Management Discussion and Analysis

December 31, 2018

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 year ended December 31, 2018 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2018 (the "Annual Financial Statements") filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com. All dollar amounts in this MD&A are expressed in Canadian dollars, unless otherwise specified.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO MARCH 6, 2019. CERTAIN STATEMENTS CONTAINED IN THIS REPORT CONSTITUTE "FORWARD LOOKING STATEMENTS". IN SOME CASES THE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY WORDS OR PHRASES SUCH AS "MAY", "WILL", "EXPECT", "PLAN", "ANTICIPATE", "INTEND", "POTENTIAL", "ESTIMATE", "BELIEVE" OR THE NEGATIVE OF THESE TERMS, OR OTHER SIMILAR EXPRESSIONS INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, INCLUDING, AMONG OTHERS, STATEMENTS REGARDING ELEMENT'S GROWTH PROSPECTS AND OBJECTIVES, OPERATIONS AND ABILITY TO DRIVE OPERATIONAL EFFICIENCIES, ASSETS, BUSINESS STRATEGY, COMPETITION AND COMPETITIVE POSITIONING, ABILITY TO CREATE VALUE FOR SHAREHOLDERS, THE EVOLUTION OF ELEMENT'S BUSINESS AND THE FLEET MANAGEMENT INDUSTRY, THE AVAILABILITY OF FUNDS FROM OPERATIONS,CASH FLOW GENERATION, AND CAPITAL ALLOCATION, BUSINESS INTEGRATION, TECHNOLOGY AND INTELLECTUAL PROPERTY INCLUDING THE XCELERATE PLATFORM, STRATEGIC ASSESSMENT, STRATEGY FOR NON-CORE ASSETS INCLUDING 19TH CAPITAL, BUSINESS OUTLOOK AND OTHER EXPECTATIONS REGARDING FINANCIAL OR OPERATING PERFORMANCE AND METRICS. SUCH STATEMENTS REFLECT OUR CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO INHERENT RISKS, UNCERTAINTIES AND NUMEROUS ASSUMPTIONS, INCLUDING, WITHOUT LIMITATION, GENERAL ECONOMIC CONDITIONS, OPERATIONAL CAPABILITIES, TECHNOLOGICAL DEVELOPMENT, RELIANCE ON DEBT FINANCING, DEPENDENCE ON BORROWERS, INABILITY TO SUSTAIN RECEIVABLES, COMPETITION, INTEREST RATES, REGULATION, INSURANCE, FAILURE OF KEY SYSTEMS, DEBT SERVICE, FUTURE CAPITAL NEEDS AND SUCH OTHER RISKS OR FACTORS DESCRIBED FROM TIME TO TIME IN REPORTS OF ELEMENT, INCLUDING HEREIN AND IN ELEMENT'S CURRENT ANNUAL INFORMATION FORM, WHICH HAS BEEN FILED ON SEDAR AND MAY BE ACCESSED AT WWW.SEDAR.COM.

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Overview

Element Fleet Management Corp. (“Element”, "we", or the “Company”) is a leading global fleet management company, providing best-in-class services and financing solutions for commercial vehicle fleets. With approximately $19.0 billion in assets, we are North America's largest publicly-traded fleet management company. We are a leading fleet-focused business services provider driven by technology and advanced analytics, and benefit from a large-scale stable leasing and integrated services platform. We actively invest in people, processes and technology to remain at the forefront of the fleet management industry.

Our mission is to ensure that our clients' fleets and their drivers are safer, smarter and more productive. Commercial vehicle fleets are mission-critical assets that enable our clients to conduct their daily business and typically represent a significant part of their overall capital spend. 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.

On October 1, 2018, Element announced the completion of a comprehensive strategic assessment of our business, which included client and stakeholder interviews, extensive industry benchmarking, and in-depth reviews of our operations, capital structure and balance sheet. The outcome of our process is a detailed plan to transform Element’s fleet business over the next two years, founded on renewing our focus on clients and ensuring that client needs are at the center of all key decision-making. We have already effected hundreds of changes to our organization in executing our plan to consistently deliver a superior client experience, generate meaningfully improved profitability and solidify Element’s financial position between now and the end of 2020. Please refer to the section titled “Strategy and Transformation" of this MD&A for additional information.

History

Element was founded in 2007, as Element Financial Corporation ("Element Financial"), an independent financial services company that originated, co-invested in and managed asset-based financings and related services programs.

Element Financial entered the fleet management business with the acquisition of TLS Holdings Inc., the holding company of Transportation Lease Systems Inc., a Canadian fleet leasing company, on June 29, 2012. TLS provided Element Financial with a portfolio of more than $430 million in earning assets. The acquisition accelerated Element Financial's growth in fleet management through the addition of its established origination platform and creation of cross-selling opportunities for Element Financial's existing clients.

On June 28, 2013, Element Financial acquired the assets of GE Capital’s Canadian fleet portfolio, adding more than $480 million of earning assets to Element Financial.

On July 7, 2014, Element Financial acquired PHH Corporation's North American fleet management business, adding more than $4.3 billion of earning assets. The acquisition allowed Element Financial to become a premier fleet management provider in North America, with more than $5.3 billion in fleet management earning assets.

On August 31, 2015, Element Financial acquired GE Capital's fleet management operations in the United States, and on September 30, 2015, GE Capital's fleet management operations in Mexico, Australia and New Zealand ("GE Fleet"). With GE Fleet, Element Financial added $7.8 billion of earning assets to its balance sheet.

On February 16, 2016, the Board of Directors of Element Financial approved a plan to separate Element Financial into two publicly-traded companies (the "Separation"): ECN Capital Corp. ("ECN Capital"), which comprised the commercial and vendor finance, rail finance and aviation finance businesses ("Distributed Operations"), and the Company, which included the fleet management business. As a result of the Separation, the Company was renamed Element Fleet Management Corp., and became a leading global publicly-traded fleet management company.

On October 3, 2016, the Separation became effective and the Company distributed the shares of ECN Capital to the shareholders of the Company.

On December 30, 2016, Element acquired Trevose, Pennsylvania-based Collision Experts International ("CEI"), a leader in accident management and driver safety. CEI is now a wholly owned subsidiary of Element and operates independently under the CEI name. Today, CEI, is the largest accident management and driver safety company in the world, serving approximately 900,000 vehicles, providing safety services for more than 150,000 drivers through DriverCare, and handling more than 150,000 claims per year.

On December 30, 2016, Element's subsidiary Element Transportation LLC entered into a joint venture agreement with Celadon Group, Inc., and contributed certain truck leasing portfolios to the 19th Capital Group LLC ("19th Capital") in exchange for debt and a 49.99% interest in 19th Capital. 19th Capital is involved in the leasing of highway tractors and trailers in the United States. On October 19, 2018, a subsidiary of Element purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital. As of December 31, 2018, 19th Capital is a wholly owned subsidiary of Element.

In the second quarter of 2017, Element segmented its business into 1) core fleet operations, and 2) non-core operations.

As of December 31, 2018, Element had approximately $19.0 billion in assets, located in the United States, Canada, Mexico, Australia and New Zealand. The Company also served clients in over 50 countries through the Element-Arval Global Alliance, a 20+ year relationship with Arval, the fleet management business of BNP Paribas Group.

Strategy and Transformation

We completed the thorough strategic assessment announced in the second quarter of 2018 and began the implementation of a clearly defined plan, announced on October 1, 2018, to consistently deliver a superior client experience, generate meaningfully improved profitability and solidify our financial position. This plan will enable Element to reach the full potential inherent in its leading fleet management platform, creating significant value for all our stakeholders.

