordance with Applicable Requirements and Board approved policies and procedures. The Audit Committee shall consider the impact of such service and fees on the independence of the auditor. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

(j) Approval of Hiring Policies

The Audit Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

(k) Financial Executives

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

Internal Controls

(l) General

The Audit Committee shall review the Corporation's system of internal controls.

(m) Establishment, Review and Approval

The Audit Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures. At least annually, the Audit Committee shall consider and review with management and the auditors:

- (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Corporation's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
- (ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Corporation's periodic regulatory filings;
- (iii) any material issues raised by any inquiry or investigation by the Corporation's regulators;

- (iv) the Corporation's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Corporation to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and
- (v) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

Compliance with Legal and Regulatory Requirements

The Audit Committee shall review reports from the Corporation's Secretary and other management members on: legal or compliance matters that may have a material impact on the Corporation; the effectiveness of the Corporation's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

Audit Committee Hotline Whistleblower Procedures

The Audit Committee shall establish for (a) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Audit Committee determines that the matter requires further investigation, it will direct the Chair of the Audit Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the general counsel to reach a satisfactory conclusion.

Audit Committee Disclosure

The Audit Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Corporation's disclosure documents.

Delegation

The Audit Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this Mandate as the Audit Committee deems appropriate.

5. No Rights Created

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Audit Committee, functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Corporation's Articles and By-laws, it is not intended to establish any legally binding obligations.

6. Mandate Review

The Committee shall review and update this Mandate annually and present it to the Board for approval.