ELEMENT FINANCIAL CORPORATION
Form 51-102F4
Business Acquisition Report

Item 1. Identity of the Company

1.1 Name and Address of the Company

Element Financial Corporation ("**Element**" or the "**Company**")
161 Bay Street, Suite 4600
Toronto, Ontario, M5J 2S1

1.2 Executive Officer

The following executive officer of the Company is knowledgeable about the significant acquisition and this report:

Michel Beland
Chief Financial Officer
Tel: (416) 386-1067

Certain statements in this business acquisition report ("Report") constitute forward-looking information (as defined under applicable Canadian securities laws). Readers should refer to the "Cautionary Statement Regarding Forward-Looking Information" that appears at the end of this Report.

Item 2. Details of Acquisition

2.1 Nature of Business Acquired

On December 9, 2013, Element established a new vendor finance program (the "**Trinity Vendor Program**") with Trinity Industries Inc. to enter into lease financing transactions with Trinity Industries Leasing Company and/or affiliates ("**Trinity**") over a two year period. Under the terms of the Trinity Vendor Program, Element and Trinity have formed a strategic alliance whereby Element will be presented with preferred opportunities from time to time to enter into lease financings (the "**Leases**") for railcars manufactured by Trinity (the "**Railcars**", and together with the Leases, the "**Railcar Assets**").

In connection with the Trinity Vendor Program, Element acquired approximately US$117.6 million of Railcar Assets on December 19, 2014 (the "**New Tranche**").

Element previously acquired approximately US$875 million of Railcar Assets pursuant to a US$105 million tranche completed on December 19, 2013, a US$396 million second tranche completed on January 28, 2014, a US$118 million third tranche completed on March 27, 2014, a US$121 million fourth tranche completed on June 27, 2014, and a US$135 million fifth tranche completed on September 29, 2014.

Description of the Railcars

As a result of the New Tranche, Element acquired Leases secured by 798 Railcars. The following table describes the percentage of the Railcars that were built in each of the calendar years indicated below:

Breakdown by Year of Manufacture

Year of Manufacture	Number of Railcars	% of Total
2014	**798**	**100.00%**
	798	**100.00%**

Description of the Lessees

The Railcars were leased to approximately **13** customers (the "**Lessees**"). Based on the Leases of the Railcars currently in effect, the single largest Lessee (by monthly revenue) accounts for approximately **21.84%** of Element's monthly leasing revenue as of the date of the New Tranche.

The Lessees consist of entities rated by S&P (or, in certain instances, entities whose parents and/or affiliates are rated by S&P) and/or by another rating agency, as well as unrated entities. Set forth in the table below are the credit ratings (based on the applicable rating entity as described above), by number of Railcars, as of the date of the New Tranche, for the Lessees or their parents, affiliates or sublessees, as applicable.

Ratings of Lessees
(or Parents, Affiliates or Sublessees, as applicable)[(1)]

Rating	% of Total
AAA	**11.03%**
AA	**16.04%**
A-......................	**2.51%**
BBB	**0.00%**
BBB-.................	**11.90%**
BB+	**17.79%**
Not Rated..........	**40.73%**
Total..................	**100.00%**

(1) This table reflects Lessees (or parents, affiliates or sublessees, as applicable) as of the date of the New Tranche. There can be no assurance that the ratings assigned to the affiliate or parent or sublessee are reflective of the creditworthiness of the Lessee.

Description of the Leases

Under Trinity's procedures, railcars are leased to a Trinity customer pursuant to a master railcar lease agreement which specifies general terms applicable to the lease of all railcars to be leased to such customer and one or more riders/supplements are entered into from time to time which describe the specific railcars to be leased by the customer, together with the applicable term and lease rates applicable to such railcars. The rider incorporates the terms of the master railcar lease agreement which, together with such incorporated terms, evidences and constitutes a Lease. As of the date of the New Tranche, none of the Leases were in default.

