

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2017

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[unaudited, in thousands of Canadian dollars]

	As at June 30, 2017	As at December 31, 2016
	\$	\$
ASSETS		
Cash	25,579	12,638
Restricted funds [notes 6 and 13]	543,543	606,461
Finance receivables [note 3]	13,880,790	13,454,011
Equipment under operating leases [note 4]	1,523,396	1,421,637
Accounts receivable and other assets [note 5]	420,493	435,901
Notes receivable [note 11]	19,434	22,078
Derivative financial instruments [note 13]	39,947	67,238
Property, equipment and leasehold improvements	76,907	80,742
Deferred tax assets	209,737	156,895
Intangible assets	850,789	880,420
Goodwill	1,243,940	1,282,643
	18,834,555	18,420,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	653,423	552,794
Derivative financial instruments [note 13]	26,337	27,532
Secured borrowings [note 6]	13,250,489	12,983,535
Convertible debentures [note 7]	865,647	855,688
Deferred tax liabilities	25,757	19,761
	14,821,653	14,439,310
Shareholders' equity [note 8]	4,012,902	3,981,354
	18,834,555	18,420,664

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars, except for per share amounts]

	Three-month period ended June 30, 2017	Three-month period ended June 30, 2016
	\$	\$
NET REVENUE		
Service and other revenue <i>[note 10]</i>	153,556	141,981
Interest income and rental revenue, net <i>[note 10]</i>	188,496	192,644
	342,052	334,625
Interest expense	94,509	85,280
Net revenue	247,543	249,345
OPERATING EXPENSES		
Salaries, wages and benefits	79,271	71,016
General and administrative expenses	43,847	44,409
Amortization of convertible debenture synthetic discount <i>[note 7]</i>	3,260	3,053
Share-based compensation <i>[note 9]</i>	3,589	4,713
	129,967	123,191
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	14,773	15,173
Transaction and integration costs	31,315	21,178
	46,088	36,351
Share of loss from and provision in joint venture <i>[note 5]</i>	40,875	—
Income before income taxes from continuing operations	30,613	89,803
Provision for (recovery of) income taxes	(6,474)	13,903
Net income for the period from continuing operations	37,087	75,900
Net income for the period from distributed operations <i>[note 18]</i>	—	23,933
Net income for the period	37,087	99,833
Basic <i>[note 12]</i>		
Continuing operations	\$ 0.07	\$ 0.17
Distributed operations	\$ —	\$ 0.06
Total basic earnings per share	\$ 0.07	\$ 0.24
Diluted <i>[note 12]</i>		
Continuing operations	\$ 0.07	\$ 0.17
Distributed operations	\$ —	\$ 0.06
Total diluted earnings per share	\$ 0.07	\$ 0.23

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars, except for per share amounts]

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
	\$	\$
NET REVENUE		
Service and other revenue <i>[note 10]</i>	301,072	292,101
Interest income and rental revenue, net <i>[note 10]</i>	368,480	396,516
	669,552	688,617
Interest expense	183,597	169,473
Net revenue	485,955	519,144
OPERATING EXPENSES		
Salaries, wages and benefits	154,203	146,375
General and administrative expenses	84,262	93,392
Amortization of convertible debenture synthetic discount <i>[note 7]</i>	6,466	6,056
Share-based compensation <i>[note 9]</i>	9,625	12,526
	254,556	258,349
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	29,594	31,299
Transaction and integration costs	67,361	52,547
	96,955	83,846
Share of loss from and provision in joint venture <i>[note 5]</i>	51,119	—
Income before income taxes from continuing operations	83,325	176,949
Provision for income taxes	(5,607)	26,343
Net income for the period from continuing operations	88,932	150,606
Net income for the period from distributed operations <i>[note 18]</i>	—	50,496
Net income for the period	88,932	201,102
Basic <i>[note 12]</i>		
Continuing operations	\$ 0.18	\$ 0.34
Distributed operations	\$ —	\$ 0.13
Total basic earnings per share	\$ 0.18	\$ 0.47
Diluted <i>[note 12]</i>		
Continuing operations	\$ 0.18	\$ 0.34
Distributed operations	\$ —	\$ 0.13
Total diluted earnings per share	\$ 0.18	\$ 0.47

See accompanying notes

Element Fleet Management Corp.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

[unaudited, in thousands of Canadian dollars]

	Three-month period ended	Three-month period ended
	June 30, 2017	June 30, 2016
	\$	\$
Net income for the period	37,087	99,833
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	(14,134)	20,323
Net unrealized foreign exchange loss	(92,629)	(32,818)
	(106,763)	(12,495)
Deferred income tax expense (recovery)	(4,020)	9,788
Total other comprehensive loss from continuing operations	(102,743)	(22,283)
Total other comprehensive loss from distributed operations, net of tax	—	(25,352)
Total other comprehensive loss	(102,743)	(47,635)
Comprehensive income (loss) for the period	(65,656)	52,198

See accompanying notes

Element Fleet Management Corp.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

[unaudited, in thousands of Canadian dollars]

	Six-month period ended	Six-month period ended
	June 30, 2017	June 30, 2016
	\$	\$
Net income for the period	88,932	201,102
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	(45,756)	(10,403)
Net unrealized foreign exchange loss	(115,701)	(396,830)
	(161,457)	(407,233)
Deferred income tax expense (recovery)	(12,307)	(4,060)
Total other comprehensive loss from continuing operations	(149,150)	(403,173)
Total other comprehensive loss from distributed operations, net of tax	—	(49,734)
Total other comprehensive loss	(149,150)	(452,907)
Comprehensive income (loss) for the period	(60,218)	(251,805)

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
[unaudited, in thousands of Canadian dollars]