The plan includes:

- A series of concrete actions to improve the client experience and generate an estimated $150 million in run-rate pre-tax operating income improvements to our fleet management business by the end of 2020;

- Approximately $150 million of one-time investments in the business to achieve those improvements, which will be funded in part by capital retained after a reduction in the Company's quarterly common share dividend from $0.075 to $0.045, and the introduction of a dividend reinvestment plan;

- A transaction that closed on October 19, 2018, pursuant to which a subsidiary of the Company purchased the 50.01% interest it did not already hold in 19th Capital for nominal consideration,

allowing Element to undertake an orderly run off of 19th Capital's assets over the next 36 months and evaluate sale options. In conjunction with the October 2018 transaction, Element recognized an after-tax charge of $360 million in the third quarter of 2018 reflecting a write down of the carrying value of its remaining investment in 19th Capital;

- Strengthening the Company's investment-grade balance sheet through the issuance of 52.325 million common shares at $6.60 per share. The Company received net proceeds of $329.7 million in the fourth quarter of 2018; and

- A clear accountability plan, including a Transformation Management Office run by the Boston Consulting Group that will bring focus, support and accountability for the duration of the transformation, as well as regular reporting to track our performance.

All of these initiatives have been undertaken with the intention of positioning Element to offer better service to its clients. The transformation builds on Element's foundational strengths - scale, market leadership, a top-tier client base, strong cash flow, and an investment-grade balance sheet - by putting the focus where it should be, on clients, and putting legacy issues behind the Company. The result will be a stronger, more efficient Element that better serves its clients and is well positioned for future growth and value creation.

Transforming our Core Business

The plan to transform Element's fleet business is based on a comprehensive assessment of our operations undertaken in the second and third quarters of 2018. This included client and stakeholder interviews, extensive industry benchmarking, and in-depth reviews of Element's operations, structure and balance sheet. Element's management and Board of Directors (the "Board") examined key aspects of the business including client go-to-market and retention strategies, operational effectiveness and efficiency, rebate and fee management, people and culture, IT systems and infrastructure and capital.

The result is Element's transformational path forward, 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 plan include:

- Simplifying how we work, and the organizational structure we work in, by reducing nine layers of the organization to five, bringing leadership closer to our clients and the front-line employees who serve them; and,

- Simplifying operations and client touchpoints to provide a better, more consistent client experience, through initiatives such as automating manual processes to reduce errors and improve cycle times.

In total, approximately 80% of the expected total run-rate pre-tax operating income improvement will come from cost savings as we enhance the client experience, with the other approximately 20% largely flowing from revenue assurance and improved client retention.

As a result of these transformational changes to how Element does business, management expects to achieve the approximately $150 million in annual pre-tax operating income improvements by executing on opportunities in three waves:

1. **Quick Wins** - We actioned approximately $58 million in run-rate profitability improvements by the end of 2018; approximately $18 million more than anticipated. The improvements generated approximately $4 million of additional profitability during the current quarter. This wave included the implementation of over 65 initiatives including organizational simplification, strategic sourcing, revenue assurance and improved procurement.

2. **Back to Basics** - Throughout 2019, Element will execute on the second wave of over 25 projects that are collectively anticipated to take us to $100 million of pre-tax run-rate profitability improvements actioned by the end of the year. These 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.

3. **Building for the Future** - The final wave will consist of 5-10 projects that are anticipated to bring the actioned pre-tax run-rate profitability improvement to the full $150 million estimate by the end of 2020. Having completed the fortification of our operating foundation, we will then pivot to growth, with focus on the mid-market fleet segments, salesforce optimization and other strategic growth levers.

To de-risk the execution of this transformation and to ensure that our clients experience only positive outcomes from this undertaking, we have taken a number of steps to ensure crisp execution:

- Element has established a Transformation Management Office, which will bring focus, support and accountability to the program;

- We plan to make approximately $150 million of one-time investments in the Company over the course of the transformation to facilitate and enhance our client-focused initiatives. In the third and fourth quarters of 2018, we made a total of $38.6 million of such one-time investments;

- We have developed a change management approach to train and support our team, and we will align incentive compensation to the attainment of results; and

- We built capability and confidence with our Quick Wins in 2018, and we have populated our executive ranks with seasoned leaders who have successfully steered organizations through extensive change.

In recent weeks, we added another experienced executive with a demonstrated ability to manage change and deliver value - Vineet Gupta as Chief Technology Officer.

The Company also realigned its executive team in 2018, putting the right people in the right roles to drive the best possible client experience; bringing the executive closer to the clients and front-line employees; enabling faster decision making; and reflecting our strategic priorities.

The result is a well-balanced leadership team that combines a wealth of industry experience and established client relationships, with new perspectives and strong change management experience.

Repositioning 19th Capital

Over its short history, 19th Capital meaningfully underperformed expectations. Element's strategic assessment led management and the Board to conclude that undertaking any further turnaround of the 19th Capital business would divert management's focus from the Company's core fleet business and transformation plan. Accordingly, the Company determined that the best path forward was to acquire full control of the venture and run off the business in an orderly fashion over the next approximately 36 months or determine other exit strategies.

On October 19, 2018, a subsidiary of the Company purchased the equity interest held by its joint venture partner for cash consideration of $5.2 million, thereby obtaining 100% ownership of and control over 19th Capital. This acquisition of control was reflected as a business combination during the fourth quarter of 2018. As part of this business combination, the Company's existing equity and debt interest in 19th Capital was measured at fair value as at the acquisition date. The acquisition-date fair value of the existing equity and

debt interest was consistent with the September 30, 2018 impaired carrying values of $nil and $251.7 million, respectively [for further information, see Note 7 to the Company's audited consolidated financial statements as of December 31, 2018].

Both management and the Board firmly believe that the run off of 19th Capital will free up management time and resources to focus on the greater value the Company can create from its market-leading fleet business. Addressing 19th Capital in this manner has reduced uncertainty and de-risked Element's operations and balance sheet.

Strengthening the Balance Sheet and Investing in Transformational Improvements

Management recognizes that a strong, investment-grade balance sheet is a key pillar of our business, and undertook a number of initiatives during the fourth quarter of 2018 to further strengthen our financial position while also freeing up capital to fund the necessary investments in the business and to address near term refinancing requirements:

- Raised $345.3 million ($329.7 million net) via the sale of common shares pursuant to a bought deal offering;
- Reduced the common share dividend by 40% (from $0.075 to $0.045 per share per quarter);
- Instituted a dividend reinvestment program;
- Advanced the sale of non-core assets, including surplus real estate; and
- Refinanced certain asset-backed security assets, creating approximately $160 million in additional borrowing base capacity.

In addition to creating greater stability and liquidity today, these actions effectively pre-finance a significant portion of the Company's convertible debentures maturing in June 2019.

As part of the strategic assessment, management engaged with the rating agencies on the impact of the transformation plan, the repositioning of 19th Capital and the balance sheet initiatives. Kroll, DBRS, and Fitch affirmed Element's investment grade corporate ratings at A-, BBB+ and BBB+ respectively. Element also engaged its senior lending syndicate throughout the strategic assessment process and has the group's support for our implementation of the transformational strategic plan.

Industry and Market Trends

Industry

Fleet management is a stable market that grows as more vehicles are used for business purposes and more companies utilize the services of a fleet management company. Both North America and Australia-New Zealand (ANZ) are established markets where clients see the benefits of leasing and associated services.

The size of the fleet market can be measured in two ways:

- New vehicle registrations for business purposes each year; and
- Total number of fleet and commercial vehicles that are currently in operation for business purposes.

The latter better captures the opportunity for a fleet management company, since it represents fleets of vehicles available for management services and is not limited to new vehicles only.

The fleet market can be divided into three major segments: Rental, Government and Commercial Fleet. Element currently manages fleets mainly in the Commercial space. Within each of these segments, the vehicles can be divided according to the type of vehicle ranging from passenger cars, through to light trucks, medium trucks, and heavy trucks. The majority of our portfolio is currently comprised of light trucks. We also lease and manage fleet assets such as forklifts and material handling equipment.

Market Trends

The growth of the "sharing economy" is poised to influence the automotive industry, eroding traditional vehicle ownership while increasing "user-ship". This represents an opportunity for Element to expand its markets as more vehicles operate under a fleet model with greater need for vehicle management services.