Term and Renewal

In general, the Leases have terms ranging from **4** years to **10** years. As of the date of the New Tranche, the remaining Lease terms on the Railcars averaged approximately **6.08** years on a weighted average basis (based on the number of Railcars) without taking into account the exercise of any "early-out" options. The following table sets out the range of Lease terms, assuming an "early-out" option is not exercised, as of the date of the New Tranche:

Remaining Lease Term (Months)

Remaining Lease Term (months)	Number of Railcars	% of Total	Avg. Rental Rate
Less than 48	**25**	**3.13%**	**1,154**
48-59	**268**	**33.58%**	**1,214**
60-71	**203**	**25.44%**	**1,264**
72-83	**95**	**11.91%**	**795**
84-95	**142**	**17.79%**	**1,466**
108-119	**65**	**8.15%**	**1,350**
	798	**100.00%**	

Lease Rates

As of the date of the New Tranche, the initial Lease rates for the Railcars averaged approximately $**1,231** per month on a weighted average basis (based on the number of railcars) per Railcar and ranged as follows:

Initial Lease Rate Stratification

Lease Rate	Number of Railcars	% of Total
$500 - $750	**150**	**18.80%**
$751 - $1,000	**55**	**6.89%**
$1,001 - $1,250	**170**	**21.30%**
$1,251 - $1,500	**207**	**25.94%**
> $1,500	**216**	**27.07%**
Total	**798**	**100.00%**

2.2 **Date of Acquisition**

December 19, 2014.

2.3 **Consideration**

The aggregate purchase price for the Railcar Assets acquired in the New Tranche was approximately US$117.6 million.

The New Tranche was financed using existing sources of capital, including (a) a U.S.$1.95 billion amended and restated senior revolving facility that the Company entered into on August 26, 2013 with a syndicate of financial institutions, and (b) the Company's existing cash balances.

2.4 Effect on Financial Position

The New Tranche involved the purchase of the Railcar Assets for aggregated consideration of US$117.6 million. As a result, Element increased its aggregate finance assets by US$117.6 million. In addition, the strategic alliance with Trinity enables Element to enter the railcar financing segment with limited investment in overhead and a low operating expense base required to grow and manage the portfolio.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The transaction was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of Element.

2.7 Date of Report

March 4, 2015.

Item 3. Financial Statements

Element applied for relief under National Policy 11-203 *Process for Exemptive Relief Applications*. Such relief was granted by the Ontario Securities Commission pursuant to an order dated **March 4**, 2015 (the "**Exemptive Relief Order**"). The Exemptive Relief Order provides relief from certain requirements set forth in Part 8 of National Instrument 51-102 and instead mandates that this Report contain the following:

a) an audited statement of assets acquired and liabilities assumed as at December 19, 2014 that:

   i. is comprised of the Railcar Assets specifically acquired and liabilities assumed in the New Tranche, such information to be presented in a single statement;

   ii. includes a statement that the statement of assets acquired and liabilities assumed is prepared using accounting policies that are permitted by IFRS and would apply to those line items if those line items were presented as part of a complete set of financial statements prepared in accordance with IFRS;

   iii. includes a description of the accounting policies used to prepare the statement;

   iv. is accompanied by an independent auditor's report that reflects the fact the statement was prepared in accordance with the basis of accounting disclosed in the notes to the statement;

   which is attached as Schedule A hereto and forms an integral part of this Report;

b) a 12 month financial forecast (the "**Financial Forecast**") covering the period from January 1, 2015 to December 31, 2015 accompanied by an independent auditor's report reflecting the financial impact of the New Tranche, which is attached as Schedule B hereto and forms an integral part of this Report; and