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2016	2,803,336	533,656	46,200	78,974	232,836	286,352	3,981,354
Comprehensive income (loss) for the period	—	—	—	—	88,932	(149,150)	(60,218)
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(19,165)	—	(19,165)
Dividends - Common shares	—	—	—	—	(38,840)	—	(38,840)
Net taxes on dividends paid	—	—	—	—	(518)	—	(518)
Options exercised <i>[notes 8 and 9]</i>	15,452	—	—	(7,821)	—	—	7,631
Issuance of shares, net of share issue costs	—	147,080	—	—	—	—	147,080
Shares repurchased for cancellation <i>[note 8]</i>	(9,128)	—	—	(1,967)	—	—	(11,095)
Employee stock option expense <i>[note 9]</i>	—	—	—	6,673	—	—	6,673
Balance, June 30, 2017	2,809,660	680,736	46,200	75,859	263,245	137,202	4,012,902
Balance, December 31, 2015	4,229,848	533,656	46,200	61,867	160,777	684,735	5,717,083
Comprehensive income (loss) for the period	—	—	—	—	201,102	(452,907)	(251,805)
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(17,824)	—	(17,824)
Dividends - Common shares	—	—	—	—	(19,307)	—	(19,307)
Net taxes on dividends paid	—	—	—	—	(499)	—	(499)
Options exercised <i>[notes 8 and 9]</i>	3,664	—	—	(1,895)	—	—	1,769
Employee stock option expense <i>[note 9]</i>	—	—	—	12,287	—	—	12,287
Balance, June 30, 2016	4,233,512	533,656	46,200	72,259	324,249	231,828	5,441,704

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited, in thousands of Canadian dollars]

	Six-month period ended June 30, 2017 \$	Six-month period ended June 30, 2016 \$
OPERATING ACTIVITIES <i>[note 17]</i>		
Net income for the period from continuing operations	88,932	150,606
Items not affecting cash		
Share-based compensation <i>[note 9]</i>	6,673	9,255
Depreciation of property, equipment and leasehold improvements	5,424	3,766
Amortization of intangible assets, including from acquisitions	31,717	34,279
Amortization of deferred lease costs	9,865	3,741
Amortization of deferred financing costs	15,206	14,321
Amortization of equipment under operating leases	182,322	169,766
Amortization of convertible debenture synthetic discount and deferred costs	9,959	9,559
Share of loss from joint venture investment	51,119	—
Share of loss (earnings) from other equity accounted investments	(9,490)	1,790
Recovery of credit losses	(22)	(4,971)
	<u>391,705</u>	<u>392,112</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(3,239,421)	(3,071,262)
Repayments of finance receivables	2,264,960	3,170,977
Investment in equipment under operating leases	(344,916)	(283,559)
Proceeds on disposal of equipment under operating leases	114,188	140,842
Syndications of finance receivables	158,707	192,437
Other non-cash operating assets and liabilities <i>[note 17]</i>	(8,401)	(164,776)
Cash provided by (used in) operating activities - continuing operations	<u>(663,178)</u>	<u>376,771</u>
INVESTING ACTIVITIES <i>[note 17]</i>		
Business acquisition	(329)	14,699
Proceeds from (investment) in managed fund	16,170	(3,390)
Investment in non-consolidated companies	(2,403)	—
Decrease (increase) in restricted funds	45,995	(269,974)
Purchase of property, equipment and leasehold improvements	(4,705)	(27,278)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	1,538	1,964
Purchase of intangible assets	(26,110)	(26,466)
Decrease in notes receivable	2,644	760
Decrease (increase) in deferred financing costs	(24,203)	59,470
Cash used in investing activities - continuing operations	<u>8,597</u>	<u>(250,215)</u>
FINANCING ACTIVITIES <i>[note 17]</i>		
Issuance of share capital, net <i>[note 8]</i>	154,711	1,769
Shares repurchased	(1,998)	—
Issuance of secured borrowings, net	573,374	(79,980)
Dividends paid	(58,005)	(37,131)
Cash provided by (used in) financing activities - continuing operations	<u>668,082</u>	<u>(115,342)</u>
Effects of foreign exchange rates on cash	(560)	(2,195)
Net changes in cash provided by distributed operations <i>[note 17]</i>	<u>—</u>	<u>24,893</u>
Net increase (decrease) in cash during the period	12,941	33,912
Cash, beginning of period	12,638	56,764
Cash, end of period from continuing operations	<u>25,579</u>	<u>90,676</u>
Supplemental cash flow information:		
Cash taxes paid	26,279	13,138
Cash interest paid	189,427	150,396

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

1. CORPORATE INFORMATION

Element Fleet Management Corp. ["Element Fleet", "EFN" or the "Company"], formerly Element Financial Corporation ["Element"] was incorporated under the *Business Corporations Act* of Ontario (Canada) on May 11, 2007 and commenced operations on that date. The registered office of the Company is 161 Bay Street, Suite 3600, Toronto, Ontario. The Company is a public corporation traded on the Toronto Stock Exchange [the "TSX"] under the symbol "EFN".

On February 16, 2016, the Board of Directors of Element Financial Corporation approved a plan to separate Element into two publicly-traded companies [the "Separation"]. The plan involved the separation of the portion of Element and its subsidiaries comprising the Commercial and Vendor ["C&V"] Finance, Rail Finance and Aviation Finance verticals from the existing corporate structure into ECN Capital Corp. ["ECN Capital"], a newly created publicly traded company. The Separation was effective on October 3, 2016. On the Separation, common shareholders were granted one common share of Element Fleet and one common share of ECN Capital in exchange for each Element share.

