Element Fleet Management Corp.

Management Discussion and Analysis

September 30, 2019

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the three and nine-month periods ended September 30, 2019 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three and nine-month periods ended September 30, 2019 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or ratios. References to "Q3 2019", "this quarter", or "the quarter" are to the fiscal quarter ended September 30, 2019 and references to "Q2 2019" and "Q3 2018" are to the fiscal quarters ended June 30, 2019 and September 30, 2018, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO NOVEMBER 6, 2019. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "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 (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, 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. 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 EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE GENERAL CONTINUANCE OF CURRENT OR, WHERE APPLICABLE, ASSUMED INDUSTRY CONDITIONS; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET INTEREST MARGIN; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; THE TERMS OF ANY NEW INSTRUMENTS ISSUED TO REFINANCE THE COMPANY'S

2020 CONVERTIBLE DEBENTURES; THE RESET RATES FOR THE COMPANY'S OUTSTANDING PREFERRED SHARES; THE PROCEEDS FROM NON-CORE ASSET SALES; THE OPERATING PERFORMANCE OF 19TH CAPITAL, INCLUDING THE TERMS UPON WHICH IDLE ASSETS CAN BE SOLD OR LEASED, AND TIMING OF SAME; AND IN THE CASE OF THE FORWARD LOOKING STATEMENTS REGARDING FINANCIAL OUTLOOK, THAT THE COMPANY WILL ACHIEVE THE EXPECTED BENEFITS, COSTS AND TIMING OF ELEMENT'S TRANSFORMATION PLAN. ELEMENT BELIEVES THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.

FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO: ELEMENT'S EXPECTATIONS REGARDING ITS REVENUES, EXPENSES, EXPENSE STRUCTURE, RUN-RATE AND OPERATIONS, AND REGARDING FUTURE CASH FLOWS, FINANCIAL CONDITION, OPERATING PERFORMANCE, FINANCIAL RATIOS, PROJECTED ASSET BASE, CAPITAL STRUCTURE AND EXPENDITURES; ELEMENT'S ABILITY TO RENEW OR REFINANCE CREDIT AND SECURITIZATION FACILITIES; ELEMENT'S TRANSFORMATION PLAN AND THE ANTICIPATED IMPACT AND BENEFITS THEREFROM (INCLUDING ANTICIPATED IMPACT ON CREDIT RATINGS); ELEMENT'S STRATEGY TO IMPROVE AND OPTIMIZE THE CLIENT EXPERIENCE AND CLIENT ACQUISITION AND RETENTION; ELEMENT'S EXPECTATIONS REGARDING SYNDICATION; ELEMENT'S ANTICIPATED CASH NEEDS, CAPITAL REQUIREMENTS AND ITS NEEDS FOR ADDITIONAL FINANCING AND THE POTENTIAL IMPACT UNDER EXISTING CREDIT AND SECURITIZATION FACILITIES OF THE TRANSFORMATION PLAN IN WHOLE OR IN PART; ELEMENT'S INTEGRATION OF ITS PAST AND FUTURE ACQUISITIONS AND SYSTEMS AND ABILITY TO DELIVER RETURNS AND BENEFITS FROM ITS INITIATIVES; ELEMENT'S FUTURE GROWTH PLANS; ELEMENT'S EXPECTATIONS REGARDING ITS ORIGINATION VOLUMES; ELEMENT'S ANTICIPATED DELINQUENCY RATES AND CREDIT LOSSES; ELEMENT'S ABILITY TO ATTRACT AND RETAIN PERSONNEL; ELEMENT'S PRESENT INTENTION TO PAY REGULAR DIVIDENDS ON ITS COMMON SHARES AND PREFERRED SHARES; ELEMENT'S TECHNOLOGY AND DATA, AND EXPECTED USES AND BENEFITS; ELEMENT'S COMPETITIVE POSITION AND ITS EXPECTATIONS REGARDING COMPETITION; ANTICIPATED TRENDS AND CHALLENGES IN ELEMENT'S BUSINESS AND THE MARKETS IN WHICH IT OPERATES; THE EVOLUTION OF ELEMENT'S BUSINESS AND THE FLEET MANAGEMENT INDUSTRY; ELEMENT'S GROWTH PROSPECTS AND THE OBJECTIVES, VISION AND STRATEGIES OF ELEMENT; ELEMENT'S OPERATIONS AND ABILITY TO DRIVE OPERATIONAL EFFICIENCIES; ELEMENT'S EXPECTATIONS REGARDING ITS ASSETS; ELEMENT'S BUSINESS STRATEGY; ELEMENT'S EXPECTATION REGARDING THE AVAILABILITY OF FUNDS FROM OPERATIONS, CASH FLOW GENERATION AND CAPITAL ALLOCATION; ELEMENT'S STRATEGIC ASSESSMENT OF CURRENT AND FUTURE ASSETS; ELEMENT'S STRATEGY FOR ITS NON-CORE ASSETS; ELEMENT'S BUSINESS OUTLOOK AND OTHER EXPECTATIONS REGARDING FINANCING OR OPERATING PERFORMANCE METRICS; THE EVOLUTION OF OPERATIONS AND THE DEVELOPMENT OF PERFORMANCE INDICATORS, AND OTHER FINANCIAL PERFORMANCE METRICS; THE FUTURE FINANCIAL REPORTING OF ELEMENT; ELEMENT'S FUTURE ASSETS AND THE DEMAND FOR ELEMENT'S SERVICES; ELEMENT'S BORROWING BASE; THE EXTENT, NATURE AND IMPACT OF ANY VALUE DRIVER TO CREATE, AND THE ABILITY TO GENERATE, PRE-TAX RUN-RATE OPERATING INCOME; ELEMENT'S ABILITY TO INCREASE TOTAL SHAREHOLDER RETURN; AND ELEMENT'S ABILITY TO PRE-FUND REDEMPTION OF ITS OUTSTANDING CONVERTIBLE DEBENTURES UPON THEIR MATURITY, INCLUDING REALIZING ON ITS PLANS FOR SELLING CERTAIN NON-CORE ASSETS. THE READER IS CAUTIONED TO CONSIDER THESE AND OTHER FACTORS, UNCERTAINTIES AND POTENTIAL EVENTS CAREFULLY AND NOT TO PUT UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. INFORMATION CONTAINED IN FORWARD-LOOKING STATEMENTS IS BASED UPON CERTAIN MATERIAL ASSUMPTIONS THAT WERE APPLIED IN DRAWING A CONCLUSION OR MAKING A FORECAST OR PROJECTION, INCLUDING MANAGEMENT'S PERCEPTIONS OF HISTORICAL TRENDS, CURRENT CONDITIONS AND EXPECTED FUTURE DEVELOPMENTS, AS WELL AS OTHER CONSIDERATIONS THAT ARE BELIEVED TO BE APPROPRIATE IN THE CIRCUMSTANCES. 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 MD&A, INCLUDE, BUT ARE NOT LIMITED TO, THOSE SET FORTH UNDER "*RISK MANAGEMENT*" IN ELEMENT'S ANNUAL MD&A FOR THE YEAR ENDED DECEMBER 31, 2018 AND UNDER THE HEADING "*RISK FACTORS*" IN ELEMENT'S ANNUAL INFORMATION FORM DATED MARCH 7, 2019. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.

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Overview

Element Fleet Management Corp. is a leading global fleet management company, providing best-in-class services and financing solutions for commercial vehicle fleets. With approximately $17.9 billion in assets, we are North America's largest publicly-traded fleet management company.

Our mission is to ensure that our clients' fleets and their drivers are safer, smarter and more productive. Through a suite of services that spans the total fleet lifecycle, from acquisition and financing to program management and remarketing, we help our clients optimize the productivity and performance of their fleet assets, while lowering their total cost of ownership.

Since October 2018, Element has been executing a client-centric transformation to create lasting value for shareholders and position the company for growth. This transformation involves a series of concrete actions to improve the client experience and drive material enhancements in annual run-rate, pre-tax operating income by the end of 2020.

At September 30, 2019, we had actioned $102 million of transformation initiatives - surpassing our 2019 year-end goal of $100 million - and are now on pace to action $120 million by year-end. Recognizing progress to date and having identified new operating income enhancement opportunities, this quarter we increased our total transformation program target from $150 million to $180 million of profit improvement actioned by year-end 2020.

Element's market-leading fleet platform generated adjusted operating income of $130 million from its core business in Q3 2019, an increase of 31% over Q3 2018. Our transformation program delivered $21 million of this improvement. Other noteworthy accomplishments in the third quarter include:

- Growing core assets under management 11% year-over-year, to $16.2 billion;
- Continuing to strengthen and deleverage our balance sheet, achieving a tangible leverage ratio of 6.74 at September 30, 2019 (6.39 excluding Element's non-recourse warehouse credit facility - which exclusively funds pre-syndication assets for one large, rapidly growing client); and
- For the first time, properly sizing and mapping the North American market for fleet management services, through an exhaustive cross-functional effort spanning most of our organization as well as over 50 in-depth interviews with clients, potential clients and industry experts.

Our in-depth research and analysis validated both the relevance and sustainability of our value proposition, and the growth levers available to us atop a fully transformed base and further strengthened balance sheet. Based on these insights, our client mix, and our geographic positioning, we believe Element can consistently generate annual revenue growth of 4-6% beginning in 2020.

Drivers of this 4-6% annual growth rate include (i) holding market share through improved client retention, (ii) optimizing our sales processes with respect to existing and new clients throughout North America, (iii) better managing client profitability, (iv) leveraging our market leadership position in the fast-growing Mexico market, (v) using the Company's strengthened financial position to convert self-managed fleets to outsourced programs in targeted market segments, and (vi) the periodic addition of "mega fleets" such as our current large, rapidly growing client.