Advances in technology are changing the dynamics of the fleet market and expanding Element's total addressable market. Connected vehicles are a rapidly increasing proportion of all vehicles on the road today. As the amount of data available from these vehicles increases, so does the value proposition of Element's service platforms for clients. We collect and analyze our clients' fleet data, turning it into meaningful benchmarks, recommendations and actionable insights that lower the cost of operating clients' fleets.

GM's personal mobility initiative, Maven, chose Element to provide maintenance and accident services for its fast-growing car-sharing fleet across the United States. Element has helped Maven reduce vehicle costs and downtime, ensuring that vehicles are available for car-sharing as requested by Maven members.

Competition

Element is the only publicly traded North American fleet management company with global operations. Element is the market leader in the United States, Canada, New Zealand and Mexico, and a market leader in Australia.

Element's key competitors in North America include companies such as ARI, Wheels, Enterprise, Donlen and LeasePlan.

We differentiate ourselves from our competitors by leveraging the largest portfolio in North America to:

- Deliver superior benchmarking abilities and thus deeper insights into our clients' fleet operations by collecting and analyzing the most fleet vehicle data available, and
- Reduce our clients' total cost of ownership by using our scale across the entire fleet life cycle from acquisition to marketing.

In Australia and New Zealand, Element goes to market as Custom Fleet and competes with LeasePlan, SGfleet, ORIX, Eclipsx and Toyota Fleet Management.

Element has a 20+ year alliance with Arval, a subsidiary of BNP Paribas Group, to provide services to our clients in Europe, Latin America and beyond. In total, Element and Arval serve more than 3 million vehicles across 50 countries.

Operating Segments

Upon the Separation in 2016, certain assets remained with Element that are not considered "core fleet" assets and/or the typical earning assets of a fleet management company. Some were deliberately retained in order to support or improve the provision of fleet services, while others remained with Element for various commercial and legal structuring reasons or requirements. In addition, certain assets were opportunistically acquired subsequent to the Separation.

Commencing in Q2 2017, Element determined that it would be more informative to separate management discussions and analysis between those assets that are related to core fleet management services (“Fleet Management”) and those assets that are not (collectively, “Non-Core”).

Element's transformational strategic plan has focused the Company on our core fleet business in addition to repositioning the non-core 19th Capital business for run-off and potential sale and actively divesting itself of our other non-core assets.

Changes in Presentation

On January 1, 2018 the Company adopted IFRS 9, 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, 2018 through opening retained earnings. The changes to the Company's accounting policies and adjustments made are described in later sections in this MD&A and presented in greater detail in the consolidated financial statements.

Selected Annual Consolidated Financial Information and Financial Ratios

The table below sets out key financial metrics that show operating results together with related per share figures for continuing operations as well as those that include the contribution of Distributed Operations:

			As at and for the years ended
(in $000's for stated values, except ratios and per share amounts)	**December 31, 2018**	December 31, 2017	December 31, 2016
	$	$	$
Net revenue from continuing operations	**873,519**	952,027	998,360
Net (loss) income from continuing operations	**(199,104)**	154,644	190,264
Net (loss) income	**(199,104)**	154,644	413,339
Total assets	**18,964,006**	17,569,633	18,420,664
Total debt	**14,168,215**	13,183,791	13,839,223
Before tax adjusted operating income from continuing operations (1)	**387,143**	466,602	525,900
After tax adjusted operating income from continuing operations (1)	**319,922**	373,539	421,437
(Loss) earnings per share from continuing operations			
Basic	**(0.62)**	0.29	0.40
Diluted	**(0.62)**	0.29	0.39
(Loss) earnings per share (2)			
Basic	**(0.62)**	0.29	0.98
Diluted	**(0.62)**	0.29	0.96
Dividends declared, per share			
Common share	**0.270000**	0.300000	0.100000
Preferred Shares, Series A	**1.650000**	1.650000	1.650000
Preferred Shares, Series C	**1.625000**	1.625000	1.625000
Preferred Shares, Series E	**1.600000**	1.600000	1.600000
Preferred Shares, Series G	**1.625000**	1.625000	1.625000
Preferred Shares, Series I	**1.437500**	1.437500	—

(1) For additional information, see "Description of Non-IFRS Measures" section.
(2) Earnings per share for the year-ended December 31, 2016 includes the contribution of Distributed Operations. Refer to prior year MD&A for further information on the Separation.

Consolidated Annual Results of Operations

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

		For the year ended
(in $000's for stated values, except per share amounts)	**December 31, 2018**	December 31, 2017
	$	$
Net revenue		
Service and other revenue, net (1)	**527,805**	583,700
Net interest income and rental revenue (2)	**797,493**	745,418
	1,325,298	1,329,118
Interest expense	**451,779**	377,091
Net revenue	**873,519**	952,027
Operating expenses		
Salaries, wages and benefits	**329,311**	318,870
General and administration expenses	**132,786**	150,579
Depreciation and amortization	**24,279**	15,976
Adjusted operating expense (3)	**486,376**	485,425
Impairment of loans to 19th Capital	**480,000**	—
Amortization of convertible debenture synthetic discount	**14,038**	13,147
Share-based compensation	**23,642**	19,930
Total operating expenses	**1,004,056**	518,502
Business acquisition and other costs		
Amortization of intangibles from acquisition	**44,744**	55,823
Restructuring and transformation costs	**112,732**	82,001
Total business acquisition and other costs	**157,476**	137,824
Share of loss from and provision in investments	**32,473**	120,982
Net (loss) income before taxes	**(320,486)**	174,719
Income Tax (recovery) expense	**(121,382)**	20,075
Net (loss) income for the period	**(199,104)**	154,644
(Loss) earnings per share [basic]	**(0.62)**	0.29
Adjusted operating results (3)		
Net revenue (1)	**873,519**	952,027
Adjusted operating expenses (3) (4)	**486,376**	485,425
Adjusted operating income (3)	**387,143**	466,602
Provision for taxes applicable to adjusted operating income	**67,221**	93,063
After-tax adjusted operating income (3) (4)	**319,922**	373,539
Weighted average number of shares outstanding [basic]	**391,652**	385,420
Before-tax adjusted operating income per share [basic] (4)	**0.88**	1.10
After-tax adjusted operating income per share [basic] (4)	**0.70**	0.86

(1) Service and other revenue, net, is shown net of direct costs of fixed rate service contracts.
(2) 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, less depreciation on equipment under operating leases.
(3) For additional information, see "Description of Non-IFRS Measures" section.
(4) For reconciliation from IFRS Net Income to After-tax adjusted operating income, "IFRS to Non-IFRS Measures" section.

Consolidated net revenue in 2018 was $873.5 million compared to $952.0 million in the prior year. Fleet Management net revenue declined by $11.7 million while Non-Core net revenue decreased by $66.8 million. In addition, adjusted operating expenses were $486.4 million for the year ended December 31, 2018 compared to $485.4 million for the year ended December 31, 2017. The sections on Annual Results of

Operations for Fleet Management and Non-Core elaborate on their respective net revenue and adjusted operating expenses.

In addition to the adjusted operating expenses noted above, the Company recorded the following operating expenses during the year:

- as a separate impairment in the statement of operations, a $480.0 million provision against our loans to 19th Capital, in addition to the $65.0 million recorded pursuant to IFRS 9. This impairment was recorded prior to the consolidation of 19th Capital commencing on October 19, 2018 (see Note 7).

- the amortization of convertible debenture synthetic discount, which reflects the accrual of the balance sheet liability back to its face value due at maturity, and

- share-based compensation, which increased to $23.6 million for the year ended December 31, 2018 compared to $19.9 million for the comparable period of 2017 due primarily to accelerated vesting for terminating executives.

The amortization of intangibles acquired as part of past business acquisitions was $44.7 million for the year ended December 31, 2018, down from $55.8 million for the year ended December 31, 2017 due to the declining balance methodology of calculating amortization on these intangible assets.