c) additional information about the Trinity Vendor Program, including a description of the terms of the Trinity Vendor Program and a description of the Railcars and Leases acquired in the New Tranche which includes disclosure of the Leases in default, if any, the year of manufacture of the Railcars, credit ratings of the lessees, remaining Lease terms of the Leases acquired and average initial Lease rates.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The Financial Forecast attached as Schedule B hereto, which contains forward-looking statements and forward-looking information, has been prepared pursuant to and in accordance with the Exemptive Relief Order and is subject to the assumptions and limitations set forth therein. The Financial Forecast may not reflect the future performance of the Railcar Assets or the Company as a whole. Financial forecasts by their nature involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that such forecasts will prove inaccurate. The Financial Forecast speaks only as of the dates presented. The Company will not update any of the information set forth in the Financial Forecast after the date of this Report to conform such statements to actual results or to changes in Element's expectations except as otherwise required by applicable legislation.

This Report contains certain forward-looking statements and forward-looking information which are based upon Element's current internal expectations, estimates, projections, assumptions and beliefs. In some cases, words such as “plan”, “expect”, “intend”, “believe”, “anticipate”, “estimate”, “may”, “will”, “potential”, “proposed” and other similar words, or statements that certain events or conditions “may” or “will” occur are intended to identify forward-looking statements and forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. In addition, this Report 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 Report speak only as of the date of this Report.

Forward-looking statements and information in this Report 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 integration of the Railcar Assets acquired pursuant to the Trinity Vendor Program and the related synergies thereto;
- Element’s ability to collaborate with Trinity in connection with the Trinity Vendor Program;
- Element’s plans for and timing of expansion of its services;
- Element’s anticipated financing costs;
- Element’s future growth plans (including growth resulting from acquisitions and growth related to the financing of the Railcar Assets under the Trinity Vendor Program);
- Element’s ability to attract new customers and vendor relationships and develop and maintain relationships with existing customers;
- Element’s expectations regarding its origination volumes;

- Element's ability to attract and retain personnel;
- Element's expectation's regarding its reduced reliance on third-party brokers for originations;
- Element's expectations regarding growth in certain verticals in which it operates;
- anticipated trends and challenges in Element's business and the markets in which it operates; and
- Element's anticipated delinquency rates and credit losses.

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 Report 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 and loans;
- 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 and securitization transactions that may limit its operational flexibility;
- changes in interest rates that may adversely affect Element's financial results;
- an unexpected increase in Element's funding costs that may adversely affect its earnings;
- a competitive business environment that may limit the growth of Element's business;
- competition for vendor equipment finance that may affect Element's relationships with vendors;
- loss of key personnel that may significantly harm Element's business;
- inability to realize benefits from growth (including growth related to acquisitions) that may harm Element's financial condition;
- Element's ability to successfully integrate the Trinity Vendor Program into its operations and to achieve the anticipated benefits and synergies;
- complications in managing acquisitions that may negatively affect Element's operating results;
- the fact that Element has a brief operating history and Element has incurred losses in the past and may not achieve profitability in future periods;
- the fact that the market for Element's listed securities may be volatile and subject to wide fluctuations in response to numerous factors;
- the fact that Element's quarterly net finance income and results of operations are difficult to forecast and may fluctuate substantially;
- the fact that litigation may negatively impact Element's financial condition; and

- the other factors considered under "Risk Factors" in this Report and in the annual information form of Element for the year ended December 31, 2013, under the heading "Risk Factors" available under Element's profile on SEDAR at www.sedar.com, which is incorporated by reference herein.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this Report are expressly qualified by this cautionary statement. Element is not under any duty to update any of the forward-looking statements after the date of this Report to conform such statements to actual results or to changes in Element's expectations except as otherwise required by applicable legislation.

SCHEDULE A

AUDITED STATEMENT OF ASSETS ACQUIRED AND LIABILITIES ASSUMED

Statement of Assets Acquired and Liabilities Assumed

Element Financial Corporation

As at December 19, 2014

INDEPENDENT AUDITOR'S REPORT

To the Directors of
Element Financial Corporation

We have audited the accompanying statement of assets acquired and liabilities assumed of **Element Financial Corporation** [the "Company"] on December 19, 2014, and a summary of significant accounting policies and other explanatory information [the "Statement"]. The Statement has been prepared by management of the Company using the basis of accounting described in Note 1.