Element Fleet is a publicly traded fleet management company with more than \$18.0 billion in assets and operations in the U.S., Canada, Mexico, Australia and New Zealand. Element Fleet is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing - helping more than 2,800 customers optimize their fleet performance and productivity.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016, which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 9, 2017.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

3. FINANCE RECEIVABLES

The following tables present finance receivables based on the ultimate obligor's location:

	June 30, 2017			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,486,414	11,072,622	261,813	12,820,849
Unguaranteed residual values	—	22,543	70,744	93,287
Gross investment	1,486,414	11,095,165	332,557	12,914,136
Unearned income	(145,605)	(770,189)	(30,592)	(946,386)
Net investment	1,340,809	10,324,976	301,965	11,967,750
Net realizable value of impaired receivables	580	5,135	865	6,580
Unamortized deferred costs and subsidies	(5,923)	(111,154)	(243)	(117,320)
Prepaid lease payments and security deposits	(6,218)	(111,623)	(21,966)	(139,807)
Interim fundings	62,734	1,194,389	1,730	1,258,853
Fleet management service receivables	90,313	567,938	60,910	719,161
Other receivables	2,168	105,360	84,040	191,568
Allowance for credit losses	(1,341)	(2,769)	(1,885)	(5,995)
Total finance receivables	1,483,122	11,972,252	425,416	13,880,790

	December 31, 2016			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,465,962	11,410,387	292,910	13,169,259
Unguaranteed residual values	—	12,789	72,901	85,690
Gross investment	1,465,962	11,423,176	365,811	13,254,949
Unearned income	(115,729)	(733,527)	(33,160)	(882,416)
Net investment	1,350,233	10,689,649	332,651	12,372,533
Net realizable value of impaired receivables	635	1,499	1,029	3,163
Unamortized deferred costs and subsidies	(6,322)	(123,184)	(323)	(129,829)
Prepaid lease payments and security deposits	(7,385)	(6,201)	(13,982)	(27,568)
Interim fundings	58,450	422,960	1,669	483,079
Fleet management service receivables	79,457	496,526	47,865	623,848
Other receivables	693	72,564	61,609	134,866
Allowance for credit losses	(1,350)	(2,985)	(1,746)	(6,081)
Total finance receivables	1,474,411	11,550,828	428,772	13,454,011

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

The following table presents the delinquency status of the net investment in finance receivables, by contract balance:

	June 30, 2017		December 31, 2016	
	\$	%	\$	%
31–60 days past due	8,722	0.07	2,057	0.02
61–90 days past due	4,716	0.04	250	0.00
Greater than 90 days past due	2,709	0.02	360	0.00
Total past due	16,147	0.13	2,667	0.02
Current	11,951,603	99.87	12,369,866	99.98
Total net investment	11,967,750	100.00	12,372,533	100.00

Selected characteristics of the finance receivables

	June 30, 2017		December 31, 2016 (1)	
	Leases	Loans (2)	Leases	Loans (2)
Net investment	\$ 10,908,565	\$ 1,059,185	\$ 11,484,494	\$ 888,039
Weighted average fixed interest rate	3.91%	5.58%	4.01%	5.29%
Weighted average floating interest rate	3.73%	8.95%	3.26%	8.83%
Percentage of portfolio with fixed interest rate	45.24%	97.04%	45.09%	94.23%

(1) December 31, 2016 leases and loans have been reclassified, and the weighted average interest rates adjusted, to reflect the characterization of the loans provided to the joint venture, instead of the assets contributed.

(2) Included are loans to 19th Capital joint venture of \$824,456, which have a weighted average fixed interest rate of 5.46% [December 31, 2016 - \$829,976, weighted average fixed interest rate of 5.28%].

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

Allowance for credit losses

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

	Six-month period ended June 30, 2017	Year ended December 31, 2016 (1)
	\$	\$
Allowance for credit losses, beginning of period	6,081	13,397
Provision for (recovery of) credit losses	(22)	(3,834)
Charge-offs, net of recoveries	(12)	(2,654)
Impact of foreign exchange rates	(52)	(828)
Allowance for credit losses, end of period	5,995	6,081
Allowance as a percentage of finance receivables	0.04%	0.05%
Finance receivables in arrears [90 days and over]	2,709	360
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.02%	0.00%
Impaired receivables, at estimated net realizable value	6,580	3,163

(1) Reflects amounts from continuing operation.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

4. EQUIPMENT UNDER OPERATING LEASES

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

	June 30, 2017	December 31, 2016
	\$	\$
Cost	1,929,867	1,725,800
Accumulated amortization	406,471	304,163
Net carrying amount of equipment under operating leases	1,523,396	1,421,637

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

5. EQUITY ACCOUNTED INVESTMENTS

ECAF I Holdings Ltd.

The Company has a 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer. ECAF I Holdings Ltd. was accounted for using the equity method in the interim condensed consolidated financial statements of the Company. The carrying amount of the Company's investment is \$140,353 as at June 30, 2017 [December 31, 2016 - \$148,056] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position. For the three and six-month periods ended June 30, 2017, the Company has recorded \$4,674 and \$9,490, respectively, of income from its investment in associates [three and six-month periods ended June 30, 2016 - \$4,691 and \$9,695, respectively], which has been included in interest income on the interim condensed consolidated statements of operations.

19th Capital Group LLC

The Company has a 49.99% interest in 19th Capital Group LLC ["19th Capital"], a joint venture involved in the leasing of highway tractors in the U.S. The Company's interest in 19th Capital is accounted for using the equity method in the interim condensed consolidated financial statements. The carrying amount of the Company's investment is \$81,425 as at June 30, 2016 [December 31, 2016 - \$135,846] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

In addition, the Company has provided \$824,456 in loans to the joint venture that have a weighted average fixed interest rate of 5.46% [December 31, 2016 - \$829,976 at 5.28% interest rate]. The loans consist of [a] term loans of \$815,729 that have a weighted average fixed interest rate of 5.45% [December 31, 2016 - \$829,976 at 5.28%], with a latest maturity of December 31, 2023 and are secured by highway tractors and related leases; and [b] a revolving line of credit for working capital of \$8,720 at 7.00% [December 31, 2016 - \$nil]. The remaining available for draw on the unsecured line of credit was U.S. \$6,417 [December 31, 2016 - U.S. \$16,630].