Financial Highlights

Select Q3 2019 Results

After-tax adjusted operating income / share	Core net revenue	Core fleet assets under management	Core servicing income, net / core net revenue
$ 0.22	$ 244M	$ 16.2B	50%

Profitability improvements actioned to date	Consolidated free cash flow / share	Consolidated tangible leverage ratio	Consolidated return on equity
$ 102M	$ 0.28	6.74x	11.5%

Fleet Management Income Summary

	For the three-month period ended September 30, 2019
(in $000's for stated values, except per share amounts)	**$**
Net financing revenue	**99,231**
Servicing income, net	**122,181**
Syndication revenue, net	**23,084**
Net revenue	**244,496**
Adjusted operating expenses	**114,710**
Adjusted operating income	**129,786**
After-tax adjusted operating income per share [basic]	**0.22**

Balanced Scorecard

Element has implemented a balanced scorecard performance management system, which forges tighter alignment and provides greater focus throughout the Company, resulting in the rapid advancement of our strategic objectives. The balanced scorecard distills our strategy into a single page, and its broad dissemination throughout the Company allows all of our employees to see our progress through clearly defined metrics. The balanced scorecard frames the business in four dimensions: Element's clients, operations, people, and investors.

Dimension & *Strategic Pillar*	**Strategic Objective**	**Metric**	**YTD Results at September 30, 2019**
Our Clients *Consistently deliver a superior experience and exceptional value for our clients*	Consistently meet service commitments	Operational effectiveness index	113% achievement of target
	Earn our clients' business	Client retention	102% achievement of target
	Create meaningful value for clients	Cost savings identified for our clients	$860 million
	Earn our clients' loyalty	Net promoter score	19
Our Business *Improve the productivity of our business*	Transform our business	Annual pre-tax run-rate profit improvement actioned	$102 million
	Invest to effect meaningful change	Investments from transformation fund	$101 million
	Continuously optimize the way we work	Operational efficiency index	109% achievement of target
	Focus on the core fleet business	Value realized on disposition of non-core assets	100% achievement of target
Our People *Build a more engaged and accountable workforce*	Increase employee engagement	Employee engagement index	75%
	Attract the right talent	Recruitment win rates	92%
	Retain the right talent	Regrettable attrition	5%
Our Investors *Generate an appropriate risk-adjusted return for our investors*	Grow profitably	Adjusted Core EPS	$0.64
	Ready access to cost-efficient capital	Tangible leverage ratio	6.74x
	Earn a fair rate of return on capital	Return on equity	11.5%
	Prudently manage our risks	Enterprise risk composite index	Work-in-Progress

Element's balanced scorecard results are disclosed in greater detail in our Supplementary Information document, available on the Company's website.

Achievements and Initiatives in the Period

Our Clients

Element's transformational path forward is founded on renewing our focus on our clients, and ensuring that client needs are at the center of everything we do and every decision we make. Key aspects of the transformation program include:

- Simplifying how we work, and the organizational structure we work in, by reducing nine layers of management to five, bringing leadership closer to our clients and the front-line employees who serve them; and
- Simplifying operations and client touch points to provide a better, more consistent client experience, through initiatives such as automating manual processes to reduce errors and improve cycle times.

In the most recent quarter,

- we grew client assets under management by over $700 million, to $16.2 billion;
- we further improved our operational effectiveness by focusing on doing the basics better, and operational efficiency by optimizing the way we work;
- we continued our rapid progression to historic norms in client retention through a sophisticated approach to identifying and remediating clients at risk;
- we identified an additional $216 million of cost saving opportunities for our clients; and
- we began reporting our success at earning our clients' loyalty as reflected in our net promoter score.

Our Business

This quarter, Element's transformation under management's strategic plan surpassed our *year-end* 2019 target for actioned improvements to annual run-rate, pre-tax operating income. Given the continued pace of achievement and the new opportunities identified to enhance our transformation, we have increased our year-end 2019 target by 20% from $100 million to $120 million, and our year-end 2020 target by 20% as well, from $150 million to $180 million of annual run-rate, pre-tax profit improvement to be actioned. We have also increased our estimated one-time investments to achieve these savings to $180 million.

Throughout 2019, we have been executing the second phase of our transformation program: dozens of initiatives within 25+ projects that are now collectively anticipated to take the Company to a cumulative $120 million of annual run-rate pre-tax profit improvement actioned by the end of this year. These "back to basics" projects focus on improving client service delivery, optimizing our go-to-market strategy and pricing model, improving client acquisition and retention, better managing rebates and procurement, and advancing automation and organizational simplification.

As of September 30, 2019, we had actioned a cumulative $102 million of initiatives that, alone, will improve Element's adjusted operating income by approximately $70 million this year, over $20 million of which was delivered this quarter. And the one-time investments to achieve these improvements are tracking to plan at approximately $101 million as of the end of the quarter.

During the second and third quarters, for the first time, our Company undertook to properly size and map the North American market for fleet management services. This was an exhaustive cross-functional effort spanning most of our organization as well as over 50 in-depth interviews with clients, potential clients and industry experts. Our in-depth research and analysis validated both the relevance and sustainability of our value proposition, and the growth levers available to us atop a fully transformed base and further strengthened balance sheet.

Based on these insights, our client mix, and our geographic positioning, we envision Element achieving 4-6% revenue growth annually as early as 2020. We will do so by (i) holding market share through improved client retention, (ii) optimizing our sales processes with respect to existing and new clients throughout North America, (iii) better managing client profitability, (iv) leveraging our market leadership position in the fast-growing Mexico market, (v) using the Company's strengthened financial position to convert self-managed fleets to outsourced programs in targeted market segments, and (vi) the periodic addition of "mega fleets" such as our large, rapidly growing client.

Our People

This year, Element rolled out its balanced scorecard and accompanying pay-for-performance program to Company employees. In doing so, we have

- provided strategic clarity and alignment,
- focused the organization on a narrow set of strategic objectives, and
- promoted a culture of performance, accountability, and transparency.

The results of our employee engagement surveys indicate that these messages are being received and embraced: 86% of our employees participated in the survey and gave us a 75% engagement rating organization-wide. This is an admirable score for a company of Element's size and kind going through a substantial amount of change.

Element's Board of Directors will use balanced scorecard results to determine the annual short-term incentive compensation of each named executive officer with a minimum determinative weighting of 50% on balanced scorecard metrics measuring Element's financial performance. The Company believes that this compensation plan will ensure alignment between performance against strategic objectives and executive pay outcomes. Full details of the impact on incentive compensation are available in Element's Management Information Circular dated April 9, 2019 which has been filed on SEDAR at www.sedar.com.

Our Investors

The continuing success of Element's transformation program and the strengthening of our balance sheet, including the expansion of our syndication efforts, is creating significant improvement in the Company's financial results, including a 31% increase in year-over-year adjusted operating income and an 11.5% consolidated return on equity.

Management's strategic plan includes strengthening the Company's investment-grade balance sheet and reducing leverage ratios. To that end, the Company continued its broadened use of syndication as a funding tool this quarter, syndicating $694 million in assets, lowering the tangible leverage ratio from 9.56 at September 30, 2018 to 6.74, and generating $23 million in syndication revenues.

Management believes that by deleveraging Element's balance sheet through a greater degree of syndication, the Company can more quickly mature its capital structure, all-the-while enhancing return on equity.

Accordingly, while Element will continue to fund assets on its strong, investment-grade balance sheet, it will also utilize syndication to systematically manage leverage as well as client concentration limits - particularly with respect to one large, rapidly-growing client.

Subsequent to quarter end, Standard & Poor's initiated coverage of Element with a BBB investment-grade credit rating that is a prerequisite for the Company to further its stated objective of issuing bonds in the US unsecured corporate debt market in the first half of 2020. Prior to quarter end, credit rating agency Fitch affirmed its BBB+ investment-grade rating and improved its outlook for the Company. Subsequent to quarter end, credit rating agencies DBRS and Kroll also affirmed their stable outlooks and investment-grade ratings for Element: BBB (high) and A-, respectively.

As stated in conjunction with Element's Q1 2019 results, we expect to generate after-tax adjusted operating income per share of $1.00-1.05 in 2020, and are targeting return on equity of 13.0-13.5% and a tangible leverage ratio below 6.0 exiting 2020.

Changes in Presentation

On January 1, 2019 the Company adopted IFRS 16, *Leases*, issued by the International Accounting Standards Board ("IASB"). As permitted by the new standard, the Company elected to not restate comparative periods and has recognized the classification and measurement adjustment on January 1, 2019 through opening retained earnings. Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Changes in the presentation of the unaudited interim condensed consolidated statements of operations and geographic location

During the first quarter of 2019, the Company modified the presentation and classification of the Net revenue section within the unaudited interim condensed consolidated statements of operations with the overarching principle of disaggregating revenue into three distinct revenue streams: 1) financing revenue, 2) syndication revenue, and 3) servicing revenue. The primary reclassifications are as follows:

- Reclassification of gain on sale of disposition of equipment under operating leases from Service revenue and other to Rental revenue and other,
- Reclassification of syndication revenue from Service revenue and other to its own line item,
- Reclassification of certain US financing leases to Equipment under operating leases, and
- Reclassification of certain contract costs from Interest income, net to Servicing income, net.

Additionally, the Company modified its geographic locations from the US, Canada, and Other to the US and Canada, Australia and New Zealand, and Mexico to distinguish between the Company's primary locations.

The changes in presentation have been applied retrospectively to the 2018 comparative amounts in the unaudited interim condensed consolidated statements of financial position, operations, and cash flows and the geographic locations disclosed in the notes to the unaudited interim condensed consolidated financial statements.

The following tables illustrate the reclassifications of the Company's unaudited interim condensed consolidated financial statements for the periods noted below.