Management's responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with Note 2 to the Statement; this includes determining that the basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the Statement presents fairly, in all material respects, the cost of the Company's railcar assets acquired on December 19, 2014 in accordance with the basis of accounting described in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 of the notes to the Statement, which describes the basis of accounting. The Statement is prepared for inclusion in the Company's Business Acquisition Report related to the acquisition of railcar assets from Trinity Industries Inc. on December 19, 2014. As a result, the Statement may not be suitable for another purpose.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2015

Element Financial Corporation

STATEMENT OF ASSETS ACQUIRED AND LIABILITIES ASSUMED

[in thousands of U.S. dollars]

As at December 19, 2014

	$
Assets acquired	
Railcar asset equipment under operating lease *[note 2[a]]*	**117,574**
Liabilities assumed	
Liabilities *[note 2[b]]*	**—**
	117,574

See accompanying notes

Element Financial Corporation

NOTES TO THE FINANCIAL STATEMENTS

[in thousands of U.S. dollars, unless otherwise indicated]

December 19, 2014

1. BASIS OF PRESENTATION

Element Financial Corporation [the "Company"] acquired leased railcar assets from Trinity Industries Inc. ["Trinity"] on December 19, 2014, for a cost of $118 million ["Railcar Assets Acquired"]. The Railcar Assets Acquired were purchased under the existing vendor finance program with Trinity to enter into lease financing transactions over a two-year period as part of the Company's Rail Finance Business Unit ["Element Rail Finance"]. Element Rail Finance is comprised of Element Rail Corporation, Element Rail Leasing LLC, and Element Rail Leasing I LLC. The statement of assets acquired and liabilities assumed has been prepared for inclusion in the Company's Business Acquisition Report related to the acquisition on the basis of an exemption reflected in the decision of the Ontario Securities Commission dated March 4, 2015.

The statement of assets acquired and liabilities assumed has been prepared in accordance with the measurement and recognition provisions of IAS 16, *Property, Plant and Equipment*, and IAS 39, *Financial Instruments: Recognition and Measurement*, which are the accounting standards that would apply if the assets acquired and liabilities assumed were presented as part of a comprehensive set of financial statements prepared in accordance with International Financial Reporting Standards. The statements of assets acquired and liabilities assumed have also been prepared on the basis of the exemption received from the Ontario Securities Commission on March 4, 2014. Amounts are all in U.S. dollars unless otherwise stated.

2. ASSETS ACQUIRED AND LIABILITIES ASSUMED

[a] Railcar assets under operating lease

The Railcar Assets Acquired are, at the time of acquisition, under lease contracts with Trinity's customer base. The lease contracts are either full service leases or net leases. Under full-service leases, the lessor is responsible for the maintenance and servicing of the related railcar assets, administering and paying the applicable property taxes and providing certain ancillary services to the customer. Under net leases, the customer is responsible for such matters. The lease contracts are in durations that typically range between four and ten years. Customers are charged a fixed fee for the use of the asset over the duration of the contract. At the end of the lease term, management expects the Railcar Assets Acquired to be leased by way of contractual renewal to the same customer or leased to a different customer.

Railcar assets are classified as equipment under operating lease when they are under a lease contract that does not transfer substantially all the risks and rewards of ownership of the railcar asset to the lessee. Lease classification of railcar assets acquired in an asset acquisition is assessed based on facts and circumstances at the date of acquisition. All Railcar Assets Acquired have been classified as equipment under operating lease.

Equipment under operating lease is initially recorded at cost and is depreciated on a straight-line basis over their estimated useful life to their estimated disposition value. Railcars have statutory lives of 50 years, measured from the date built. At the time of the purchase, the remaining statutory life is used in determining useful lives.

Operating lease revenue is recognized on a straight-line basis over the lease term.