For the three and six-month periods ended June 30, 2017, the Company has recorded \$40,875 and \$51,119, respectively, of non-cash losses from its investment in 19th Capital's [three and six-month periods ended June 30, 2016 - nil and nil, respectively]. Included in the Company's non-cash losses from its investment in 19th Capital are \$8,215 and \$18,216 of operating losses, \$2,660 and \$2,903 of losses on certain assets recognized in the joint ventures financial statements, and a further provision against certain assets of \$30,000 and \$30,000 for the three and six-month periods ended June 30, 2017, respectively.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

6. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	June 30, 2017			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	2,980,309	2.11	3,157,740	56,517
Term notes, in revolving period	1,555,608	2.01	1,648,220	16,023
Variable-funding notes	5,006,461	1.97	5,298,844	53,182
Other	2,759	5.07	2,127	—
Vehicle management asset-backed debt	9,545,137	2.02	10,106,931	125,722
Term senior credit facility (2)	3,758,274	2.56	—	—
	13,303,411	2.17	10,106,931	125,722
Deferred financing costs	(52,922)			
Total secured borrowings	13,250,489			
	December 31, 2016			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	3,001,980	1.52	3,207,420	63,987
Term notes, in revolving period	2,260,838	2.03	2,377,640	29,446
Variable-funding notes	4,786,118	1.70	5,113,658	58,037
Other	2,123	4.62	2,123	—
Vehicle management asset-backed debt	10,051,059	1.72	10,700,841	151,470
Term senior credit facility (2)	2,978,122	2.56	—	—
	13,029,181	1.91	10,700,841	151,470
Deferred financing costs	(45,646)			
Total secured borrowings	12,983,535			

(1) Represents the weighted average stated interest rate of outstanding debt at period end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.

(2) The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at June 30, 2017.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2017

Vehicle management asset-backed debt

Term notes, in amortization period

During the first and second quarter of 2017, US \$700 million and US \$1,000 million, respectively, of revolving notes were converted into amortizing term notes.

During the second quarter of 2017, US \$1,039 million of amortizing term notes were repaid using available capacity from variable funding notes.

Term notes, in revolving period

During the first and second quarter of 2017, US \$700 million and US \$1,000 million, respectively, of revolving notes were converted into amortizing term notes.

During the second quarter of 2017, the Company issued US \$1,200 million of revolving term notes. The proceeds from this issuance were used to pay down variable-funding notes.

Variable-funding notes

During the first quarter of 2017, the Company renegotiated an existing variable-funding note program, and an additional series of variable funding notes was issued with commitments thereunder to become effective on April 7, 2017. The new series was established to facilitate the combination of Chesapeake Funding LLC and Chesapeake Funding II LLC. As part of the combination, Chesapeake Funding II LLC became the surviving entity for legal and tax purposes.

As at June 30, 2017, the Company has available capacity in variable-funding notes and other of \$2,905,211 [December 31, 2016 - \$4,156,828] under its vehicle management asset-backed debt facilities.

Term senior credit facility

As at June 30, 2017, the Company had available capacity of \$454,831 [December 31, 2016 - \$1,721,328] from the term senior credit facility.

Restricted funds

Restricted funds include [i] cash reserves of \$125,722 as at June 30, 2017 [December 31, 2016 - \$151,470], which represent restricted collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of \$405,911 as at June 30, 2017 [December 31, 2016 - \$452,421], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

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7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

		June 30, 2017					
Final maturity date	Conversion price per share (2)	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	13.98	5.125	345,000	(5,074)	(15,173)	324,753
Issued on May 29, 2015	June 30, 2020	18.65	4.250	575,000	(14,778)	(19,328)	540,894
				920,000	(19,852)	(34,501)	865,647
		December 31, 2016					
Final maturity date	Conversion price per share	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	14.18	5.125	345,000	(6,253)	(18,626)	320,121
Issued on May 29, 2015	June 30, 2020	18.91	4.250	575,000	(17,092)	(22,341)	535,567
				920,000	(23,345)	(40,967)	855,688

(1) Stated interest rate on principal face value.

(2) The conversion price was adjusted on June 28, 2017, the ex-dividend date for dividends to be paid on July 14, 2017, to \$13.98488 for the June 18, 2014 issuance and \$18.64650 for the May 29, 2015 issuance.

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8. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2016	387,116,660	2,803,336
Exercise of options	1,906,325	15,452
Shares repurchased	(1,259,800)	(9,128)
Balance, June 30, 2017	387,763,185	2,809,660
Balance, December 31, 2015	386,134,550	4,229,848
Exercise of options	982,110	6,436
Share issue costs, adjustment	—	11,500
Distribution dividend (allocated share capital)	—	(1,444,448)
Balance, December 31, 2016	387,116,660	2,803,336

Shares repurchased

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid [the "NCIB"]. The NCIB allows the Company to repurchase on the open market [or as otherwise permitted], at its discretion during the period commencing on June 12, 2017 and ending on the earlier of June 11, 2018 and the completion of purchases under the NCIB, up to 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the three and six months ended June 30, 2017, 1,259,800 common shares have been repurchased for cancellation for \$11,905 at a volume weighted average price of \$8.807 per common share.

Common share dividends

During the three and six-month periods ended June 30, 2017, the Company paid \$29,163 and \$38,840, respectively, in common share dividends, or \$0.025 and \$0.10 per common share, respectively [three and six-month periods ended June 30, 2016 - \$9,653 and \$19,307, respectively, or \$0.025 and \$0.05 per common share, respectively].

As at June 30, 2017, un-accrued common share dividends were \$29,082, or \$0.075 per common share [December 31, 2016 - \$9,678, or \$0.025 per common share].

Element Fleet Management Corp.