During the year ended December 31, 2018, the Company also recorded $112.7 million of restructuring and transformation costs which was comprised of the following:

- $32.0 million related to the strategic review undertaken in the second and third quarters;

- $38.6 million related to the implementation of the transformation initiatives (part of the planned $150 million of one-time investments); and

- $42.1 million largely during the first half of 2018 related to severance and other termination costs of employees and office closure costs prior to the current strategic assessment and transformation efforts.

The Company recorded $32.5 million of its share of loss in investments for the year ended December 31, 2018 which included a $20.0 million impairment charge to bring the aggregate carrying value as at December 31, 2018 to management`s best estimate of fair market value.

Annual Results of Operations - Fleet Management

The following table sets forth a summary of the Company's results of Fleet Management operations; for greater clarity, this table and the quarterly results of operations of Fleet Management excludes assets and earnings that have been deemed by the Company as Non-Core (see "Operating Segment"):

		For the year ended
(in 000's for stated values, except per unit amounts)	**December 31, 2018**	December 31, 2017
	$	$
Net revenue		
Service and other revenue	**524,324**	547,707
Net interest and rental revenue	**745,453**	663,635
	1,269,777	1,211,342
Interest expense	**404,603**	334,509
Net revenue	**865,174**	876,833
Adjusted operating expenses		
Salaries, wages and benefits	**326,716**	315,489
General and administration expenses	**127,076**	148,236
Depreciation and amortization	**24,279**	15,976
Adjusted operating expenses	**478,071**	479,701
Adjusted operating income	**387,103**	397,132
Provision for taxes applicable to adjusted operating income	**69,679**	79,426
After-tax adjusted operating income	**317,424**	317,706
Less: Cumulative preferred share dividends	**44,273**	41,301
After-tax adjusted operating income attributable to common shareholders	**273,151**	276,405
Weighted average number of shares outstanding [basic]	**391,652**	385,420
Before-tax adjusted operating income per share [basic]	**0.88**	0.92
After-tax adjusted operating income per share [basic]	**0.70**	0.72

After-tax adjusted operating income of $317.4 million for the year ended December 31, 2018 was consistent with $317.7 million of after-tax adjusted operating income for the year ended December 31, 2017.

Net revenue of $865.2 million for the year ended December 31, 2018 declined $11.7 million from $876.8 million for the year ended December 31, 2017. Service and other revenue decreased $23.4 million to $524.3 million for the year primarily driven by lower gains on sale of vehicles in our ANZ operations. In 2018, net interest and rental revenue and interest expense rose to $745.5 million and $404.6 million, respectively, largely due to the rising interest rate environment. The net interest and rental revenue margin ("NIM") increased by $11.7 million in 2018 as a result of growth in Mexico, growth in net earning assets generally, and a one-time gain of $4 million during the third quarter of 2018 related to the settlement of an interest rate swap.

The following table sets out the NIM calculation for Fleet Management operations, together with references to key benchmarks and metrics.

		For the year ended
(in $000's for stated values)	**December 31, 2018**	December 31, 2017
Net interest income and rental revenue	**5.92%**	5.37%
Interest expense	**3.21%**	2.71%
Net interest and rental revenue margin or NIM (1)	**2.71%**	2.66%
Average cost of debt (Interest expense / average debt) (1)	**3.18%**	2.64%
Average 1-Month LIBOR rates	**2.02%**	1.12%
Total average net earning assets (1)	**$ 12,598,077**	$ 12,349,533
Average debt outstanding (1)	**$ 12,706,769**	$ 12,657,767
New originations	**$ 6,491,775**	$ 6,190,592

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

Average cost of debt within Fleet Management operations increased to 3.18% during the year ended December 31, 2018, from 2.64% in the prior year. The increase was in line with the movement in net interest income over the time period. In addition, the average 1-Month LIBOR rates increased from 1.12% during the year ended December 31, 2017 to 2.02% during the year ended December 31, 2018.

The resulting NIM was 2.71% during the year ended December 31, 2018, an increase over the 2.66% reported for the year ended December 31, 2017.

Adjusted operating expenses of $478.1 million for the year ended December 31, 2018 were relatively flat compared to $479.7 million for the prior year. Salaries, wages and benefits increased $11.2 million primarily due to increases in variable compensation, higher benefits-related costs and growth in Mexico offset partially by the early benefits of transformation. General and administrative expenses decreased $21.2 million mainly due to lower IT professional fees as a result of the closure of the Ireland office. Depreciation and amortization increased $8.3 million due largely to the investment in IT infrastructure that was put in place during integration.

Annual Results of Operations - Non-Core

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

	For the year ended	
(in 000's for stated values, except per unit amounts)	**December 31, 2018**	December 31, 2017
	$	$
Net revenue		
Service and other revenue	**3,481**	35,993
Net interest and rental revenue	**52,040**	81,783
	55,521	117,776
Interest expense	**47,176**	42,582
Net revenue	**8,345**	75,194
Adjusted operating expenses		
Salaries, wages and benefits	**2,595**	3,381
General and administration expenses	**5,710**	2,343
Adjusted operating expenses	**8,305**	5,724
Adjusted operating income	**40**	69,470
(Recovery of) provision for taxes applicable to adjusted operating income	**(2,458)**	13,637
After-tax adjusted operating income	**2,498**	55,833
Weighted average number of shares outstanding [basic]	**391,652**	385,420
Before-tax adjusted operating income per share [basic]	**—**	0.18
After-tax adjusted operating income per share [basic]	**—**	0.14

After-tax adjusted operating income for the year ended December 31, 2018 was $2.5 million compared to $55.8 million for the year ended December 31, 2017. The largest driver in the year over year reduction was a decrease in net revenue of $66.8 million as a result of the change in the income recognition of ECAF (under IFRS 9 which the Company implemented January 1, 2018), one-time fees in connection with various services provided to non-fleet customers during 2017 and the sale of approximately 60% of the Company's truck portfolio during the third quarter of 2017.

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

	For the year ended	
(in $000's for stated values)	**December 31, 2018**	December 31, 2017
Net interest income and rental revenue	**6.89%**	7.24%
Interest expense	**6.25%**	3.77%
Net interest and rental revenue margin or NIM (1)	**0.64%**	3.47%
Average cost of debt (Interest expense / average debt) (1)	**5.38%**	4.02%
Total average net earning assets (1) (2)	**$ 755,121**	$ 1,129,413
Average debt outstanding (1)	**$ 877,285**	$ 1,058,335
New originations	**$ —**	$ 296,841

(1) For additional information, see "Description of Non-IFRS Measures" section.
(2) Prior to the second quarter of 2017, total average earning assets were calculated using monthly average balances; comparative periods have not been adjusted as the impact on historical periods was determined to be insignificant.

Average cost of debt increased to 5.38% during the year ended December 31, 2018, from 4.02% in the year ended December 31, 2017 primarily due to the increase in underlying reference rates during the year and fewer assets in the segment qualifying for lower cost financing.

NIM was 0.64% during the year, a decrease from the 3.47% reported for the year ended December 31, 2017 due to the change in income recognition under IFRS 9 with respect to our investment in ECAF, the consolidation of 19th Capital in the fourth quarter of 2018 and a general run-off of segment assets.

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 December 31, 2018, 8.3%, 3.7%, 4.0% and 74.2% 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 2018, the weighted average changes in average exchange rates of the Company's operating currencies against the Canadian dollar affected adjusted operating income negatively by approximately 0.1% over the prior year's average exchange rates.

During the fourth quarter of 2018, 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 0.2% over the immediately preceding quarter and positively by approximately 0.7% over the fourth quarter in 2017.