Interim condensed consolidated statement of operations

	Three months ended September 30, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
Interest income, net	167,783	1,013	168,796
Rental revenue and other	134,448	16,456	150,904
Depreciation of equipment under operating leases	(99,687)	(2,301)	(101,988)
	202,544	15,168	217,712
Interest expense	112,723	—	112,723
Net financing revenue	89,821	15,168	104,989
Fleet service revenue	142,894	(21,575)	121,319
Direct costs of fixed rate service contracts	(11,460)	—	(11,460)
Servicing income, net	131,434	(21,575)	109,859
Syndication revenue, net	—	6,407	6,407
Net revenue	221,255	—	221,255

	Nine months ended September 30, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
Interest income, net	490,254	1,712	491,966
Rental revenue and other	390,117	47,945	438,062
Depreciation of equipment under operating leases	(293,299)	(5,950)	(299,249)
	587,072	43,707	630,779
Interest expense	325,880	—	325,880
Net financing revenue	261,192	43,707	304,899
Fleet service revenue	425,187	(53,325)	371,862
Direct costs of fixed rate service contracts	(34,341)	—	(34,341)
Servicing income, net	390,846	(53,325)	337,521
Syndication revenue, net	—	9,618	9,618
Net revenue	652,038	—	652,038

Interim condensed consolidated statement of financial position

	As at December 31, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
Finance receivables	13,231,146	(27,558)	13,203,588
Equipment under operating leases	2,134,105	27,558	2,161,663

Selected Quarterly Consolidated Financial Information and Financial Ratios

The table below sets out key financial metrics that show operating results together with related per share figures:

	As at and for the three-month periods ended			As at and for the nine-month periods ended	
(in $000's for stated values, except ratios and per share amounts)	**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	$	**$**	$
Net revenue	**245,796**	249,570	221,255	**737,593**	652,038
Net income (loss)	**70,145**	64,061	(341,105)	**214,679**	(240,250)
Total assets	**17,864,062**	17,772,477	17,510,184	**17,864,062**	17,510,184
Total debt	**12,869,051**	12,912,122	13,293,327	**12,869,051**	13,293,327
Before tax adjusted operating income (1)	**127,650**	125,976	98,091	**375,580**	290,613
After tax adjusted operating income (1)	**105,311**	101,411	80,433	**307,334**	240,766
Earnings (loss) per share					
Basic	**0.14**	0.12	(0.93)	**0.42**	(0.72)
Diluted	**0.13**	0.12	(0.93)	**0.41**	(0.72)
After tax adjusted operating income per share (1)					
Basic	**0.22**	0.21	0.18	**0.63**	0.55
Pro forma Diluted	**0.21**	0.22	0.18	**0.61**	0.51
Dividends declared, per share					
Common share	**0.045000**	0.045000	0.075000	**0.134350**	0.225000
Preferred Shares, Series A	**0.433313**	0.433313	0.412500	**1.299939**	1.237500
Preferred Shares, Series C	**0.388130**	0.406250	0.406250	**1.200630**	1.218750
Preferred Shares, Series E	**0.400000**	0.400000	0.400000	**1.200000**	1.200000
Preferred Shares, Series G	**0.406250**	0.406250	0.406250	**1.218750**	1.218750
Preferred Shares, Series I	**0.359375**	0.359375	0.359375	**1.078125**	1.078130

(1) For additional information, see "Description of Non-IFRS Measures" section.

Consolidated Quarterly Results of Operations

The following table sets forth a summary of the Company's consolidated results of operations:

	For the three-month periods ended			For the nine-month periods ended	
(in $000's for stated values, except per share amounts)	**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	$	**$**	$
Net revenue					
Net interest income and rental revenue (1)	**222,136**	232,282	217,712	**690,434**	630,779
Interest expense	**121,605**	128,737	112,723	**379,471**	325,880
Net financing revenue	**100,531**	103,545	104,989	**310,963**	304,899
Servicing income, net (2)	**122,181**	124,282	109,859	**364,591**	337,521
Syndication revenue, net (3)	**23,084**	21,743	6,407	**62,039**	9,618
Net revenue	**245,796**	249,570	221,255	**737,593**	652,038
Operating expenses					
Salaries, wages and benefits	**79,904**	84,532	81,464	**244,551**	245,800
General and administrative expenses	**27,765**	28,592	35,504	**86,155**	98,177
Depreciation and amortization	**10,477**	10,470	6,196	**31,307**	17,448
Adjusted operating expenses (4)	**118,146**	123,594	123,164	**362,013**	361,425
Amortization of convertible debenture discount	**2,504**	4,492	3,537	**10,651**	10,441
Share-based compensation	**4,360**	5,410	8,867	**14,940**	18,605
Impairment of loans to 19th Capital	**—**	—	480,000	**—**	480,000
Total operating expenses	**125,010**	133,496	615,568	**387,604**	870,471
Business acquisition and other costs					
Amortization of intangibles from acquisition	**8,948**	9,112	10,442	**27,236**	34,249
Restructuring and transformation costs	**34,055**	21,949	35,000	**62,742**	77,117
Total business acquisition and other costs	**43,003**	31,061	45,442	**89,978**	111,366
Share of loss (income) from and provision in investments	**240**	(238)	20,000	**1,332**	34,905
Net income (loss) before taxes	**77,543**	85,251	(459,755)	**258,679**	(364,704)
Income tax expense (recovery)	**7,398**	21,190	(118,650)	**44,000**	(124,454)
Net income (loss) for the period	**70,145**	64,061	(341,105)	**214,679**	(240,250)
Earnings (loss) per share [basic]	**0.14**	0.12	(0.93)	**0.42**	(0.72)
Adjusted operating results (4)					
Net revenue	**245,796**	249,570	221,255	**737,593**	652,038
Adjusted operating expenses (4)	**118,146**	123,594	123,164	**362,013**	361,425
Adjusted operating income (4)	**127,650**	125,976	98,091	**375,580**	290,613
Provision for taxes applicable to adjusted operating income	**22,339**	24,565	17,658	**68,246**	49,847
After-tax adjusted operating income (4) (5)	**105,311**	101,411	80,433	**307,334**	240,766
Weighted average number of shares outstanding [basic]	**435,134**	434,687	380,644	**434,482**	380,489
Before-tax adjusted operating income per share [basic] (5)	**0.27**	0.26	0.23	**0.79**	0.68
After-tax adjusted operating income per share [basic] (5)	**0.22**	0.21	0.18	**0.63**	0.55

(1) Net interest income and rental revenue is equal to interest income, less provision for credit losses and rental income earned on equipment under operating leases, including the gain on sale of the disposition of equipment under operating leases, less depreciation on equipment under operating leases.
(2) Servicing income, net, is shown net of direct costs of fixed rate service contracts.
(3) Syndication revenue, net includes fees and other income, net of expenses, in the recognition of the syndication of the related assets.
(4) For additional information, see "Description of Non-IFRS Measures" section.
(5) For reconciliation of Net Income to After-tax adjusted operating income, see "IFRS to Non-IFRS Reconciliation" section.

Consolidated adjusted operating income for Q3 2019 was $127.7 million compared to $98.1 million in Q3 2018 and $126.0 million in Q2 2019. The increase in adjusted operating income from Q3 2018 was driven by an increase in net servicing income and syndication revenue as well as a reduction in adjusted operating expenses resulting from our transformation program, partially offset by a reduction in net financing revenue arising from a one-time swap gain in 2018 and lower net earning assets from syndication.

The increase in adjusted operating income from Q2 2019 was driven by an increase in syndication revenue and lower operating expenses, partially offset by lower net servicing income due to seasonality and lower net financing revenue resulting from lower net earning assets due to syndication volumes.

During Q3 2019 the Company recorded $34.1 million in transformation costs. In aggregate - from inception of our transformation project in Q3 2018 - the Company has incurred approximately $101 million of planned expenditures related to the transformation. These costs consist primarily of professional fees and severance related expenditures. Additionally, these costs include other transformation related costs including employee bonuses or incentives associated with meeting transformation related targets.

For the nine-month period ended September 30, 2019, consolidated adjusted operating income was $375.6 million compared to $290.6 million for the same period in the prior year. Net revenue increased $85.6 million and was driven by increases in syndication revenue, net service revenue, and net financing revenue. Adjusted operating expenses were $362.0 million compared to $361.4 million and were impacted by a weaker Canadian dollar during the nine-month period ended September 30, 2019 and an increase in higher pay-for-performance compensation accruals, merit increases and amortization expenses on IT-related projects.

Quarterly Results of Operations - Fleet Management

The following table sets forth a summary of the Company's results of Core Fleet Management operations:

	For the three-month periods ended			For the nine-month periods ended	
(in $000's for stated values, except per share amounts)	**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	$	**$**	$
Net revenue					
Net interest income and rental revenue	**209,267**	216,663	204,176	**642,573**	590,293
Interest expense	**110,036**	114,209	100,218	**338,357**	291,532
Net financing revenue	**99,231**	102,454	103,958	**304,216**	298,761
Servicing income, net	**122,181**	124,236	109,750	**364,376**	335,976
Syndication revenue, net	**23,084**	21,743	6,407	**62,039**	9,618
Net revenue	**244,496**	248,433	220,115	**730,631**	644,355
Adjusted operating expenses					
Salaries, wages and benefits	**77,427**	82,797	80,742	**238,445**	243,615
General and administrative expenses	**27,443**	29,148	33,739	**84,339**	95,436
Depreciation and amortization	**9,840**	9,802	6,196	**29,382**	17,448
Adjusted operating expenses	**114,710**	121,747	120,677	**352,166**	356,499
Adjusted operating income	**129,786**	126,686	99,438	**378,465**	287,856
Provision for taxes applicable to adjusted operating income	**22,713**	24,703	17,901	**68,765**	51,814
After-tax adjusted operating income	**107,073**	101,983	81,537	**309,700**	236,042
Less: Cumulative preferred share dividends	**11,071**	11,164	11,068	**33,399**	33,205
After-tax adjusted operating income attributable to common shareholders	**96,002**	90,819	70,469	**276,301**	202,837
Weighted average number of shares outstanding [basic]	**435,134**	434,687	380,644	**434,482**	380,489
Before-tax adjusted operating income per share [basic]	**0.27**	0.27	0.23	**0.79**	0.67
After-tax adjusted operating income per share [basic]	**0.22**	0.21	0.19	**0.64**	0.53

After-tax adjusted operating income for Q3 2019 was $107.1 million, an increase of $5.1 million over Q2 2019 and an increase of $25.5 million over Q3 2018 resulting in an after-tax adjusted operating income per share of $0.22, higher than Q2 2019 by $0.01 and an increase of $0.03 over Q3 2018 including the dilution impact of the October 2018 equity issuance.

Net revenue was $244.5 million for Q3 2019, a decrease of $3.9 million over Q2 2019 and an increase of $24.4 million over Q3 2018. The reduction from Q2 2019 was due to lower net financing revenue from lower net earning assets as well as lower net servicing income from seasonality, partly offset by higher syndication income. The increase from Q3 2018 was driven by higher net servicing income and syndication revenue, partly offset by lower net financing revenue.