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	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Preferred Shares, Series G		Preferred Shares, Series I	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	#	\$	#	\$	#	\$	#	\$	#	\$
Balance, December 31, 2016	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	—	—
Issuance of shares, net of costs	—	—	—	—	—	—	—	—	6,000,000	147,080
Balance, June 30, 2017	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	6,000,000	147,080

Preferred shares

On May 5, 2017, the Company issued, through a public offering, 6,000,000 5.75% Cumulative 5-Year Rate Reset Preferred Shares, Series I ["Series I shares"] at a price of \$25.00 per preferred share for gross proceeds of \$150,000. The issuance included pre-tax transaction costs of \$3,931 [or after-tax transaction costs of \$2,920].

For each five-year period, holders of the Series I shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.64%, provided that, in any event, the annual fixed dividend rate shall not be less than 5.75%. The Company will have the right to redeem the Series I shares on June 30, 2022, and on June 30 every five years thereafter for \$25 per Series I share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series I shares, the holders of the Series I shares will have the right on June 30, 2022, and on June 30 every five years thereafter, to convert all or any of the Series I shares into Series J shares, on the basis of one Series J share for each Series I share converted. Holders of Series J shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.64%.

Preferred share dividends

During the three and six-month periods ended June 30, 2017, the Company paid \$8,912 and \$17,824, respectively, in preference share dividends [three and six-month periods ended June 30, 2016 - \$8,912 and \$17,824, respectively].

As at June 30, 2017, the un-accrued cumulative preference share dividends were \$98 [December 31, 2016 - \$98].

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9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the periods ended:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
[a] Stock options	3,340	4,132	6,673	9,255
[b] Deferred share units	807	609	2,696	2,188
[c] Performance share units	(4,920)	2,893	(2,488)	15,363
[d] Restricted share units	458	—	1,724	—
	(315)	7,634	8,605	26,806

Allocated as:

Share-based compensation (1)	3,589	4,713	9,625	12,526
Transaction and integration costs	—	2,921	2,884	14,280
Other revenue (2)	(3,904)	—	(3,904)	—
	(315)	7,634	8,605	26,806

(1) Excluded in the three and six-month periods ended June 30, 2016 is \$1,388 and \$3,032 of stock option expenses, respectively, and \$426 and \$852 of PSU expenses, respectively, for share-based compensation recognized in the net income from distributed operations.

(2) During the three and six-month periods ended June 30, 2017, a PSU liability expired without vesting for a participant from ECN Capital Corp. The original expense for this PSU was recognized in discontinued operations and was not included as share-based compensation in the statement of operations of the Company. As a result, the reversal of the liability was recorded to other revenue.

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[a] Stock options

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

	Number of options #	Weighted average exercise price (2) \$
Outstanding, December 31, 2015	22,353,854	12.31
Granted	4,083,574	12.18
Forfeited	(404,797)	14.52
Expired	(64,190)	11.75
Exercised (1)	(1,230,879)	5.22
Outstanding, December 31, 2016	24,737,562	10.37
Granted	963,639	12.73
Forfeited	(101,841)	12.42
Expired	(332,523)	12.41
Exercised (1)	(3,292,954)	7.72
Outstanding, June 30, 2017	21,973,883	10.83

(1) Weighted average share price of options exercised during the six-month period ended June 30, 2017 was \$12.99 [year ended December 31, 2016 - \$14.25].

(2) On October 3, 2016, upon the Separation, the exercise price of an Element Fleet option was adjusted to approximately 79.4% of the original exercise price. At the time of the Separation there were 22,556,684 options outstanding with a weighted average strike price of \$12.61, and the weighted average share price on these options was adjusted to \$10.02.

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

	Unit	Six-month period ended June 30, 2017	Year ended December 31, 2016
Weighted average share price	\$	12.73	13.17
Average term to exercise	Years	7.0	7.0
Share price volatility	%	29.0	33.1
Weighted average expected annual dividend	\$	0.30	0.10
Risk-free interest rate	%	1.40	1.21
Forfeiture rate	%	1.02	1.02

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[b] Deferred share units, performance share units and restricted share units

	Deferred share units #	Performance share units #	Performance share units referenced to ECN Capital Corp. #	Restricted share units #
Outstanding, December 31, 2015	1,450,521	2,222,952	—	—
Granted	210,115	141,922	—	636,352
Issued on Separation	379,641	—	1,386,576	—
Forfeited	—	(48,187)	(2,206)	—
Redeemed	(335,266)	(984,916)	(57,418)	—
Outstanding, December 31, 2016	1,705,011	1,331,771	1,326,952	636,352
Granted	97,837	268,334	3,692	226,739
Forfeited	—	(247,363)	(246,360)	—
Redeemed	(294,421)	(1,031,586)	(1,028,016)	—
Outstanding, June 30, 2017	1,508,427	321,156	56,268	863,091

[i] Deferred share units ["DSU"]

As at June 30, 2017, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$13,425 [December 31, 2016 – \$21,244].

[ii] Performance share units ["PSU"]

As at June 30, 2017, 321,156 EFN PSUs and 56,268 ECN Capital PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$1,685 [December 31, 2016 - 1,331,771 EFN PSUs and 1,326,952 ECN Capital PSUs and \$18,770 of liabilities]. Certain PSUs issued during 2017 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2017, 2018 and 2019.

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[iii] Restricted share units ["RSU"]

As at June 30, 2017, 863,091 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$2,091 [December 31, 2016 - 636,352 RSUs and \$376 of liabilities]. The RSUs outstanding will vest over one, two and three years.

[iv] Hedging of DSUs, PSUs and RSUs

As at June 30, 2017, the Company has hedged 2,545,826 Element Fleet referenced share units and 56,268 ECN Capital referenced share units, with net derivative liabilities of \$8,101, which will be applied to the settlement of PSU, RSU and DSU awards [December 31, 2016 - 1,399,652 EFN and 1,326,953 ECN Capital referenced share units hedged and net derivative liabilities of \$2,078 for PSU and RSU awards].