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:

	For the three-month periods ended			For the year ended	
(in $000's for stated values)	**December 31, 2018**	**September 30, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
	$	$	$	**$**	$
Fleet Management service and other revenue	**135,023**	132,780	144,440	**530,521**	551,290
Non-core service and other revenue	**1,935**	109	605	**3,461**	35,892
Consolidated service and other revenue	**136,958**	132,889	145,045	**533,982**	587,182
Fleet Management net interest and rental revenue	**85,795**	89,773	81,970	**344,510**	330,805
Non-core net interest and rental revenue	**(1,273)**	1,044	8,413	**5,422**	40,240
Consolidated net interest and rental revenue	**84,522**	90,817	90,383	**349,932**	371,045
Fleet Management net revenue	**220,818**	222,552	226,410	**875,032**	882,095
Non-Core net revenue	**662**	1,153	9,018	**8,884**	76,131
Consolidated net revenue	**221,480**	223,705	235,428	**883,916**	958,226
Fleet Management adjusted operating expenses	**121,571**	122,013	129,988	**483,554**	483,622
Non-core adjusted operating expenses	**3,380**	2,513	1,299	**8,242**	5,823
Consolidated adjusted operating expenses	**124,951**	124,526	131,287	**491,796**	489,445
Fleet Management adjusted operating income	**99,247**	100,540	97,422	**391,477**	398,473
Non-Core adjusted operating (loss) income	**(2,718)**	(1,360)	7,719	**642**	70,308
Consolidated adjusted operating income	**96,529**	99,180	105,141	**392,119**	468,781
Fleet Management after-tax adjusted operating income	**81,380**	82,442	81,018	**321,011**	318,848
Non-Core after-tax adjusted operating (loss) income	**(2,225)**	(1,116)	2,868	**3,458**	56,250
Consolidated after-tax adjusted operating income	**79,155**	81,326	83,886	**324,469**	375,098
Fleet Management net earning assets	**13,223,787**	12,901,035	13,012,423	**13,223,787**	13,012,423
Non-core net earning assets	**439,034**	855,999	1,055,332	**439,034**	1,055,332
Consolidated net earning assets	**13,662,821**	13,757,034	14,067,755	**13,662,821**	14,067,755
Fleet Management average net earning assets	**12,759,998**	12,765,142	12,666,656	**12,598,077**	12,620,832
Non-core average net earning assets	**432,745**	879,071	1,032,211	**755,121**	1,094,405
Consolidated average net earning assets	**13,192,743**	13,644,213	13,698,867	**13,353,198**	13,715,237

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
(in $000's for stated values, except ratios and per share amounts)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net revenue	**221,480**	221,255	229,814
Net income (loss)	**41,145**	(341,105)	(1,463)
Total assets	**18,964,006**	17,510,184	17,569,633
Total debt	**14,168,215**	13,293,327	13,183,791
Before tax adjusted operating income (1)	**96,529**	98,091	102,676
After tax adjusted operating income (1)	**79,154**	80,433	82,051
Earnings (loss) per share			
Basic	**0.07**	(0.93)	(0.03)
Diluted	**0.07**	(0.93)	(0.03)
After tax adjusted operating income per share (1)			
Basic	**0.16**	0.18	0.19
Pro forma Diluted	**0.16**	0.18	0.18
Dividends declared, per share			
Common share	**0.045000**	0.075000	0.075000
Preferred Shares, Series A	**0.412500**	0.412500	0.412500
Preferred Shares, Series C	**0.406250**	0.406250	0.406250
Preferred Shares, Series E	**0.400000**	0.400000	0.400000
Preferred Shares, Series G	**0.406250**	0.406250	0.406250
Preferred Shares, Series I	**0.359375**	0.359380	0.359375

(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	
(in $000's for stated values, except per share amounts)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net revenue			
Service and other revenue, net (1)	**136,958**	131,434	141,568
Net interest income and rental revenue (2)	**210,421**	202,544	185,515
	347,379	333,978	327,083
Interest expense	**125,899**	112,723	97,269
Net revenue	**221,480**	221,255	229,814
Operating expenses			
Salaries, wages and benefits	**83,511**	81,464	83,829
General and administrative expenses	**34,609**	35,504	38,734
Depreciation and amortization	**6,831**	6,196	4,575
Adjusted operating expenses (3)	**124,951**	123,164	127,138
Impairment of loans to 19th Capital	**—**	480,000	—
Amortization of convertible debenture synthetic discount	**3,597**	3,537	3,368
Share-based compensation	**5,037**	8,867	4,505
Total operating expenses	**133,585**	615,568	135,011
Business acquisition and other costs			
Amortization of intangibles from acquisition	**10,495**	10,442	12,254
Restructuring and transformation costs	**35,615**	35,000	13,581
Total business acquisition and other costs	**46,110**	45,442	25,835
Share of (income) loss from and provision in investments	**(2,432)**	20,000	60,781
Net income (loss) before taxes	**44,217**	(459,755)	8,187
Income tax expense (recovery)	**3,072**	(118,650)	9,650
Net income (loss) for the period	**41,145**	(341,105)	(1,463)
Earnings (loss) per share [basic]	**0.07**	(0.93)	(0.03)
Adjusted operating results (3)			
Net revenue (1)	**221,480**	221,255	229,814
Adjusted operating expenses (3)	**124,951**	123,164	127,138
Adjusted operating income (3)	**96,529**	98,091	102,676
Provision for taxes applicable to adjusted operating income	**17,375**	17,658	20,625
After-tax adjusted operating income (3) (4)	**79,154**	80,433	82,051
Weighted average number of shares outstanding [basic]	**424,795**	380,639	380,155
Before-tax adjusted operating income per share [basic] (4)	**0.20**	0.23	0.24
After-tax adjusted operating income per share [basic] (4)	**0.16**	0.18	0.19

(1) Service and other revenue, net, is shown net of direct costs of fixed rate service contracts.
(2) 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, less depreciation on equipment under operating leases.
(3) For additional information, see "Description of Non-IFRS Measures" section.
(4) For reconciliation from IFRS Net Income to After-tax adjusted operating income, "IFRS to Non-IFRS Reconciliation" section.

Consolidated adjusted operating income for Q4 2018 was $96.5 million compared to $98.1 million in Q3 2018 and $102.7 million in Q4 2017. The reduction in adjusted operating income is mainly in the Non-Core segment and discussed below.

During Q4 2018 the Company recorded $35.6 million in restructuring and transformation costs (related to the transformation initiatives outlined above) which consisted primarily of severance and related charges

and professional fees.

Quarterly Results of Operations - Fleet Management

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

		For the three-month periods ended	
(in $000's for stated values, except per share amounts)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net revenue			
Service and other revenue	**135,023**	131,325	140,970
Net interest and rental revenue	**198,867**	189,008	167,233
	333,890	320,333	308,203
Interest expense	**113,072**	100,218	86,891
Net revenue	**220,818**	220,115	221,312
Adjusted operating expenses			
Salaries, wages and benefits	**83,101**	80,742	83,078
General and administrative expenses	**31,639**	33,739	38,234
Depreciation and amortization	**6,831**	6,196	4,575
Adjusted operating expenses	**121,571**	120,677	125,887
Adjusted operating income	**99,247**	99,438	95,425
Provision for taxes applicable to adjusted operating income	**17,868**	17,901	16,068
After-tax adjusted operating income	**81,379**	81,537	79,357
Less: Cumulative preferred share dividends	**11,068**	11,068	11,068
After-tax adjusted operating income attributable to common shareholders	**70,312**	70,469	68,289
Weighted average number of shares outstanding [basic]	**424,795**	380,639	380,155
Before-tax adjusted operating income per share [basic]	**0.21**	0.23	0.22
After-tax adjusted operating income per share [basic]	**0.17**	0.19	0.18

After-tax adjusted operating income for Q4 2018 increased $2.0 million over Q4 2017 to $81.4 million but resulted in a $0.01 decrease in after-tax adjusted EPS to $0.17 reflecting the dilution impact of the equity issuance in October 2018. After-tax adjusted operating income in Q4 2018 was flat compared to Q3 2018.

Net revenue was $220.8 million, an increase of $0.7 million over Q3 2018 and a decrease of $0.5 million from Q4 2017.

Service and other revenue of $135.0 million:

- increased $3.7 million from Q3 2018 reflecting primarily seasonal tire and maintenance volume increases, and
- decreased $5.9 million from Q4 2017 reflecting lower gains on sales of vehicles in our ANZ operations.