The future minimum lease payments arising from non-cancellable operating leases associated with the Rail Assets Acquired, at their respective acquisition dates, is as follows:

	$
Within 1 year	**11,787,672**
In 1 to 3 years	**23,575,344**
In 3 to 5 years	**22,018,662**
After 5 years	**14,569,625**
	71,951,303

[b] Liabilities assumed

The Railcar Assets Acquired represented an asset purchase agreement between the Company and Trinity. No liabilities were assumed from Trinity as part of the transaction. The Railcar Assets Acquired were financed using existing sources of capital, including [a] a U.S.$1.95 billion amended and restated senior revolving facility that the Company entered into on August 26, 2013 with a syndicate of financial institutions and [b] the Company's existing cash balances.

SCHEDULE B

12 MONTH FINANCIAL FORECAST

Combined Carve-out Statements of Forecasted Net Income and Comprehensive Income

Element Financial Rail Finance Vertical

For the three-month periods ending March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015 and for the twelve-month period ending December 31, 2015

AUDITOR'S REPORT ON FINANCIAL FORECAST

To the Directors of
Element Financial Corporation

The accompanying combined carve-out financial forecast of the **Element Financial Rail Finance Vertical** ["Element Rail Finance"], consisting of the combined carve-out statements of forecasted net income and comprehensive income for each of the three-month periods ending March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015, and for the twelve-month period ending December 31, 2015, have been prepared by management using assumptions with an effective date of February 28, 2015. We have examined the support provided by management for the assumptions, and the preparation and presentation of this forecast. Our examination was made in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook - *Assurance*. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by management are suitably supported and consistent with the plans of Element Rail Finance, and provide a reasonable basis for the financial forecast;
- the financial forecast reflects such assumptions; and
- the financial forecast complies with the presentation and disclosure standards for future-oriented financial information set out in Parts 4A and 4B of National Instrument 51-102, *Continuous Disclosure Obligations.*

Since this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this financial forecast will be achieved.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2015

Element Financial Rail Finance Vertical

COMBINED CARVE-OUT STATEMENTS OF FORECASTED NET INCOME AND COMPREHENSIVE INCOME

[in thousands of U.S. dollars]

	Three-month periods ending				Twelve-month period ending
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	December 31, 2015
	$	$	$	$	$
Operating lease revenue	2,931	2,931	2,931	2,931	11,724
Operating expenses					
Amortization of railcar assets	530	530	530	530	2,120
Portfolio servicing fee	145	145	145	145	580
Property tax and insurance	52	52	52	52	208
Maintenance and repairs	189	189	189	189	756
	916	916	916	916	3,664
	2,015	2,015	2,015	2,015	8,060
Financing costs	863	763	772	773	3,171
Income before income taxes	1,152	1,252	1,243	1,242	4,889
Income tax expense	453	492	488	488	1,921
Net income and comprehensive after income tax	699	760	755	754	2,968

See accompanying notes

Element Financial Rail Finance Vertical

NOTES TO COMBINED CARVE-OUT STATEMENTS OF FORECASTED NET INCOME AND COMPREHENSIVE INCOME

Three-month periods ending March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015, and for the twelve-month period ending December 31, 2015

1. PURPOSE OF THE FORECAST

Element Financial Corporation [the "Company"] acquired leased railcar assets from Trinity Industries Inc. ["Trinity"] on December 19, 2014 for a cost of $118 million ["Railcar Assets Acquired"]. The Railcar Assets Acquired were purchased under the existing vendor finance program with Trinity to enter into lease financing transactions with Trinity over a two-year period as part of the Company's Rail Finance Vertical ["Element Rail Finance"]. This combined carve-out forecast of Element Rail Finance is comprised of Element Rail Corporation, Element Rail Leasing LLC, and Element Rail Leasing I LLC. This financial forecast has been prepared by management of the Company for inclusion in the Company's Business Acquisition Report related to the acquisition of the leased railcar assets pursuant to the exemption received from the Ontario Securities Commission on March 4, 2015

2. BASIS OF PREPARATION

The combined carve-out forecast consists of the combined statements of forecasted net income and comprehensive income for the three-month periods ending March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015, and for the twelve-month period ending December 31, 2015. The combined carve-out forecast includes revenue and expenses solely attributable to the Railcar Assets Acquired and related liabilities that are held within Element Rail Finance as at February 28, 2015. The combined carve-out forecast has been prepared using assumptions with an effective date of February 28, 2015, and reflects the assumptions described in note 4.