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10. REVENUES

Service and other revenue, includes fuel cards, accident management services and maintenance services revenues. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third party lessor. The comparative periods have been adjusted to reflect removing internal expenses related to service delivery from service and other revenue to salaries, wages and benefits, and general and administrative expenses to be consistent with the current period presentation. The adjustment for internal expenses for the three and six-month comparative periods ended June 30, 2016 were \$15,422 and \$31,385, respectively.

Interest income and rental revenue, net consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Interest income	160,513	163,999	313,122	337,998
Recovery of credit losses <i>[note 3]</i>	(22)	(4,331)	(22)	(4,971)
Interest income, net	160,535	168,330	313,144	342,969
Rental revenue	121,253	109,495	237,658	223,313
Amortization of equipment under operating leases	(93,292)	(85,181)	(182,322)	(169,766)
Rental revenue, net	27,961	24,314	55,336	53,547
Interest income and rental revenue, net	188,496	192,644	368,480	396,516

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11. NOTES RECEIVABLE

The notes receivable of \$19,434 as at June 30, 2017 [December 31, 2016 - \$22,078] represent loans to certain employees and officers of the Company. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. The loans were granted in order to help finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee.

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

	Six-month period ended June 30, 2017	Year ended December 31, 2016
	\$	\$
Notes receivable, beginning of period	22,078	50,819
Additions	—	6,060
Interest income	281	1,236
Repayments [interest and principal]	(2,925)	(5,176)
Transferred to ECN Capital Corp. on separation	—	(30,861)
Notes receivable, end of period	19,434	22,078

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12. EARNINGS PER SHARE

Basic earnings per share are as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income from continuing operations attributable to shareholders	\$ 37,087	\$ 75,900	\$ 88,932	\$ 150,606
Cumulative dividends on preferred shares	\$ (10,253)	\$ (8,912)	\$ (19,165)	\$ (17,824)
Net income from continuing operations available to common shareholders	\$ 26,834	\$ 66,988	\$ 69,767	\$ 132,782
Net income from distributed operations attributable to common shareholders	\$ —	\$ 23,933	\$ —	\$ 50,496
Total net income attributable to common shareholders	\$ 26,834	\$ 90,921	\$ 69,767	\$ 183,278
Weighted average number of common shares outstanding - basic [number]	388,957,849	386,282,325	388,337,788	386,210,635
Basic earnings per share from continuing operations	\$ 0.07	\$ 0.17	\$ 0.18	\$ 0.34
Basic earnings per share from distributed operations	\$ —	\$ 0.06	\$ —	\$ 0.13
Total basic earnings per share	\$ 0.07	\$ 0.24	\$ 0.18	\$ 0.47

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Diluted earnings per share is as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income from continuing operations available to common shareholders adjusted for the effects of dilution	\$ 26,834	\$ 66,988	\$ 69,767	\$ 132,782
Net income from distributed operations available to common shareholders adjusted for the effects of dilution	\$ —	\$ 23,933	\$ —	\$ 50,496
Total net income available to common shareholders adjusted for the effects of dilution	\$ 26,834	\$ 90,921	\$ 69,767	\$ 183,278
Weighted average number of common shares outstanding - basic [number]	388,957,849	386,282,325	388,337,788	386,210,635
Dilutive stock options and warrants [number]	2,359,914	4,350,055	3,331,672	4,383,357
Weighted average number of common shares outstanding - diluted [number]	391,317,763	390,632,380	391,669,460	390,593,992
Diluted earnings per share from continuing operations	\$ 0.07	\$ 0.17	\$ 0.18	\$ 0.34
Diluted earnings per share from distributed operations	\$ —	\$ 0.06	\$ —	\$ 0.13
Total diluted earnings per share	\$ 0.07	\$ 0.23	\$ 0.18	\$ 0.47

Instruments outstanding as at June 30, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 15,222,948 and 12,370,949 stock options for the three and six-month periods ended June 30, 2017 [three and six-month periods ended June 30, 2016 - 11,809,842 and 11,815,221 stock options, respectively].

In addition, the convertible debentures [note 7] were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three and six-month periods ended June 30, 2017 and 2016.

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13. DERIVATIVE FINANCIAL INSTRUMENTS

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

Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the periods ended:

	Three-month period ended		Six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenues	(1,297)	(6,352)	(5,964)	(30,366)
Fair value changes recorded in other comprehensive income (loss)	(14,134)	20,323	(45,756)	(10,403)

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Notional amounts and fair values of derivative instruments

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

	June 30, 2017	December 31, 2016
	\$	\$
Notional principal		
Derivative assets		
Interest rate contracts	4,341,078	3,981,063
Foreign exchange agreements	922,631	553,394
Total return swaps	2,139	—
Derivative assets	5,265,848	4,534,457
Derivative liabilities		
Interest rate contracts	3,103,161	3,271,452
Foreign exchange agreements	329,754	385,843
Total return swaps	33,899	24,128
Derivative liabilities	3,466,814	3,681,423
Fair values		
Restricted funds - collateral	11,910	2,570
Derivative assets		
Interest rate contracts	22,226	27,298
Foreign exchange agreements	17,411	39,940
Total return swaps	310	—
Derivative assets	39,947	67,238
Derivative liabilities		
Interest rate contracts	17,443	24,173
Foreign exchange agreements	483	1,281
Total return swaps	8,411	2,078
Derivative liabilities	26,337	27,532

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Fair values of derivatives designated in hedging relationships

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

	June 30, 2017	December 31, 2016
	\$	\$
Interest rate contracts	4,783	3,125
Foreign exchange agreements	16,928	38,659
Total return swaps	(8,101)	(2,078)
	13,610	39,706

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Offsetting of derivative assets and liabilities