Net interest and rental revenue of $198.9 million reflects an increase of $9.9 million and $31.6 million over Q3 2018 and Q4 2017, respectively, highlighting robust originations growth during Q4 2018 and a weaker

Canadian dollar, as well as, in comparison to the year ago period, a higher interest rate environment.

Interest expense in Q4 2018 increased to $113.1 million from $100.2 million and $86.9 million in Q3 2018 and Q4 2017, respectively, reflecting the same factors affecting net interest and rental revenue as well as a one-time gain of $4 million during the third quarter of 2018 related to the settlement of an interest rate swap.

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

			For the three-month periods ended
(in $000's for stated values)	**December 31, 2018**	September 30, 2018	December 31, 2017
Net interest income and rental revenue	**6.23%**	5.96%	5.43%
Interest expense	**3.54%**	3.16%	2.82%
Net interest and rental revenue margin or NIM (1)	**2.69%**	2.80%	2.61%
Average cost of debt (Interest expense / average debt) (1)	**3.50%**	3.14%	2.82%
Average 1-Month LIBOR rates	**2.29%**	2.08%	1.29%
Total average net earning assets (1) (2)	**$ 12,759,998**	$ 12,680,054	$ 12,331,040
Total earning assets at period end (1)	**$ 13,223,788**	$ 12,324,851	$ 12,228,937
Average debt outstanding (1)	**$ 12,920,745**	$ 12,762,964	$ 12,345,890
New originations	**$ 1,819,479**	$ 1,486,700	$ 1,461,257

(1) For additional information, see "Description of Non-IFRS Measures" section.
(2) Prior to the second quarter of 2017, total average earning assets were calculated using monthly average balances; comparative periods have not been adjusted as the impact on historical periods was determined to be insignificant.

Average earning assets as at December 31, 2018 were $13,223.8 million compared to $12,324.9 million as at September 30, 2018 and $12,228.9 million as at December 31, 2017 reflecting robust originations during the current quarter and favorable exchange rates.

Adjusted operating expenses of $121.6 million increased $0.9 million from $120.7 million Q3 2018 and decreased $4.3 million from $125.9 million in Q4 2017.

- Salaries, wages and benefits increased $2.4 million from Q3 2018 and were relatively flat compared to Q4 2017. The increase from Q3 2018 was primarily the result of higher benefits expenses and a year to date adjustment on variable based compensation offset partially by approximately $1.6 million of savings in salaries and benefits related to the implementation of the transformation plan. Transformation savings in Q4 2018 fully offset the increase in variable compensation, higher benefits expenses, and growth in Mexico's costs when compared to Q4 2017.

- General and administrative expenses of $31.6 million decreased $2.1 million and $6.6 million when compared to Q3 2018 and Q4 2017, respectively, mainly due to lower IT professional fees as a result of the closure of the Ireland office.

- Depreciation and amortization increased $0.6 million and $2.3 million when compared to Q3 2018 and 2017, respectively, due largely to the investment in IT infrastructure that was put in place during integration.

Quarterly Results of Operations - Non-Core

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

		For the three-month periods ended	
(in $000's for stated values, except per share amounts)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net revenue			
Service and other revenue	**1,935**	109	598
Net interest and rental revenue	**11,554**	13,536	18,282
	13,489	13,645	18,880
Interest expense	**12,827**	12,505	10,378
Net revenue	**662**	1,140	8,502
Adjusted operating expenses			
Salaries, wages and benefits	**410**	722	751
General and administrative expenses	**2,970**	1,765	500
Adjusted operating expenses	**3,380**	2,487	1,251
Adjusted operating (loss) income	**(2,718)**	(1,347)	7,251
Provision for taxes applicable to adjusted operating income	**(493)**	(243)	4,557
After-tax adjusted operating (loss) income	**(2,225)**	(1,104)	2,694
Weighted average number of shares outstanding [basic]	**424,795**	380,639	380,155
Before-tax adjusted operating income per share [basic]	**(0.01)**	—	0.02
After-tax adjusted operating income per share [basic]	**(0.01)**	—	0.01

After-tax adjusted operating loss for Q4 2018 was $2.2 million compared to a loss of $1.1 million in Q3 2018 and income of $2.7 million in Q4 2017. The decrease compared to Q3 2018 is mainly due to the consolidation of 19th Capital as a wholly owned subsidiary during the fourth quarter of 2018 and the run-off of the non-core asset portfolios. The decrease compared to Q4 2017 is due to the same factors as well as the change in the income recognition of ECAF under IFRS 9 which the Company implemented January 1, 2018.

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

		For the three-month periods ended	
(in $000's for stated values)	**December 31, 2018**	September 30, 2018	December 31, 2017
Net interest income and rental revenue	**10.68 %**	6.24%	7.31%
Interest expense	**11.86 %**	5.77%	4.15%
Net interest and rental revenue margin or NIM (1)	**(1.18)%**	0.47%	3.16%
Average cost of debt (Interest expense / average debt) (1)	**7.61 %**	5.32%	4.31%
Total average net earning assets (1) (2)	**$ 432,745**	$ 867,560	$ 1,000,934
Total earning assets at period end (1)	**$ 439,033**	$ 855,512	$ 974,251
Average debt outstanding (1)	**$ 673,802**	$ 941,032	$ 962,537

(1) For additional information, see "Description of Non-IFRS Measures" section.
(2) Prior to the second quarter of 2017, total average earning assets were calculated using monthly average balances; comparative periods have not been adjusted as the impact on historical periods was determined to be insignificant.

Average cost of debt increased to 7.6% during the three-month period ended December 31, 2018, from 4.3% in Q4 2017 and 5.3% from the immediately preceding quarter. The change compared to Q4 2017 and 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.

Consolidated Financial Position

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

(in $000's for stated values)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
ASSETS			
Cash	**21,999**	50,493	76,637
Restricted funds	**504,454**	444,479	484,280
Finance receivables	**13,231,146**	12,528,927	12,768,133
Equipment under operating leases	**2,134,105**	1,677,911	1,599,423
Accounts receivable and other current assets	**270,997**	139,521	164,376
Notes receivable	**13,698**	13,318	19,670
Derivative financial instruments	**34,752**	26,920	32,026
Property, equipment and leasehold improvements	**60,969**	57,290	67,409
Equity investments (1)	**124,353**	115,234	151,425
Deferred tax assets	**410,864**	393,994	177,602
Intangible assets	**854,433**	823,719	819,308
Goodwill	**1,302,236**	1,238,378	1,209,344
	18,964,006	17,510,184	17,569,633
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**706,720**	658,361	582,090
Derivative financial instruments	**68,467**	44,241	33,342
Secured borrowings	**13,270,780**	12,401,398	12,307,873
Convertible debentures	**897,435**	891,929	875,918
Deferred tax liabilities	**45,119**	61,574	30,327
	14,988,521	14,057,503	13,829,550
Shareholders' equity	**3,975,485**	3,452,681	3,740,083
	18,964,006	17,510,184	17,569,633

(1) Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., 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.

Total assets and liabilities increased by $1,394.4 million and $1,159.0 million, respectively, over December 31, 2017, mainly as a result of an increase in the US dollar compared to the Canadian dollar. 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)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net investment in finance receivables	**11,472,467**	10,646,940	10,629,514
Impaired receivables - at net realizable value	**32,170**	7,549	3,949
	11,504,637	10,654,489	10,633,463
Unamortized origination costs and subsidies	**(106,178)**	(98,928)	(105,022)
Net finance receivables	**11,398,459**	10,555,561	10,528,441
Prepaid lease payments and Security deposits	**(68,402)**	(83,247)	(67,526)
Interim funding	**870,808**	734,676	587,217
Fleet management service receivables	**765,718**	778,739	660,227
Other	**217,452**	232,558	200,575
	13,184,035	12,218,287	11,908,934
Allowance for credit losses	**8,506**	7,536	4,304
Total finance receivables	**13,175,529**	12,210,751	11,904,630
Ratios			
Allowance for credit losses as a percentage of finance receivables	**0.06%**	0.06%	0.04%

Fleet Management finance receivables as at December 31, 2018 increased by $1,270.9 million compared to December 31, 2017, primarily due to the strengthening US dollar compared to the Canadian dollar. The increase of $964.8 million compared to September 30, 2018 was primarily due to robust originations, which were assisted by the seasonal fourth quarter surge as well as the strengthening US dollar compared to the Canadian dollar during the period.