The combined carve-out forecast has been prepared in compliance with Parts 4A and 4B of National Instrument 51-102, *Continuous Disclosure Obligations*, using assumptions that reflect the expected financial results of Element Rail Finance for the periods presented, given management's best judgment of the most probable set of economic conditions. The combined carve-out forecast will be compared with the reported results for the financial forecast periods and any significant differences will be disclosed. The actual results achieved during the financial forecast periods will vary from the forecasted results, and these variations may be material. Amounts are in U.S. dollars unless otherwise stated.

NOTES TO COMBINED CARVE-OUT STATEMENTS OF FORECASTED NET INCOME AND COMPREHENSIVE INCOME

Three-month periods ending March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015, and for the twelve-month period ending December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The combined carve-out forecast has been prepared in accordance with the significant accounting policies described below which are the accounting policies that will be applied by the Company and are consistent with the measurement and presentation principles of International Financial Reporting Standards ["IFRS"].

[a] Equipment under operating lease

Railcar assets are classified as equipment under operating lease when they are under a lease contract that does not transfer substantially all the risks and rewards of ownership of the railcar asset to the lessee. Lease classification of Railcar Assets Acquired in an asset acquisition is assessed based on facts and circumstances at the date of acquisition. All Railcar Assets Acquired have been classified as equipment under operating lease.

Equipment under operating lease is initially recorded at cost and is depreciated on a straight-line basis over their estimated useful life to their estimated disposition value. Railcar assets are amortized over 50 years from the date built.

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

Operating lease revenue is recognized on a straight-line basis over the lease term.

[b] Foreign currency transactions

The functional and presentation currency of Element Rail Finance is the U.S. dollar.

[c] Secured borrowings

Secured borrowings, which are comprised of secured portfolio railcar equipment notes, are classified as other liabilities and are measured at amortized cost. Interest expense is allocated over the expected term of the secured borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability.

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

[d] Maintenance and repair costs

Maintenance and repair costs are expensed as incurred. Certain costs incurred in connection with planned major maintenance activities are capitalized if those activities improve the asset or extend its useful life. Such costs are depreciated over the estimated useful life of the improvement.

[e] Income taxes

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

4. SIGNIFICANT ASSUMPTIONS

The following assumptions are an integral part of the combined carve-out forecast:

[a] Operating lease revenue

Element Rail Finance offers full service leases and net leases. Under full service leases, Element Rail Finance, in its role as lessor, is responsible for the maintenance and servicing of the related railcar assets, administering and paying the applicable property taxes and providing certain ancillary services to the lessee. Under net leases, the lessee is responsible for such matters. As of February 28, 2015, the leases associated with the Railcar Assets Acquired consisted of 100% full service leases and nil net leases. The lease contracts are in durations that typically range between four and ten years. Lessees are charged a fixed fee for the use of the asset over the duration of the contract, net of estimated rent abatements. Rent abatements arise when full service lease customers whose railcar assets are being serviced generally are not required to pay rent on such railcars for the service period. At the end of the lease term, management expects the Railcar Assets Acquired to be leased by way of contractual renewal to the same lessee or leased to a different lessee.

Forecast operating lease revenue is based on the contractual rent payments, net of estimated rent abatements, associated with existing contracts as well as expected revenue from renewal of leases or new customers.

All Railcar Assets Acquired are under lease as at February 28, 2015. None of the leases covering the Railcar Assets Acquired expire during the forecast period.