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

	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
				Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	\$	\$	\$	\$	\$	\$
As at June 30, 2017						
Derivative financial instrument assets	39,947	—	39,947	16,136	—	23,811
Derivative financial instrument liabilities	26,337	—	26,337	16,136	11,910	(1,709)
As at December 31, 2016						
Derivative financial instrument assets	67,238	—	67,238	21,770	—	45,468
Derivative financial instrument liabilities	27,532	—	27,532	21,770	2,570	3,192

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14. CAPITAL DISCLOSURES

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

The Company's capitalization is as follows, as at:

	June 30, 2017	December 31, 2016
	\$	\$
Secured borrowings	13,250,489	12,983,535
Convertible debentures	865,647	855,688
Total debt	14,116,136	13,839,223
Shareholders' equity	4,012,902	3,981,354
	18,129,038	17,820,577

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15. SEGMENTED INFORMATION

[A] Operating Segments

Post Separation, certain assets have remained with or acquired by Element that are not considered pure fleet assets and/or typical earnings assets in a pure fleet management company. Assets have remained from Separation for various commercial and structuring reasons, and the related strategy for each is dependent upon many factors including, but not limited to, cross-selling opportunities with core fleet services, current and expected market conditions related to valuation, and overall risk relative to the size of the Company.

Due to the differing characteristics of these assets and operations from pure fleet management, the Company amended its internal management reporting process during the quarter ended June 30, 2017, resulting in the Company moving from a single segment to two operating and reporting segments consisting of [a] the Fleet Management segment and, [b] the Non-Core segment. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, adjusted operating income, return on tangible equity and leverage.

Segmented Operating Results

	Three-month period ended June 30, 2017			Three-month period ended June 30, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Service and other revenue	143,392	10,164	153,556	135,386	6,595	141,981
Interest and rental revenue, net	164,311	24,185	188,496	161,246	31,398	192,644
	307,703	34,349	342,052	296,632	37,993	334,625
Interest expense	83,251	11,258	94,509	74,133	11,147	85,280
Net revenue	224,452	23,091	247,543	222,499	26,846	249,345
Operating Expenses						
Salaries, wages and benefits	78,287	984	79,271	70,694	322	71,016
General and administrative expenses	43,191	656	43,847	42,969	1,440	44,409
	121,478	1,640	123,118	113,663	1,762	115,425
Net segment operating income (before tax)	102,974	21,451	124,425	108,836	25,084	133,920
Share of loss from joint venture	—	40,875	40,875	—	—	—
Net segment income (before tax)	102,974	(19,424)	83,550	108,836	25,084	133,920
Share-based compensation			3,589			4,713
Amortization of convertible debenture synthetic discount			3,260			3,053
Business acquisition and separation costs			46,088			36,351
Provision for (recovery) income taxes			(6,474)			13,903
Net income for the period from continuing operations			37,087			75,900

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	Six-month period ended June 30, 2017			Six-month period ended June 30, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Service and other revenue	271,835	29,237	301,072	269,643	22,458	292,101
Interest and rental revenue, net	326,498	41,982	368,480	329,219	67,297	396,516
	598,333	71,219	669,552	598,862	89,755	688,617
Interest expense	161,878	21,719	183,597	149,208	20,265	169,473
Net revenue	436,455	49,500	485,955	449,654	69,490	519,144
Operating Expenses						
Salaries, wages and benefits	152,431	1,772	154,203	145,709	666	146,375
General and administrative expenses	82,992	1,270	84,262	90,405	2,987	93,392
	235,423	3,042	238,465	236,114	3,653	239,767
Net segment operating income (before tax)	201,032	46,458	247,490	213,540	65,837	279,377
Share of loss from joint venture	—	51,119	51,119	—	—	—
Net segment income (before tax)	201,032	(4,661)	196,371	213,540	65,837	279,377
Share-based compensation			9,625			12,526
Amortization of convertible debenture synthetic discount			6,466			6,056
Business acquisition and separation costs			96,955			83,846
Provision for (recovery) income taxes			(5,607)			26,343
Net income for the period from continuing operations			88,932			150,606

Segmented Financial Position

	As at June 30, 2017			As at December 31, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select balance sheet information						
Finance receivables	12,780,472	1,100,318	13,880,790	12,555,776	898,235	13,454,011
Equipment under operating leases	1,523,396	—	1,523,396	1,421,637	—	1,421,637
Investment in joint venture (1)	—	81,425	81,425	—	135,846	135,846
Other earning assets (1)	—	161,623	161,623	—	170,889	170,889
Goodwill and intangible assets	2,094,729	—	2,094,729	2,163,063	—	2,163,063
Total select segment assets	16,398,597	1,343,366	17,741,963	16,140,476	1,204,970	17,345,446
Corporate assets			1,092,592			1,075,218
Total assets			18,834,555			18,420,664

(1) Included in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

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[B] Geographic information

The Company primarily operates in Canada, the US and Other.

Geographic information for the periods ended is as follows:

	June 30, 2017				June 30, 2016			
	Canada	US	Other	Total	Canada	US	Other	Total
For the three-month period ended	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue excluding interest expense from continuing operations	39,012	238,891	64,149	342,052	28,267	236,450	69,908	334,625
Interest expense from continuing operations				(94,509)				(85,280)
Net revenue from continuing operations				247,543				249,345
For the six-month period ended								
Net revenue excluding interest expense from continuing operations	83,414	461,527	124,611	669,552	56,795	480,148	151,674	688,617
Interest expense from continuing operations				(183,597)				(169,473)
Net revenue from continuing operations				485,955				519,144

	June 30, 2017				December 31, 2016			
	Canada	US	Other	Total	Canada	US	Other	Total
As at	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	1,483,122	11,972,252	425,416	13,880,790	1,474,411	11,550,828	428,772	13,454,011
Equipment under operating leases	—	—	1,523,396	1,523,396	—	—	1,421,637	1,421,637
Goodwill and intangible assets (1)	201,759	1,863,733	29,237	2,094,729	203,362	1,932,035	27,666	2,163,063
Property, equipment and leasehold improvements	5,585	55,780	15,542	76,907	8,559	55,373	16,810	80,742
	1,690,466	13,891,765	1,993,591	17,575,822	1,686,332	13,538,236	1,894,885	17,119,453

(1) December 31, 2016 has been retrospectively adjusted to reflect finalization of purchase price allocation, including segment allocation for the acquisition of CEI Capital Group, Inc.