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 $9.3 million as at December 31, 2018 (Fleet Management - $8.5 million, Non-Core - $0.8 million), an increase of $5.0 million over the $4.3 million reported at December 31, 2017 and an increase of $1.0 million over the immediately preceding quarter ended. The

allowance for credit losses as a percentage of finance receivables as at December 31, 2018 was 0.06%, a slight increase from 0.04% as at December 31, 2017 and 0.06% as at September 30, 2018. The year-over-year increase was primarily the result of the Company's adoption of IFRS 9 on January 1, 2018. The Company believes that its allowance for credit losses is appropriate as of December 31, 2018.

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 at each reporting period is as follows:

(in $000's for stated values)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
Current	**11,356,022**	**99.63**	10,537,049	99.82	10,518,221	99.90
31 to 60 days	**3,707**	**0.03**	6,126	0.06	2,277	0.02
61 to 90 days	**3,434**	**0.03**	3,478	0.03	3,825	0.04
91 to 120 days	**3,126**	**0.03**	1,359	0.01	169	—
Impaired receivables	**32,170**	**0.28**	7,549	0.08	3,949	0.04
Total	**11,398,459**	**100.00**	10,555,561	100.00	10,528,441	100.00

The $32.2 million in impaired receivables at December 31, 2018 represents 0.28% of net finance receivables with the increase during the period relating primarily to a single client.

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)	**Year ended December 31, 2018**	Year ended December 31, 2017
	$	$
Allowance for credit losses, beginning of period	**4,304**	6,081
IFRS 9 Adjustment	**3,028**	—
Provision for (recovery of) credit losses	**1,913**	(921)
Charge-offs, net of recoveries	**(1,401)**	(611)
Impact of foreign exchange rates	**662**	(245)
Allowance for credit losses, end of period	**8,506**	4,304
Allowance for credit losses as a percentage of finance receivables	**0.06%**	0.04%

Fleet Management allowance for credit losses of $8.5 million as at December 31, 2018 represented 0.06% of the finance receivables outstanding, an increase over the 0.04% reported at December 31, 2017 primarily as a result of the IFRS 9 adjustment.

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)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Equipment under operating leases, net			
Fleet Vehicles	**1,751,310**	1,677,911	1,599,423
	1,751,310	1,677,911	1,599,423

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)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
United States	**9,646,827**	**73.4**	8,891,541	72.7	8,913,991	73.5
Canada	**1,335,141**	**10.2**	1,320,178	10.8	1,319,230	10.9
Australia	**1,126,734**	**8.6**	1,064,661	8.7	1,050,041	8.7
New Zealand	**493,606**	**3.8**	462,054	3.8	466,546	3.8
Mexico	**547,461**	**4.0**	495,038	4.0	378,058	3.1
Total	**13,149,769**	**100.0**	12,233,472	100.0	12,127,866	100.0
Allocated as:						
Net finance receivables	**11,398,459**	**86.7**	10,555,561	86.3	10,528,443	86.8
Equipment under operating leases, net	**1,751,310**	**13.3**	1,677,911	13.7	1,599,423	13.2
Total	**13,149,769**	**100.0**	12,233,472	100.0	12,127,866	100.0

As noted in the table and chart above, approximately 73% of the Company's Fleet Management net finance receivables and equipment under operating leases are in the United States.

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)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
Vehicles	**12,535,148**	**95.3**	11,659,984	95.3	11,586,471	95.5
Highway Tractors and Trailers	**315,939**	**2.4**	294,044	2.4	266,248	2.2
Others	**298,682**	**2.3**	279,444	2.3	275,147	2.3
	13,149,769	**100.0**	12,233,472	100.0	12,127,866	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)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Net investment in finance receivables	**56,249**	855,523	851,966
Impaired receivables - at net realizable value	**1,157**	773	4,716
Net finance receivables	**57,406**	856,296	856,682
Prepaid lease payments and Security deposits	**(937)**	—	3,126
Other	**(26)**	4,142	3,695
	56,443	860,438	863,503
Allowance for credit losses	**826**	542,262	—
Total finance receivables	**55,617**	318,176	863,503

Total Non-Core finance receivables have decreased $807.9 million compared to December 31, 2017 and $262.6 million compared to September 30, 2018. The decrease is predominately related to the acquisition of 19th Capital [for further information, see Note 7 to the Company's audited consolidated financial statements as of December 31, 2018] and the change in classification of 19th Capital's assets from finance receivables to equipment under operating leases as described below.

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 at each reporting period was as follows:

(in $000's for stated values)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
Current	**50,801**	**88.49**	851,901	99.49	846,726	98.84
31 to 60 days	**1,642**	**2.86**	1,869	0.22	1,722	0.20
61 to 90 days	**2,646**	**4.61**	1,113	0.13	2,093	0.24
91 to 120 days	**1,160**	**2.02**	640	0.07	1,425	0.17
Impaired receivables	**1,157**	**2.02**	773	0.09	4,716	0.55
Total	**57,406**	**100.00**	856,296	100.00	856,682	100.00

Contractual delinquencies have decreased from December 31, 2017 in absolute terms but increased in percentage terms as a result of the acquisition of 19th Capital in the fourth quarter of 2018.

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)	**Year ended December 31, 2018**	Year ended December 31, 2017
	$	$
Allowance for credit losses, beginning of period	**—**	—
IFRS 9 Adjustment	**65,826**	—
Provision for credit losses	**480,000**	—
Charge-offs, net of recoveries (1)	**(552,500)**	—
Impact of foreign exchange rates	**7,500**	—
Allowance for credit losses, end of period	**826**	—
Allowance for credit losses as a percentage of finance receivables	**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)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Equipment under operating leases, net			
Fleet Vehicles	**382,795**	—	—
	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)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
United States	**434,908**	**98.8**	848,856	99.1	835,343	97.5
New Zealand	**5,293**	**1.2**	7,440	0.9	21,337	2.5
Total	**440,201**	**100.0**	856,296	100.0	856,680	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)	**December 31, 2018**		September 30, 2018		December 31, 2017	
	$	**%**	$	%	$	%
Vehicles	**2,689**	**0.6**	2,820	0.3	4,592	0.5
Highway Tractors	**432,382**	**98.2**	845,938	98.8	832,380	97.2
Highway Trailers	**2,986**	**0.7**	4,043	0.5	5,569	0.7
Others	**2,144**	**0.5**	3,495	0.4	14,139	1.7
	440,201	**100.0**	856,296	100.0	856,680	100.1

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 $5,598.2 million at December 31, 2018, coupled with the internally generated cash flow 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 December 31, 2018, the Company's financial leverage ratio was 3.56:1 and the Company's tangible leverage was 7.79:1. In the medium term, the Company targets a tangible leverage ratio of 7.0 to 7.5:1.

The Company's capitalization is calculated as follows:

		As at
(in $000's, except ratios)		**December 31, 2018**
		$
Secured borrowings		**13,270,780**
Convertible debentures		**897,435**
Total debt	**(a)**	**14,168,215**
Total shareholders' equity	**(b)**	**3,975,485**
		18,143,700
Goodwill and intangible assets	**(c)**	**2,156,669**
Financial leverage	**(a)/(b)**	**3.56**
Tangible leverage	**(a)/[(b)-(c)]**	**7.79**

Cash flow and liquidity

Overall, corporate cash has decreased from $76.6 million at December 31, 2017 to $22.0 million at December 31, 2018.

During the year ended December 31, 2018, cash used in operating activities was $269.9 million, a decrease of $330.4 million over the $60.5 million provided by operating activities in 2017 as we made greater investments in equipment under operating leases in support of our growth in Mexico as well as cash inflow and outflow from investment in and repayments of finance receivables.