Net financing revenue was $99.2 million for Q3 2019, a reduction of $3.2 million, or 3%, from Q2 2019 resulting from lower net averaging earning assets of $390.3 million, or 3%, with a consistent NIM percentage. Q3 2019 was down $4.7 million from Q3 2018, mainly being driven by lower net earning assets combined with NIM slightly lower by 4bps as a result of a previously disclosed one-time swap gain in Q3 2018 of $4 million.

The following table sets out the Net interest and rental revenue margin ("NIM") calculation for Fleet Management operations, together with references to key benchmarks and metrics:

	For the three-month periods ended			For the nine-month periods ended	
(in $000's for stated values)	**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Net interest income and rental revenue	**6.83%**	6.85%	6.44%	**6.78%**	6.28%
Interest expense	**3.59%**	3.61%	3.16%	**3.57%**	3.10%
Net interest and rental revenue margin or NIM (1)	**3.24%**	3.24%	3.28%	**3.21%**	3.18%
Average cost of debt (Interest expense / average debt) (1)	**3.57%**	3.64%	3.14%	**3.59%**	3.08%
Average 1-Month LIBOR rates	**2.18%**	2.47%	2.08%	**2.37%**	1.91%
Total average net earning assets (1)	**$ 12,252,933**	$ 12,643,224	$ 12,680,054	**$ 12,628,244**	$ 12,544,104
Total earning assets at period end (1)	**$ 11,981,120**	$ 12,303,546	$ 12,324,851	**$ 11,981,120**	$ 12,324,851
Total end-of-period assets under management	**$ 16,169,794**	$ 15,516,475	$ 14,593,333	**$ 16,169,794**	$ 14,593,333
Average debt outstanding (1)	**$ 12,344,923**	$ 12,533,624	$ 12,762,964	**$ 12,580,363**	$ 12,638,218
New originations	**$ 2,106,603**	$ 1,806,515	$ 1,486,700	**$ 5,625,961**	$ 4,672,300

(1) For additional information, see "Description of Non-IFRS Measures" section.

Total average net earning assets as at Q3 2019 were $12,252.9 million compared to $12,643.2 million as at Q2 2019 and $12,680.1 million as at Q3 2018. Total average earning assets at period end decreased $390.3 million from Q2 2019 reflecting $694 million in syndications during the current quarter.

Ending assets under management for Q3 2019 was $16.2 billion an increase of $0.7 billion from Q2 2019 and $1.6 billion over Q3 2018. The increase in Q3 2019 is mainly a result of higher originations from continuing wins across all geographies, and especially those from our large, rapidly growing client.

Net servicing income for Q3 2019 was $122.2 million, representing a decrease of $2.1 million over Q2 2019, mainly driven by lower volumes due to seasonality impacting maintenance and vehicle titling. While quarter over quarter performance was impacted by normal seasonality, year over year performance was not and showed growth of $12.4 million, or 11.3%, over Q3 2018 across numerous products resulting from continued progression in transformation initiatives as well as organic growth in our US and Canadian businesses.

Syndication revenue, net, of $23.1 million in Q3 2019 was an increase of $1.3 million and $16.7 million over Q2 2019 and Q3 2018, respectively. The volume of syndicated assets in Q3 2019 was $694 million which was lower than Q2 2019 by $58 million and higher than Q3 2018 by $375 million.

For the nine-month period ended September 30, 2019, net revenue was $730.6 million compared to $644.4 million for the nine-month period ended September 30, 2018, representing a 13.4% increase.

Adjusted operating expenses of $114.7 million decreased $7.0 million from $121.7 million in Q2 2019 and decreased $6.0 million from $120.7 million in Q3 2018.

- Salaries, wages and benefits decreased $5.4 million from Q2 2019 and decreased $3.3 million from Q3 2018. The decrease from prior quarter results from a higher pay for performance accrual in Q2 2019 which included a year to date catch-up, as well as savings driven by transformation, with the decrease from Q3 2018 being mainly driven by transformation, partly offset by higher pay for performance costs.

- General and administrative expenses of $27.4 million decreased $1.7 million and $6.3 million when compared to Q2 2019 and Q3 2018, respectively, with the reductions relating to transformation and continued cost control measures.

- Depreciation and amortization was flat from Q2 2019 and higher than Q3 2018 by $3.6 million due to the implementation of IFRS 16 in addition to depreciation and amortization associated with IT projects that were completed in the first half of 2018.

For the nine-month period ended September 30, 2019, adjusted operating expenses were $352.2 million compared to $356.5 million in the prior year comparable period.

- Salaries, wages and benefits of $238.4 million decreased $5.2 million as a result of lower employee salaries due to Transformation initiatives and lower benefits expenses when compared to the nine-month period ended September 30, 2018 partially offset by an increase in pay-for-performance compensation accruals, and merit increases.

- General and administrative expenses of $84.3 million decreased $11.1 million as a result of the implementation of IFRS 16 partially offset by a weakening Canadian dollar.

- Depreciation and amortization of $29.4 million increased $11.9 million primarily as a result of the $9.5 million of amortization on leased assets as a result of the implementation of IFRS 16 in addition to depreciation and amortization associated with IT projects that were completed in the first half of 2018 as well as a weakening Canadian dollar.

Quarterly Results of Operations - Non-Core

The following table sets forth a summary of the Company's results from Non-Core operations:

(in $000's for stated values, except per share amounts)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2019	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	$	**$**	$
Net revenue					
Net interest income and rental revenue	**12,869**	15,619	13,536	**47,861**	40,486
Interest expense	**11,569**	14,528	12,505	**41,114**	34,348
Net financing revenue	**1,300**	1,091	1,031	**6,747**	6,138
Servicing income, net	**—**	46	109	**215**	1,545
Net revenue	**1,300**	1,137	1,140	**6,962**	7,683
Adjusted operating expenses					
Salaries, wages and benefits	**2,477**	1,735	722	**6,106**	2,185
General and administrative expenses	**322**	(556)	1,765	**1,816**	2,741
Depreciation and amortization	**637**	668	—	**1,925**	—
Adjusted operating expenses	**3,436**	1,847	2,487	**9,847**	4,926
Adjusted operating (loss) income	**(2,136)**	(710)	(1,347)	**(2,885)**	2,757
Recovery of taxes applicable to adjusted operating income	**(374)**	(138)	(243)	**(519)**	(1,968)
After-tax adjusted operating (loss) income	**(1,762)**	(572)	(1,104)	**(2,366)**	4,725
Weighted average number of shares outstanding [basic]	**435,134**	434,687	380,644	**434,482**	380,489
Before-tax adjusted operating (loss) income per share [basic]	**—**	—	—	**(0.01)**	0.01
After-tax adjusted operating (loss) income per share [basic]	**—**	—	—	**(0.01)**	0.01

After-tax adjusted operating loss for Q3 2019 was $1.8 million compared to a loss of $0.6 million in Q2 2019 and a loss of $1.1 million in Q3 2018.

The following table sets out the NIM calculation, together with references to key benchmarks and metrics:

(in $000's for stated values)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2019	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Net interest income and rental revenue	**12.56%**	14.84%	6.25%	**15.26%**	6.26%
Interest expense	**11.29%**	13.80%	5.77%	**13.11%**	5.31%
Net interest and rental revenue margin or NIM (1)	**1.27%**	1.04%	0.48%	**2.15%**	0.95%
Average cost of debt (Interest expense / average debt) (1)	**7.64%**	9.24%	5.32%	**8.51%**	4.85%
Total average net earning assets (1)	**$ 410,059**	$ 421,246	$ 867,560	**$ 418,025**	$ 862,579
Total earning assets at period end (1)	**$ 407,104**	$ 411,397	$ 855,495	**$ 407,104**	$ 855,495
Average debt outstanding (1)	**$ 605,757**	$ 628,618	$ 941,032	**$ 643,864**	945,113

(1) For additional information, see "Description of Non-IFRS Measures" section.

Average cost of debt remained relatively flat during the three-month period ended September 30, 2019, compared to Q2 2019 and increased from 5.3% in Q3 2018. The change compared to Q3 2018 was primarily due to lower asset levels without a corresponding reduction in borrowing levels. An increase in the underlying reference rates during the year also contributed to the increase.

19th Capital's management team has been advancing a two-prong plan to wind-down the business, comprised of (i) selling down the idle asset portfolio, and (ii) improving operations of the business and the quality of the lease book. This has included the elimination of poor- and non-performing client accounts with a resulting reduction in Net financing revenue. These initiatives have yielded $63 million in cash returned to Element since we assumed full control of 19th Capital.

In parallel, Element has launched a process to sell this asset in whole or in part, maximizing value for the asset while enabling Element senior leadership to remain focused on transforming the core business and strengthening the Company's balance sheet. 19th Capital's business is non-core and the US heavy truck market has had its challenges in recent months. Accordingly, we seek to better understand our options for exiting this business.

Impact of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where, as at September 30, 2019, 8.5%, 3.8%, 6.2% and 70.3% of the net finance receivables and equipment under operating leases were located, respectively. While Element hedges for currencies, our assets and liabilities do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar. Fluctuations in these currencies also affect the reported income when foreign operating results are then converted back to the Canadian dollar.

During the third quarter of 2019, the weighted average changes in average exchange rates of the Company's operating currencies against the Canadian dollar affected adjusted operating income positively by approximately 0.1% over the immediately preceding quarter and negatively by 0.3% over the third quarter in 2018, respectively.