The effect of rent abatements on operating lease revenue has been forecasted based on management's best estimate with reference to Trinity's historic experience. Estimated rent abatement in the combined carve-out forecast is set at 0.55% of operating lease revenue generated from the full service leases.

[b] Amortization expense

The Railcar Assets Acquired have statutory lives of 50 years, measured from the date built. At the time of the purchase, the remaining statutory life is used in determining the remaining useful lives which are depreciated on a straight-line basis. The estimated disposition value of the railcar assets at the end of their respective life reflects the amount management estimates it would receive currently for the asset if the asset was already of the age and in the condition expected at the end of its useful life.

[c] Portfolio servicing fee

Under the terms of a servicing agreement, Trinity Industries Leasing Company [the "Servicer"], a wholly owned subsidiary of Trinity, will act as servicer of the Railcar Assets Acquired. The servicing agreement provides that the Servicer has the authority and responsibility to manage and administer the Railcar Assets Acquired, including such services as monitoring the creditworthiness and performance of the lessees, discharging Element Rail Finance's obligation under the leases, and collecting all amounts paid or payable to, or credited to, Element Rail Finance. As compensation for the service provided, the Servicer receives a servicing fee equal to 5% of rental payments collected when railcar asset utilization is 97.5% or greater and 4% of rental payments collected when railcar asset utilization is less than 97.5%.

The portfolio servicing fee expense in the combined carve-out forecast is based on 5% of operating lease revenue, which is a reasonable approximation of rental payments collected and is consistent with management's expectation that the Railcar Assets Acquired will be 100% utilized during the twelve-month period ending December 31, 2015.

[d] Property tax and insurance expense

Forecasted property tax relates to ad valorem taxes on railcar assets under full service lease. The estimated expense is $15 per railcar per month for each railcar asset on a full service lease. Forecasted insurance expense is estimated to be $8.33 per lease and $5 per railcar per month for each railcar asset on a full service lease. Both of these expenses are based on contractual obligations stemming from the servicing agreement with Trinity.

[e] Maintenance and repairs

Under full service leases, Element Rail Finance is responsible for maintaining its railcar assets in good condition and repair in accordance with the relevant regulations. Maintenance and repair expenses have been forecasted based on management's best estimate with reference to Trinity's historic repairs and maintenance experience. Maintenance and repairs expense in the combined carve-out forecast is based on 6.43% of operating lease revenue.

[f] Financing costs

Financing costs have been forecasted based on management's expectation of the dollar value of railcar asset-backed notes to be issued against and secured by the Railcar Assets Acquired, the expected effective interest rate of the railcar asset-backed notes, and the expected related financing costs to be incurred. Management expects to issue railcar asset-backed notes of approximately $88 million, which is based on 75% of the value of the Railcar Assets Acquired. Financing costs have been forecasted based on an effective interest rate of 3.9%, which is consistent with the first series of railcar asset-backed notes issued in April 2014.

[g] Income taxes

Income taxes have been provided at the effective income tax rate of 39.28% of the pre-tax income, which reflects the combined federal and relevant state income tax rates for U.S.-based assets and combined federal and relevant provincial income tax rates for Canadian-based assets. The cost of the Railcar Assets Acquired will be deducted for income tax purposes more quickly than it will be amortized for accounting purposes. As a result of this timing difference, the tax provision reflected in the combined carve-out forecast is expected to be fully attributable to deferred income taxes, rather than current income taxes, and will create a deferred tax liability of equal value.

[h] Allocation of the Company's expenses

The combined carve-out financial forecast does not include any allocation of costs from the Company to Element Rail Finance. Management's expectation is that any administration, overhead, or management costs incurred by the Company during the twelve-month period ending December 31, 2015 that may be incremental or directly attributable to the Railcar Assets Acquired will be negligible. This expectation is based on the comprehensive nature of the services provided by the Servicer with respect to the management of the Railcar Assets Acquired.