Geographic net revenue, excluding interest expense is based on the location of customers, and select assets are based on the location of the assets.

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the purposes of fair value disclosures, financial instruments have been separated into the following classes: finance lease receivables, finance loans receivable, secured borrowings on finance receivables, convertible debentures, notes receivable, and derivatives.

Valuation methods and assumptions

Finance lease receivables

The carrying value of finance lease receivables approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Finance loans receivables

The carrying value of finance loans receivables was \$1,059,185 and the estimated fair value was \$1,046,633 at June 30, 2017 [December 31, 2016 - \$888,039 and \$888,039, respectively]. Included in the carrying value at June 30, 2017 is \$824,456 related to loans provided to the 19th Capital joint venture, with an estimated fair value of \$811,904 [December 31, 2016 - \$829,976 and \$829,976, respectively]. The fair value of finance loans receivable is determined by discounting the stream of principal and interest at a rate of interest for instruments of similar terms and credit risks as at June 30, 2017. Finance loans receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

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Secured borrowings on finance receivables

The carrying value of secured borrowings on finance receivables approximates fair value. The assertion that the carrying value of the secured borrowings approximates fair value requires the use of estimates and significant judgment. Secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables securing the borrowings were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost as presented in note 7. The fair market value of the debt component as at June 30, 2017 was estimated at \$898,324 by discounting the stream of remaining payments at 5.50%, which represents the rate of interest prevailing for instruments of similar terms and risks without the conversion feature. Convertible debentures are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Derivatives

The fair values of derivatives are presented in note 13 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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**17. SUPPLEMENT TO INTERIM CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS**

Cash flow from other non-cash operating assets and liabilities for the six-month period ended:

	June 30, 2017	June 30, 2016
	\$	\$
	<hr/>	<hr/>
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	(32,090)	(37,198)
Accounts payable and accrued liabilities	37,995	(119,332)
Deferred tax assets	(41,135)	(3,040)
Deferred tax liabilities	5,098	10,600
Derivative financial instruments	21,731	(15,806)
	<hr/> (8,401) <hr/>	<hr/> (164,776) <hr/>

The cash flow of ECN Capital prior to the completion of the distribution has been included in the Company's interim condensed consolidated statements of cash flows as "distributed operations" and comprised the following amounts:

	Six-month period ended June 30, 2016
	\$
	<hr/>
Cash utilized in operating activities of distributed operations	(169,591)
Cash utilized in investing activities of distributed operations	(10,418)
Cash provided by financing activities of distributed operations	204,902
Net cash provided by distributed operations	<hr/> 24,893 <hr/>

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

	For the six- month period ended June 30, 2017
	\$
Finance receivables [note 3]	
Balance as at December 31, 2016	13,454,011
Originations [included in cash flows]	3,239,421
Repayments [included in cash flows]	(2,264,960)
Assets sold to syndications [included in cash flows]	(158,707)
Amortization of deferred lease costs [adjustment to income in cash flows]	(9,865)
Impact of non-cash transfers	34,493
Provision for credit losses [adjustment to income in cash flows]	22
Impact of foreign exchange translation [excluded from cash flows]	(413,625)
Balance as at June 30, 2017	13,880,790
Equipment under operating leases [note 4]	
Balance as at December 31, 2016	1,421,637
Originations [included in cash flows as investment in equipment under operating leases]	344,916
Disposals [included in cash flows]	(114,188)
Amounts transferred from inventory	9,296
Amortization of equipment under operating leases [adjustment to income in cash flows]	(182,322)
Impact of foreign exchange translation [excluded from cash flows]	44,057
Balance as at June 30, 2017	1,523,396

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	For the six- month period ended June 30, 2017
	\$
Secured borrowings <i>[note 6]</i>	
Balance as at December 31, 2016	12,983,535
Net issuance [included in cash flows]	573,374
Increase in deferred financing costs [included in cash flows]	(24,203)
Amortization of deferred financing costs [adjustment to income in cash flows]	15,206
Impact of foreign exchange translation [excluded from cash flows]	(297,423)
Balance as at June 30, 2017	13,250,489

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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18. DISTRIBUTED OPERATIONS

On October 3, 2016, Element completed the separation of its C&V Finance, Aviation Finance and Rail Finance verticals into ECN Capital implemented by way of a plan of arrangement.

The distributed operations have been presented and accounted for using IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and IFRIC 17, *Distribution of Non-Cash Assets to Owners*. Under this guidance, a distribution dividend of \$1,710,473 was recorded. The dividend was based on the fair value of the distribution as determined using independent valuers and approved by the Company's Board of Directors. The allocation of the components of equity was determined by allocating the fair value by a pro-rata proportion of share capital and retained earnings.

The operating performance of ECN Capital has been included in the Company's comparative interim condensed consolidated statements of operations as "distributed operations" and comprised the following amounts:

	For the three- month period ended June 30, 2016 \$	For the six- month period ended June 30, 2016 \$
Net financial income	47,811	103,735
Operating expenses	(16,729)	(37,280)
Business acquisition and separation costs	—	(650)
Provision for income taxes	(7,149)	(15,309)
Net income for the period from distributed operations	<u>23,933</u>	<u>50,496</u>

19. COMPARATIVE FIGURES

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