The following table sets forth a summary of the Company's results from both Fleet Management and Non-Core operations on a **constant currency** basis:

(in $000's for stated values)	For the three-month periods ended **September 30, 2019**	June 30, 2019	September 30, 2018	For the nine-month periods ended **September 30, 2019**	September 30, 2018
	$	$	$	**$**	$
Fleet Management net financing revenue	**99,231**	100,618	103,516	**300,827**	299,112
Non-core service net financing revenue	**1,300**	963	1,117	**6,531**	6,711
Consolidated net financing revenue	**100,531**	101,581	104,633	**307,358**	305,823
Fleet Management servicing income, net	**122,181**	122,509	110,073	**361,487**	340,418
Non-core servicing income, net	**—**	46	102	**215**	2,157
Consolidated servicing income, net	**122,181**	122,555	110,175	**361,702**	342,575
Fleet Management syndication revenue, net	**23,084**	21,469	6,474	**61,654**	9,780
Non-core syndication revenue, net	**—**	—	—	**—**	—
Consolidated syndication revenue, net	**23,084**	21,469	6,474	**61,654**	9,780
Fleet Management net revenue	**244,495**	244,597	220,063	**723,969**	649,310
Non-Core net revenue	**1,300**	1,009	1,219	**6,746**	8,868
Consolidated net revenue	**245,795**	245,606	221,282	**730,715**	658,178
Fleet Management adjusted operating expenses	**114,710**	119,977	120,485	**349,084**	359,180
Non-core adjusted operating expenses	**3,436**	1,824	2,511	**9,795**	5,028
Consolidated adjusted operating expenses	**118,146**	121,801	122,996	**358,879**	364,208
Fleet Management adjusted operating income	**129,786**	124,620	110,256	**374,885**	300,808
Non-Core adjusted operating (loss) income	**(2,136)**	(814)	(1,292)	**(3,049)**	3,840
Consolidated adjusted operating income	**127,650**	123,806	108,964	**371,836**	304,648
Fleet Management after-tax adjusted operating income	**107,073**	100,319	90,410	**306,788**	246,662
Non-Core after-tax adjusted operating (loss) income	**(1,762)**	(656)	(1,060)	**8,713**	5,922
Consolidated after-tax adjusted operating income	**105,311**	99,663	89,350	**315,501**	252,584
Fleet Management net earning assets	**11,981,120**	12,286,623	12,492,272	**12,267,720**	12,632,634
Non-core net earning assets	**407,104**	414,753	877,660	**413,615**	883,828
Consolidated net earning assets	**12,388,224**	12,701,376	13,369,932	**12,681,335**	13,516,462
Fleet Management average net earning assets	**12,252,933**	12,629,764	12,855,827	**12,563,454**	12,608,953
Non-core average net earning assets	**410,059**	424,667	890,003	**418,037**	878,912
Consolidated average net earning assets	**12,662,992**	13,054,431	13,745,830	**12,981,491**	13,487,865

Consolidated Financial Position

The following table presents a summary of the comparative consolidated financial position, as at:

(in $000's for stated values)	**September 30, 2019**	June 30, 2019	December 31, 2018
	$	$	$
ASSETS			
Cash	**41,201**	91,226	21,999
Restricted funds	**465,383**	476,747	504,454
Finance receivables	**12,220,064**	12,104,501	13,203,588
Equipment under operating leases	**2,252,991**	2,219,003	2,161,663
Accounts receivable and other current assets	**188,607**	219,528	270,997
Notes receivable	**9,979**	10,081	13,698
Derivative financial instruments	**50,183**	49,439	34,752
Property, equipment and leasehold improvements	**148,043**	109,921	60,969
Equity investments (1)	**23,122**	23,166	124,353
Intangible assets	**809,828**	812,502	854,433
Deferred tax assets	**386,316**	398,361	410,864
Goodwill	**1,268,345**	1,258,002	1,302,236
	17,864,062	17,772,477	18,964,006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**907,508**	796,911	706,720
Derivative financial instruments	**53,857**	55,159	68,467
Secured borrowings	**12,153,652**	12,200,817	13,270,780
Convertible debentures	**715,399**	711,305	897,435
Deferred tax liabilities	**45,216**	70,931	45,119
	13,875,632	13,835,123	14,988,521
Shareholders' equity	**3,988,430**	3,937,354	3,975,485
	17,864,062	17,772,477	18,964,006

(1) Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., ("ECAF") which was accounted for using the effective interest rate method and considered an earning asset. Upon adoption of IFRS 9 on January 1, 2018 by the Company, the investment is accounted for using fair value through profit and loss and no longer considered an earning asset. The ECAF investment was sold on April 12, 2019.

Total assets and liabilities increased by $91.6 million and increased by $40.5 million, respectively over Q2 2019, mainly as a result of a slightly weaker Canadian dollar at the end of the period when compared to Q2 2019. The Company was also exposed to other currencies that appreciated against the Canadian dollar during the period. The net impact of these currency variations flows through to Shareholders' Equity as Other Comprehensive Income.

Fleet Management Portfolio Finance Asset Details

Finance Receivables

The following table sets forth a breakdown of the Company's Fleet Management finance receivables, as at:

(in $000's for stated values, except ratios)	September 30, 2019 $	June 30, 2019 $	December 31, 2018 $
Net investment in finance receivables	**10,102,170**	10,455,597	11,444,909
Impaired receivables - at net realizable value	**54,139**	54,314	32,170
	10,156,309	10,509,911	11,477,079
Unamortized origination costs and subsidies	**(109,698)**	(90,932)	(106,178)
Net finance receivables	**10,046,611**	10,418,979	11,370,901
Prepaid lease payments and Security deposits	**(48,094)**	(48,237)	(68,402)
Interim funding	**1,188,785**	712,939	870,808
Fleet management service receivables	**688,523**	719,099	765,718
Other	**319,042**	270,229	217,452
	12,194,867	12,073,009	13,156,477
Allowance for credit losses	**7,062**	7,389	8,506
Total finance receivables	**12,187,805**	12,065,620	13,147,971
Ratios			
Allowance for credit losses as a percentage of finance receivables	**0.06%**	0.06%	0.06%

Fleet Management finance receivables as at September 30, 2019 decreased by $960.2 million compared to December 31, 2018, primarily due to the syndication of assets and a strengthening Canadian dollar when compared to year-end.

Allowance for credit losses

Management maintains an allowance for credit losses, which it establishes to provide for the impairment of individual or groups of assets. Individual impairment is assessed by examining contractual delinquency, and the individual borrower's financial condition, such as the identification of a borrower entering bankruptcy, or the company being in the process of legal or collateral repossession proceedings with a debtor. Accounts over 120 days past due are automatically considered to be impaired and are fully provisioned net of any anticipated recoveries and are presented at their net realizable value. Accounts that are contractually delinquent less than 120 days are provisioned by applying probability-weighted assumptions consistent with industry standards and the Company's own experience with respect to the probability of an identified account resulting in a borrower default. The amount of allowance for credit losses is measured as the difference between the carrying amounts of the assets on the consolidated statements of financial position and the present value of the estimated future cash flows on the financial receivables, discounted at the finance receivables' original effective interest rate.

The Company's policy is to assess credit risk related to specific client defaults by performing detailed assessments on the value of the underlying security, the client's financial condition and ability to service the debt, both at loan inception and throughout the term of the loan.

The Company's consolidated allowance for credit losses was $7.8 million as at September 30, 2019 (Fleet Management - $7.1 million, Non-Core - $0.7 million), a decrease of $0.4 million over the $8.2 million reported at June 30, 2019. The allowance for credit losses as a percentage of finance receivables as at September 30, 2019 was 0.06%, flat when compared with the percentage as at June 30, 2019. The Company believes that its allowance for credit losses is appropriate as of September 30, 2019. As at September 30, 2019, total impaired receivables were $54.1 million compared to $54.3 million as at June 30, 2019. The Company believes the impaired receivables appropriately reflects the net realizable value of the finance receivables before the allowance for credit losses.

Please refer to sections titled "Fleet Management Geographic Portfolio Segmentation", "Fleet Management Asset Class Portfolio Distribution" and "Fleet Management Delinquencies" of this MD&A for additional information.

Fleet Management delinquencies

The contractual delinquency of the Fleet Management net finance receivables as at each reporting period is as follows:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
Current	**9,985,035**	**99.39**	10,357,865	99.41	11,328,464	99.63
31 to 60 days	**6,087**	**0.06**	6,274	0.06	3,707	0.03
61 to 90 days	**599**	**0.01**	244	—	3,434	0.03
91 to 120 days	**751**	**0.01**	282	—	3,126	0.03
Impaired receivables	**54,139**	**0.53**	54,314	0.53	32,170	0.28
Total	**10,046,611**	**100.00**	10,418,979	100.00	11,370,901	100.00

The $54.1 million in impaired receivables at September 30, 2019 represents 0.53% of net finance receivables.

Fleet Management credit losses and provisions, as at and for each of the respective periods are as follows:

(in $000's for stated values, except ratios)	**Nine-month period ended September 30, 2019**	Year ended December 31, 2018
	$	$
Allowance for credit losses, beginning of period	**8,506**	4,304
IFRS 9 Adjustment	**—**	3,028
Provision for credit losses	**1,399**	1,913
Charge-offs, net of recoveries	**(2,240)**	(1,401)
Impact of foreign exchange rates	**(603)**	662
Allowance for credit losses, end of period	**7,062**	8,506
Allowance for credit losses as a percentage of finance receivables	**0.06%**	0.06%

Fleet Management Equipment Under Operating Leases

The following table sets forth the Company's Fleet Management equipment under operating leases:

(in $000's for stated values)	**September 30, 2019**	June 30, 2019	December 31, 2018
	$	$	$
Equipment under operating leases, net			
Vehicles	**1,812,487**	1,791,827	1,778,868
Others	**66,463**	56,111	—
	1,878,950	1,847,938	1,778,868

Fleet Management Portfolio Distribution

Fleet Management Geographic Portfolio Segmentation

The table below sets forth the geographical distribution of the Company's portfolio of Fleet Management net finance receivables and equipment under operating leases, as at:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
United States and Canada	**9,650,774**	**80.9**	10,021,778	81.7	10,981,968	83.5
Australia and New Zealand	**1,511,444**	**12.7**	1,553,822	12.6	1,620,340	12.4
Mexico	**763,343**	**6.4**	691,317	5.7	547,461	4.1
Total	**11,925,561**	**100.0**	12,266,917	100.0	13,149,769	100.0
Allocated as:						
Net finance receivables	**10,046,611**	**84.2**	10,418,979	84.9	11,370,901	86.5
Equipment under operating leases, net	**1,878,950**	**15.8**	1,847,938	15.1	1,778,868	13.5
Total	**11,925,561**	**100.0**	12,266,917	100.0	13,149,769	100.0

As noted in the table and chart above, approximately 81% of the Company's Fleet Management net finance receivables and equipment under operating leases are in the United States and Canada.

Fleet Management Asset Class Portfolio Distribution

The distribution of the Fleet Management net finance receivables and equipment under operating leases by asset classes was as follows:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
Vehicles	**11,048,219**	**92.7**	11,429,776	93.2	12,535,148	95.3
Highway Tractors and Trailers	**434,498**	**3.6**	429,261	3.5	315,939	2.4
Other	**442,844**	**3.7**	407,880	3.3	298,682	2.3
	11,925,561	**100.0**	12,266,917	100.0	13,149,769	100.0

Non-Core Portfolio Finance Asset Details

Non-Core Finance Receivables

The following table sets forth a breakdown of the Company's Non-Core finance receivables, as at:

(in $000's for stated values)	**September 30, 2019**	June 30, 2019	December 31, 2018
	$	$	$
Net investment in finance receivables	**33,063**	40,343	56,249
Impaired receivables - at net realizable value	**769**	922	1,157
Net finance receivables	**33,832**	41,265	57,406
Prepaid lease payments and Security deposits	**(800)**	(1,565)	(937)
Other	**(25)**	(25)	(26)
	33,007	39,675	56,443
Allowance for credit losses	**748**	794	826
Total finance receivables	**32,259**	38,881	55,617

Total Non-Core finance receivables have decreased $6.6 million compared to June 30, 2019. The decrease is predominately related to the run-off of the Company's non-core finance receivables.

Please refer to sections titled "Non-Core Geographic Portfolio Segmentation", "Non-Core Asset Class Portfolio Distribution" and "Non-Core Delinquencies and Losses" of this MD&A for additional information.

Non-core delinquencies

The contractual delinquency of the net finance receivables as at each reporting period was as follows:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
Current	**30,784**	**90.99**	37,481	90.83	50,801	88.49
31 to 60 days	**423**	**1.25**	1,252	3.03	1,642	2.86
61 to 90 days	**1,140**	**3.37**	856	2.07	2,646	4.61
91 to 120 days	**716**	**2.12**	754	1.83	1,160	2.02
Impaired receivables	**769**	**2.27**	922	2.24	1,157	2.02
Total	**33,832**	**100.00**	41,265	100.00	57,406	100.00

Non-core credit losses and provisions, as at and for each of the respective periods are as follows:

(in $000's for stated values, except ratios)	**Nine-month period ended September 30, 2019**	Year ended December 31, 2018
	$	$
Allowance for credit losses, beginning of period	**826**	—
IFRS 9 Adjustment	**—**	65,826
Provision for credit losses	**—**	480,000
Charge-offs, net of recoveries[1]	**—**	(552,500)
Impact of foreign exchange rates	**(78)**	7,500
Allowance for credit losses, end of period	**748**	826
Allowance for credit losses as a percentage of finance receivables	**2.27%**	1.46%

(1) On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital [for further information, see note 7 to the Company's audited consolidated financial statements as of December 31, 2018]. At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on Company's balance sheet at the acquisition-date fair value.

Non-Core Equipment Under Operating Leases

The following table sets forth the Company's Non-Core equipment under operating leases which are comprised of the acquired 19th Capital assets:

(in $000's for stated values)	**September 30, 2019**	June 30, 2019	December 31, 2018
	$	$	$
Equipment under operating leases, net			
Highway Tractors and Trailers	**374,041**	371,065	382,795
	374,041	371,065	382,795

Non-Core Portfolio Distribution

Non-Core Geographic Portfolio Segmentation

The table below sets forth the geographical distribution of the Company's Non-Core portfolio of net finance receivables and equipment under operating leases, as at:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
United States	**405,327**	**99.4**	409,112	99.2	434,908	98.8
New Zealand	**2,546**	**0.6**	3,218	0.8	5,293	1.2
Total	**407,873**	**100.0**	412,330	100.0	440,201	100.0

Non-Core Asset Class Portfolio Distribution

The distribution of the net finance receivables and equipment under operating leases by asset classes was as follows:

(in $000's for stated values)	**September 30, 2019**		June 30, 2019		December 31, 2018	
	$	**%**	$	%	$	%
Vehicles	**1,396**	**0.3**	1,837	0.4	2,689	0.6
Highway Tractors and Trailers	**405,422**	**99.4**	409,377	99.3	435,368	98.9
Others	**1,055**	**0.3**	1,116	0.3	2,144	0.5
	407,873	**100.0**	412,330	100.0	440,201	100.0

Liquidity & Capital Resources

An important liquidity measure for the Company is its ability to maintain diversified funding sources to support its operations. The Company's primary sources of liquidity are (i) cash flows from operating activities, (ii) the secured borrowing facilities, and (iii) equity. The Company's primary use of cash is the funding of finance receivables and working capital. The Company manages its capital resources by utilizing the financial leverage available under its term and revolving funding facilities and, when additional capital is required, the Company has access to capital through the issuance of convertible debt and preferred or common shares.

Management believes that the liquidity available to the Company of $8,091.1 million at September 30, 2019, coupled with the cash flow generated from the repayment of leases and loans, is sufficient to fund the Company's operations throughout 2019, as well as to pay dividends to all preferred and common shareholders.

The Company views both financial and tangible leverage as key indicators of the strength of the Company's Consolidated Statements of Financial Position. As at September 30, 2019, the Company's financial leverage ratio was 3.23:1 and the Company's tangible leverage was 6.74:1.

The Company's capitalization is calculated as follows:

As at		September 30, 2019	December 31, 2018
(in $000's, except ratios)		**$**	$
Secured borrowings		**12,153,652**	13,270,780
Convertible debentures		**715,399**	897,435
Total debt	**(a)**	**12,869,051**	14,168,215
Total shareholders' equity	**(b)**	**3,988,430**	3,975,485
		16,857,481	18,143,700
Goodwill and intangible assets	**(c)**	**2,078,173**	2,156,669
Financial leverage	**(a)/(b)**	**3.23**	3.56
Tangible leverage	**(a)/[(b)-(c)]**	**6.74**	7.79

Cash flow and liquidity

Overall, corporate cash increased from $22.0 million at December 31, 2018 to $41.2 million at September 30, 2019.

During the nine-month period ended September 30, 2019, cash provided by operating activities was $696.6 million, an increase of $613.7 million over the $82.9 million provided by operating activities in 2018 primarily related to an increase in syndications of finance receivables of $1.5 billion offset by a decrease of $885 million from investments in and repayments of finance receivables.

During the nine-month period ended September 30, 2019, cash provided by investing activities was $89.3 million from the sale of both our Eden Prairie, MN office building and the investment in ECAF I Holdings Ltd. During the nine-month period ended September 30, 2018, cash used in investing activities was $30.8 million as we made a $12.6 million investment in Amerit Fleet Holdings, LLC.

Cash used in financing activities for the nine-month period ended September 30, 2019 was $764.2 million, compared to $78.5 million used in financing activities in 2018, a decrease of $685.7 million. The decrease over the comparative year is due primarily to the maturity and payoff of the 2014 convertible debentures and net payments under secured borrowings offset by the issuance of the 2019 convertible debenture in Q3 2019 compared to a net increase in borrowings in Q3 2018.

Debt and contractual repayment obligations

With nearly $8.1 billion in available sources of financing, we have 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. In addition, the Company adheres to a strict policy of matching the maturities and the related debt as closely as possible in order to manage its liquidity position. The funding capacity is supplemented by the expanded use of syndication.

The Company's available sources of financing were as follows:

As at	**September 30, 2019**	June 30, 2019	December 31, 2018
(in $000's for stated values)	**$**	$	$
Cash	**41,201**	91,226	21,999
Term Senior Facility			
Facility amount	**4,435,400**	3,936,600	4,088,400
Utilized against facility	**1,824,014**	2,372,370	2,406,195
	2,611,386	1,564,230	1,682,205
Vehicle Management Asset-Backed Debt			
Facilities	**15,807,249**	15,561,325	14,818,806
Utilized against available facilities	**10,368,689**	9,869,976	10,924,763
	5,438,560	5,691,349	3,894,043
Total available sources of capital for continuing operations	**8,091,147**	7,346,805	5,598,247

The Company was in compliance with all of the terms of its credit facilities and loan agreements throughout the period and as at September 30, 2019.

Summary of Consolidated Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended September 30, 2019. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

(in $ 000's for stated values, except per share amounts and ratios)	**Q3 2019**	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net revenue	**245,796**	249,570	242,227	221,480	221,255	219,440	211,343	229,814
Adjusted operating income (1)	**127,650**	125,976	121,954	96,529	98,091	102,564	89,958	102,676
After-tax adjusted operating income (1)	**105,311**	101,411	100,612	79,154	80,433	84,103	76,230	82,051
Net income (loss)	**70,145**	64,061	80,473	41,145	(341,105)	79,096	21,759	(1,463)
Earnings (loss) per share, basic	**0.14**	0.12	0.16	0.07	(0.93)	0.18	0.03	(0.03)
Earnings (loss) per share, diluted	**0.13**	0.12	0.16	0.07	(0.93)	0.18	0.03	(0.03)
Adjusted operating income per share, basic (1)	**0.27**	0.26	0.26	0.20	0.23	0.24	0.21	0.24
After-tax adjusted operating income per share, basic (1)	**0.22**	0.21	0.21	0.16	0.18	0.19	0.17	0.19
After-tax pro forma diluted adjusted operating income per share (1)	**0.21**	0.22	0.20	0.16	0.18	0.19	0.17	0.18
Total earning assets	**12,388,224**	12,714,943	13,141,273	13,662,821	13,180,374	13,734,850	13,395,434	13,203,189
Loan and lease originations	**2,106,603**	1,806,515	1,712,849	1,819,476	1,486,700	1,714,100	1,471,500	1,461,257
Allowance for credit losses	**7,810**	8,183	10,096	9,332	549,798	76,362	75,306	4,304
As a % of finance receivables	**0.06**	0.07	0.08	0.07	4.20	0.57	0.57	0.03
Senior revolving credit facilities	**1,824,014**	2,372,370	2,153,786	2,406,195	2,617,114	2,611,108	3,435,650	3,168,087
Secured borrowings	**10,329,638**	9,828,447	10,567,390	10,864,585	9,784,284	10,401,781	9,288,195	9,139,786
Convertible debentures	**715,399**	711,305	903,024	897,435	891,929	886,510	881,173	875,918

(1) For additional information, see "Description of Non-IFRS Measures" section.

Other Disclosures

Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) associates, or entities which are controlled or significantly influenced by the Company; (b) key management personnel, which are comprised of directors and/or officers of the Company and those persons having authority and responsibility for planning, directing and controlling the activities of the Company; and (c) entities controlled by key management personnel.

The Company has issued notes receivables that are loans to certain employees and directors of the Company granted in order to help finance the purchase of the Company's common shares. Such loans have been issued at market conditions, bear interest at 3% and are evidenced by individual promissory notes secured by the shares purchased under the loan arrangements. On March 3, 2017 the Board of Directors approved a plan to discontinue this program on a prospective basis.

Risk Management

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk. The Company's approach to the management of risk has not changed materially from that described in the "Risk Management" section of the Company's 2018 Annual MD&A other than as noted below.

Ability to Reduce Concentration Risk Through Syndication

One way that Element seeks to manage its exposures to large clients is by transferring leases and loans to third party investors, including through bulk transfers, securitization, syndication and similar risk transference arrangements. There can be no assurance that Element will continue to be able to reduce client concentration risks in this way if Element is unable to enter into such risk transference arrangements with third party investors on favorable terms, or at all. Element's reliance on syndication through risk transference arrangements may increase as Element funds the asset growth of its largest clients. There can be no assurance that Element will be able to expand its existing network of syndication market investors or increase the capacities of its existing syndication arrangements in order to manage this concentration risk. An inability to manage such risk could lead Element to curtail new originations with its largest clients in certain circumstances, which could have an adverse impact on Element's ability to maximize its new origination opportunities with such clients.

Outlook and Economic Conditions

Element is a market leader in its sector and benefits from significant scale, industry expertise and the financial strength to support the achievement of its business objectives. The Company operates in the fleet management industry which is further characterized by strong barriers to entry, high-quality, credit-worthy clients, and has demonstrated resilience across the business cycle.

In the second and third quarters of 2018, we completed a comprehensive, end-to-end business assessment resulting in a strategic plan expected to enhance Element's operating performance, client relationships, corporate structure and balance sheet. This transformational reset is well underway, effecting hundreds of changes to our organization that are resulting in a superior client experience, greater efficiency, and meaningfully improved profitability. Recognizing progress on our transformation to date and having identified new operating income enhancement opportunities, we have increased our transformation target from $150 million to $180 million of actioned annual run-rate pre-tax profit improvement by year-end 2020. The Company expects to incur one-time costs of $180 million in order to achieve these pre-tax profit improvements, up from the previously disclosed $150 million of one-time costs.

In the second and third quarters of this year, for the first time, Element undertook to properly size and map the North American market for fleet management services. This was an exhaustive cross-functional effort spanning most of our organization as well as over 50 in-depth interviews with clients, potential clients and industry experts. Our in-depth research and analysis validated both the relevance and sustainability of our value proposition, and the growth levers available to us atop a fully transformed base and further strengthened balance sheet. Based on these insights, our client mix, and our geographic positioning, we believe Element can consistently generate annual revenue growth of 4-6% beginning in 2020.

Management and the Board of Directors believe that Element is well positioned to deliver strong value creation for its shareholders over time. For the 2020 fiscal year, Element is expected to generate after-tax adjusted operating income per share in the range of $1.00 to $1.05.

19^{th} Capital is operating in a challenging market for over-the-road transportation services and vehicles, catalyzed by trade spats and excess truck production by OEMs. In its October 2019 US classes 3-8 Used

Truck Market Flash (Volume 10, Issue 10), ACT Market Research reported that September 2019 was the first time since the Fall of 2012 that average used Class 8 truck prices fell month-over-month for three straight months, and the first time since mid-2017 that prices fell year-over-year for two consecutive months. 19th Capital's management monitors these circumstances closely and we believe it is too soon to determine whether this represents a temporary market imbalance or a “new normal.”

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operation are made with reference to the unaudited interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2019. A summary of the Company's significant accounting policies is presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2018. Some of the Company's accounting policies, as required by IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2018 MD&A.

Syndication

The Company periodically syndicates certain finance receivables to third party financial institutions. At the time the finance receivables are syndicated, the net book value of the asset is removed from the statement of financial position and the associated revenue and expenses are recognized immediately in the statement of operations within the Syndication revenue, net line item.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Fair Value Hedges

The Company designates fair value hedges as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged interest rate risk are accounted for as basis adjustments to the hedged financial instruments and are included in net income. Changes in fair value from the hedging derivatives are also included in net income. Any differences between the two represent hedge ineffectiveness that is included in other income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and the basis adjustment applied to the hedged item is amortized over the remaining term of the hedged item. If the hedged item is derecognized, the unamortized basis adjustment is recognized immediately in the consolidated statement of operations.

Recently Adopted Accounting Standards

IFRS Interpretation Committee IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

Effective January 1, 2019, the Company adopted IFRIC 23 which was issued in June 2017. IFRIC 23 was applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. Adoption of IFRIC 23 did not have a significant impact on the Company's consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16, issued by the IASB, using the modified retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings. This adoption methodology does not require restatement of prior periods. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification and allowed the use of hindsight to determine the lease term for existing leases. In the application of hindsight, the Company evaluated its current real estate strategies, which resulted in the determination that certain renewal terms would likely be exercised and were therefore included in the expected lease term when calculating the lease liability and right of use asset. As a result, the recorded lease liability at adoption was higher than the lease commitments disclosed in the Company's December 31, 2018 audited annual financial statements.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments. This resulted in the recording of additional lease assets and lease liabilities of approximately $79,700 as of January 1, 2019. Lessor accounting under the new standard was mostly left unchanged and did not impact the Company's vehicle leases with its clients. The adoption of this standard did not materially impact the Company's condensed consolidated operations and had no impact on cash flows.

Future Accounting Changes

All accounting standards effective for periods beginning on or after January 1, 2019 have been adopted by the Company.

Internal Control over Disclosure and Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and other members of the Board of Directors, on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO and CFO are responsible to design, or cause to be designed under their supervision, internal controls over financial reporting to a standard that provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Limitations on the effectiveness of disclosure controls and internal controls over financial reporting

It should be noted that while the Company's CEO and CFO believe that the Company's internal control system and disclosure controls and procedures provide a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company's control systems will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any designs will succeed in achieving its stated goals under all potential conditions.

The Company has an established process in place which includes the continuous testing and reporting of the results to senior management and the Board of Directors on the effectiveness of the disclosure controls and internal controls over financial reporting.

IFRS to Non-IFRS Reconciliations

The following table provides a reconciliation of IFRS to non-IFRS measures related to the consolidated operations of the Company:

		As at and for the three-month periods ended			As at and for the nine-month periods ended	
(in $000's for stated values)		**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Reported and adjusted income measures						
Net income (loss)	A	**70,145**	64,061	(341,105)	**214,679**	(240,250)
Adjustments:						
Amortization of debenture discount		**2,504**	4,492	3,537	**10,651**	10,441
Share-based compensation		**4,360**	5,410	8,867	**14,940**	18,605
Amortization of intangible assets from acquisitions		**8,948**	9,112	10,442	**27,236**	34,249
Restructuring and transformation costs		**34,055**	21,949	35,000	**62,742**	77,117
Impairment of loans to 19th Capital		**—**	—	480,000	**—**	480,000
Provision (recovery) of income taxes		**7,398**	21,190	(118,650)	**44,000**	(124,454)
Share of loss (income) from investments		**240**	(238)	20,000	**1,332**	34,905
Before-tax adjusted operating income	B	**127,650**	125,976	98,091	**375,580**	290,613
Provision for taxes applicable to adjusted operating income	C	**22,339**	24,565	17,658	**68,246**	49,847
After-tax adjusted operating income	D=B-C	**105,311**	101,411	80,433	**307,334**	240,766
Cumulative preferred share dividends during the period	Y	**11,071**	11,164	11,068	**33,399**	33,205
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**94,240**	90,247	69,365	**273,935**	207,561
Selected statement of financial position amounts						
Finance receivables, before allowance for credit losses	E	**12,227,874**	12,112,684	13,037,590	**12,227,874**	13,037,590
Allowance for credit losses	F	**7,810**	8,183	549,798	**7,810**	549,798
Earning assets						
Net investment in finance receivable	G	**10,135,233**	10,495,940	11,461,328	**10,135,233**	11,461,328
Equipment under operating leases	H	**2,252,991**	2,219,003	1,719,046	**2,252,991**	1,719,046
Total earning assets	I=G+H	**12,388,224**	12,714,943	13,180,374	**12,388,224**	13,180,374
Average earning assets, net	J	**12,662,992**	13,064,470	13,547,614	**13,046,268**	13,339,754
Goodwill and intangible assets	K	**2,078,173**	2,070,504	2,062,097	**2,078,173**	2,062,097
Average goodwill and intangible assets	L	**2,083,235**	2,105,140	2,080,843	**2,094,137**	2,075,952
Secured borrowings	M	**12,153,652**	12,200,817	12,401,398	**12,153,652**	12,401,398
Unsecured convertible debentures	N	**715,399**	711,305	891,929	**715,399**	891,929
Total debt	O=M+N	**12,869,051**	12,912,122	13,293,327	**12,869,051**	13,293,327
Average debt	P	**12,950,680**	13,162,242	13,696,839	**13,224,226**	13,506,720
Total shareholders' equity	Q	**3,988,430**	3,937,354	3,452,681	**3,988,430**	3,452,681
Preferred shares	R	**680,412**	680,412	680,412	**680,412**	680,412
Common shareholders' equity	S=Q-R	**3,308,018**	3,256,942	2,772,269	**3,308,018**	2,772,269
Average common shareholders' equity	T	**3,296,852**	3,315,944	3,078,468	**3,276,189**	3,090,327
Average total shareholders' equity	U	**3,977,263**	3,996,356	3,758,879	**3,956,601**	3,770,739

Non-IFRS and IFRS key annualized consolidated operating ratios and per share information of the operations of the Company:

		As at and for the three-month periods ended			As at and for the nine-month periods ended	
(in $000's for stated values, except ratios and per share amounts)		**September 30, 2019**	June 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Key annualized operating ratios						
Leverage ratios						
Financial leverage ratio	O/Q	**3.23**	3.28	3.85	**3.23**	3.85
Tangible leverage ratio	O/(Q-K)	**6.74**	6.92	9.56	**6.74**	9.56
Average financial leverage ratio	P/U	**3.26**	3.29	3.64	**3.34**	3.58
Average tangible leverage ratio	P/(U-L)	**6.84**	6.96	8.16	**7.10**	7.97
Other key operating ratios						
Allowance for credit losses as a percentage of finance receivables	F/E	**0.06%**	0.07%	4.22%	**0.06%**	4.22%
Adjusted operating income on average earning assets	B/J	**4.03%**	3.86%	2.90%	**3.84%**	2.90%
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	**22.24%**	21.45%	19.17%	**22.00%**	18.94%
Per share information						
Number of shares outstanding	V	**435,216**	434,854	380,356	**435,216**	380,356
Weighted average number of shares outstanding [basic]	W	**435,134**	434,687	380,644	**434,482**	380,489
Pro forma diluted average number of shares outstanding	X	**483,584**	449,560	438,941	**482,533**	438,785
Cumulative preferred share dividends during the period	Y	**11,071**	11,164	11,068	**33,399**	33,205
Other effects of dilution on an adjusted operating income basis	Z	**$ 6,999**	$ 6,984	$ 9,095	**$ 19,406**	$ 18,172
Net income (loss) per share [basic]	(A-Y)/W	**$ 0.14**	$ 0.12	$ (0.93)	**$ 0.42**	$ (0.72)
Net income (loss) per share [diluted]		**$ 0.13**	$ 0.12	$ (0.93)	**$ 0.41**	$ (0.72)
Book value per share	S/V	**$ 7.60**	$ 7.49	$ 7.29	**$ 7.60**	$ 7.29
Before tax adjusted operating income per share [basic]	(B-Y)/W	**$ 0.27**	$ 0.26	$ 0.23	**$ 0.79**	$ 0.68
After-tax adjusted operating income per share [basic]	(D1)/W	**$ 0.22**	$ 0.21	$ 0.18	**$ 0.63**	$ 0.55
After-tax pro forma diluted adjusted operating income per share	(D1+Z)/X	**$ 0.21**	$ 0.22	$ 0.18	**$ 0.61**	$ 0.51

The following table provides a reconciliation of the consolidated after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended September 30, 2019:

(in $000's for stated values, except per share amounts)	Amount $	Weighted average number of shares outstanding applicable	Amount per share $
Adjusted operating income before taxes	127,650		0.29
Less:			
Income taxes related to adjusted operating income	(22,339)		(0.05)
Preferred share dividends	(11,071)		(0.03)
After-tax adjusted operating income attributable to common shareholders	94,240	435,134	0.22
Dilution items:			
Employee stock option plan	—	1,047	—
Convertible debentures (after-tax net interest expense)	6,999	47,403	(0.01)
After-tax pro forma diluted adjusted operating income	101,239	483,584	0.21

Description of Non-IFRS Measures

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and the accounting policies we adopted in accordance with IFRS. These unaudited interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at September 30, 2019 and December 31, 2018, the results of operations, comprehensive income and cash flows for the three and nine-month periods ended September 30, 2019 and September 30, 2018.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

Adjusted operating expenses

Adjusted operating expenses are equal to salaries, wages and benefits, general and administrative expenses, and depreciation and amortization.

Adjusted operating income or Before-tax adjusted operating income

Adjusted operating income reflects income before income taxes, business acquisition costs and related amortization, amortization of convertible debenture discount, and share-based compensation.

Adjusted operating income on average earning assets

Adjusted operating income on average earning assets is the adjusted operating income for the period divided by the average earning assets outstanding throughout the period, presented on an annualized basis.

After-tax adjusted operating income

After-tax adjusted operating income reflects the adjusted operating income after the application of the Company's effective tax rates.

After-tax adjusted operating income attributable to common shareholders

After-tax adjusted operating income attributable to common shareholders is computed as after-tax adjusted operating income less the cumulative preferred share dividends for the period.

After-tax adjusted operating income per share

After-tax adjusted operating income per share is computed as the after-tax adjusted operating income attributable to common shareholders for the period, divided by the basic weighted average number of common shares outstanding during the period.

After-tax adjusted operating income on average tangible total equity of Element

After-tax adjusted operating income on average tangible equity of Element is the after-tax adjusted operating income for the period, divided by the net of the average total shareholders' equity outstanding throughout the period, less average goodwill and intangible assets.

After-tax pro forma diluted adjusted operating income per share

After-tax pro forma diluted adjusted operating income per share computes the diluted after-tax adjusted operating income per share for the period on the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises. Convertible debentures are assumed to be converted at the beginning of the period (or at issuance if issued during the period on a time weighted basis) with the other effects of dilution adjusted operating income basis added to the adjusted operating income, if they are dilutive.

Allowance for credit losses as a percentage of finance receivables

Allowance for credit losses as a percentage of finance receivables is the allowance for credit losses at the end of the period divided by the finance receivables (gross of the allowance for credit losses) at the end of the period.

Average cost of borrowing or average cost of debt

Average cost of borrowing or average cost of debt is equal to interest expense divided by the average debt outstanding during the period and is presented on an annualized basis.

Average debt outstanding

Average debt outstanding is calculated as the sum of monthly average borrowings outstanding under all of the Company's secured borrowings facilities and the convertible debentures outstanding throughout the period.

Average common shareholders' equity

Average common shareholders' equity is calculated as the monthly average common shareholders' equity during the period.

Average financial leverage or average financial leverage ratio

Average financial leverage or average financial leverage ratio is calculated as average debt outstanding during the period, divided by average total shareholders' equity outstanding during the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and or existing debt covenants.

Average outstanding earning assets or average net earning assets

Average outstanding earning assets or average net earning assets is the sum of the average outstanding finance receivable, average equipment under operating leases and average other earning assets. Average outstanding finance receivables or average finance receivables is the sum of [i] the average finance receivables net investment balance [gross investment less unearned income] outstanding during the period and [ii] the average investment in managed fund during the period. Average equipment under operating leases is the monthly average equipment under operating leases outstanding during the period and is calculated net of accumulated depreciation. Average other earning assets is the monthly average of other earning assets outstanding during the period.

Average goodwill and intangible assets

Average goodwill and intangible assets is the monthly average balances of goodwill and intangible assets during the period.

Average shareholders' equity

Average shareholders’ equity is calculated as the monthly average balance of shareholders' equity during the period.

Average tangible leverage ratio

The average tangible leverage ratio has been computed as the sum of the average secured borrowings and average convertible debentures, divided by the net of total average shareholders' equity less average goodwill and intangible assets during the period.

Common shareholders' equity

Common shareholders' equity is total shareholders’ equity less principal face value of the preferred shares outstanding.

Consolidated return on equity

Consolidated return on equity is the current period end consolidated after-tax adjusted operating income less preferred share dividends, annualized, divided by the average of the current and prior period ending consolidated total shareholders' equity less preferred share equity.

Core fleet assets under management

Core fleet assets under management are the sum of fleet management earning assets, fleet management interim funding, and the value of core fleet assets syndicated by Element net of depreciation.

Consolidated free cash flow per share

Consolidated free cash flow per share is calculated by adjusting before-tax adjusted operating income for certain non-cash and cash revenue and expenses to get total cash from operations. Cash expenses of common and preferred share dividends and sustaining capital investments are subtracted from cash from operations to arrive at consolidated free cash flow. Consolidated free cash flow is then divided by the weighted average number of outstanding common shares for the period noted. Sustaining capital investments are defined by the Company as expenditures management considers necessary to supporting long-term growth.

Earning assets or total earning assets or finance earning assets

Earning assets are the sum of the total net investment in finance receivables, total carrying value of the equipment under operating leases and carrying value of other earning assets.

Finance assets or total finance assets

Finance assets are the sum of the total finance receivables and total carrying value of the equipment under operating leases.

Financial leverage or financial leverage ratio

Financial leverage or financial leverage ratio is calculated as total debt (the sum of secured borrowings and convertible debentures) outstanding at the end of the period, divided by total shareholders' equity outstanding at the end of the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and/or existing debt covenants.

Net interest and rental revenue

Net interest and rental revenue is calculated as the sum of net interest income, rental revenue net of depreciation, less interest expense. Net interest and rental revenue refers to net financing income earned from finance receivables, equipment under operating leases, and other earning assets, after considering financing costs and provision for credit losses.

Net interest and rental revenue margin or NIM

Net interest and rental revenue yield to average earning assets or NIM is calculated as net interest and rental revenue divided by average earning assets outstanding throughout the period on an annualized basis.

Other earning assets

Other earning assets are other yield generating assets that are not finance receivables or equipment under operating leases.

Other effects of dilution adjusted operating income basis

Other effects of dilution adjusted operating income basis represents, if dilutive, the add back of the after-tax convertible debt interest and the amortization of deferred financing costs related to the convertible debt, and excludes the add back of the after-tax amortization of the discount of the convertible debt (which is included on an IFRS basis).

Pro forma diluted average number of shares outstanding

Pro forma diluted average number of shares outstanding is the basic weighted average number of shares outstanding, plus the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises.

Tangible leverage ratio

The tangible leverage ratio has been computed as the sum of secured borrowings and convertible debentures divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

Tangible leverage ratio excluding non-recourse warehouse credit facility

The tangible leverage ratio has been computed as the sum of secured borrowings and convertible debentures less the non-recourse warehouse credit facility divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

Updated Share Information

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

As at November 6, 2019, the Company had 435,229,264 common shares issued and outstanding. In addition, 17,920,366 options were issued and outstanding under the Company's stock option plan as at November 6, 2019. These convertible securities are convertible into, or exercisable for common shares of the Company of which 14,556,251 are exercisable at September 30, 2019 for proceeds to the Company upon exercise of $162.8 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 47,403,336 common shares.

As at November 6, 2019, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C, 5,321,900 Preferred Shares, Series E, 6,900,000 Preferred Shares, Series G and 6,000,000 Preferred Shares, Series I issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on November 6, 2019.