During the year ended December 31, 2018, cash used in investing activities was $56.0 million compared to $45.1 million used in 2017. In both periods, the most significant component of investing activities relates to the purchase of computer software which was $36.3 million and $47.1 million in 2018 and 2017, respectively.

Cash provided by financing activities for the year ended December 31, 2018 was $271.2 million, compared to $50.3 million provided in 2017, an increase of $220.9 million. The increase over the comparative year is due primarily to a larger issuance of common shares in 2018 coupled with the cessation of the share repurchase program that used $78.9 million of cash in 2017.

Debt and contractual repayment obligations

With nearly $5.6 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 of owned finance assets and the related debt as closely as possible in order to manage its liquidity position.

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

	As at		
(in $000's for stated values)	**December 31, 2018**	September 30, 2018	December 31, 2017
	$	$	$
Cash	**21,999**	50,493	76,637
Term Senior Facility			
Facility amount	**4,088,400**	3,870,000	4,399,150
Utilized against facility	**2,406,195**	2,617,114	3,168,087
	1,682,205	1,252,886	1,231,063
Vehicle Management Asset-Backed Debt			
Facilities	**14,818,806**	14,449,116	12,566,226
Utilized against available facilities	**10,924,763**	9,836,110	9,200,002
	3,894,043	4,613,006	3,366,224
Total available sources of capital for continuing operations	**5,598,247**	5,916,385	4,673,924

During the year ended December 31, 2018, the Company reduced the available capacity from vehicle management asset-backed debt to its expected medium term funding needs, as it issued new term debt during 2018.

The Company was in compliance with all of the terms of its credit facilities and loan agreements throughout the period and as at December 31, 2018.

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 December 31, 2018. 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)	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q4, 2017	Q3, 2017	Q2, 2017	Q1, 2017
Net revenue	**221,480**	221,255	219,440	211,343	229,814	236,284	247,543	238,412
Adjusted operating income (1)	**96,529**	98,091	102,564	89,958	102,676	116,462	124,425	123,065
After-tax adjusted operating income (1)	**79,154**	80,433	84,103	76,230	82,051	91,737	99,753	100,025
Net income (loss)	**41,145**	(341,105)	79,096	21,759	(1,463)	67,175	37,087	51,845
Earnings (loss) per share, basic	**0.07**	(0.93)	0.18	0.03	(0.03)	0.15	0.07	0.11
Earnings (loss) per share, diluted	**0.07**	(0.93)	0.18	0.03	(0.03)	0.15	0.07	0.11
Adjusted operating income per share, basic (1)	**0.20**	0.23	0.24	0.21	0.24	0.27	0.29	0.29
After-tax adjusted operating income per share, basic (1)	**0.16**	0.18	0.19	0.17	0.19	0.21	0.23	0.24
After-tax pro forma diluted adjusted operating income per share (1)	**0.16**	0.18	0.19	0.17	0.18	0.20	0.22	0.22
Total earning assets	**13,662,821**	13,180,374	13,734,850	13,395,434	13,203,189	13,105,362	13,652,770	13,706,744
Loan and lease originations	**1,819,479**	1,486,700	1,714,100	1,471,500	1,461,257	1,441,839	1,908,496	1,675,841
Allowance for credit losses	**9,332**	549,798	76,362	75,306	4,304	5,833	5,995	5,978
As a % of finance receivables	**0.07**	4.20	0.57	0.57	0.03	0.05	0.04	0.04
Senior revolving credit facility	**2,406,195**	2,617,114	2,611,108	3,435,650	3,168,087	3,163,214	3,758,274	3,494,105
Secured borrowings	**10,864,585**	9,784,284	10,401,781	9,288,195	9,139,786	9,183,920	9,492,215	9,777,661
Convertible debentures	**897,435**	891,929	886,510	881,173	875,918	870,743	865,647	860,629

(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 Corporation 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.

The Company had provided $793.3 million in loans to 19th Capital. These loans were impaired with a $480.0 million charge in the third quarter of 2018, bringing their net book value down to $251.7 million. The Company acquired the interests in 19th Capital it did not already own, and consolidated its results commencing in the fourth quarter of 2018 [for further information, see Note 7 to the Company's audited consolidated financial statements as of December 31, 2018].

Derivatives and Hedging

From time to time, the Company enters into derivative transactions primarily to hedge interest rate exposure resulting from its floating rate debt obligations. The Company will enter into interest rate swap transactions whereby the Company will pay a fixed rate of interest and receive a floating rate of interest. Similarly, the Company will enter into interest rate cap contracts whereby the Company will receive payments if the floating rate exceeds the cap strike price. The notional amounts of the derivatives are matched to the expected amortization of the related debt. The Company has designated these instruments as cash flow hedges when the criteria for hedge accounting has been met and the changes in fair value of the effective portions of the hedging instruments are recognized through other comprehensive income, interest settlements on these interest rate swaps are applied to the related interest expense on the debt through the statement of operations.

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

The Company also enters into total return swap agreements to hedge its exposure to changes to Company's share price on the Company's stock compensation plans that are accounted for as liabilities. The Company has designated both fair value and cash flow hedging relationships depending on the stock compensation plan.

As at December 31, 2018, the Company had net derivative liabilities of $33.7 million on notional balances of $11,789.7 million.

For the year ended December 31, 2018, the fair value changes recorded in net income was income of $16.5 million and in other comprehensive income was a loss of $20.3 million for derivatives designated as cash flow hedges.

Risk Management

In the normal course of business, the Company engages in operating and financing activities that generate risks in the following primary areas:

Credit risk

Credit risk is the risk that the Company will incur a loss because its clients and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans. Counterparty limits are established by the use of both external and internal credit risk classifications systems, which assign each counterparty a risk rating. The Company also manages credit risk through the existence of asset

collateral held against both direct financing leases and loans. The Company maintains insurance coverage over these assets to further mitigate risk of loss. In situations where the Company takes possession of collateral under the terms of the direct finance lease or loan agreement, the asset is sold and a gain or loss on disposal is recognized.

The Company also monitors the diversification of its lending across asset class, geography and transaction size. As a result of transaction sizes and collateral arrangements, no individual client represents a significant credit risk to the Company.

The Company has credit risk relating to cash and cash equivalents and short-term investments. The Company manages this risk by dealing with large chartered Canadian banks and global banks, and local banks in countries in which its foreign subsidiaries operate, as we as investing in highly liquid investment securities.

Liquidity risk

Liquidity risk is the risk that the Company will not generate sufficient cash or cash equivalents in a timely and cost-effective manner to satisfy its financial obligations as they come due. One of management's primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that the Company will have sufficient liquidity to meet its liabilities when due as well as sustain and grow the Company's assets and operations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Growth in our lease portfolio will require ongoing availability of secured financing and funding lines sufficient to accommodate projected growth objectives. The Company has taken steps to ensure appropriate funding will be in place as required.

The Company believes that its capacity to expand its existing secured borrowing facilities, its access to bank term funding combined with access to the issuance of equity will be sufficient to fund its normal operating and capital expenditures as the Company grows.

As at December 31, 2018, the Company had available liquidity of $5,598.2 million compared to $4,673.9 million at December 31, 2017.

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

Element is dependent upon its ability to secure funding for its loans and leases to clients and to fund its existing obligations. While Element currently has sufficient funding, there can be no assurance that additional financing will be obtained on terms acceptable to Element or at all. In the past, Element has obtained the cash required for its operations through cash flows from its operating activities, the issuance of equity interests to institutional, accredited and other investors, by borrowing money through the Senior Credit Facility or other funding facilities, and the syndication and securitization of certain of its leases and loans. Element may not be able to continue to access these or other sources of funds.

At December 31, 2018, Element had sufficient liquidity available to fund future originations, and Element believes that it will be able to continue to increase its funding facilities as Element and its origination volumes continue to grow.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company structures its secured borrowing arrangements to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving facilities and the interest received on the underlying finance

receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances, the Company enters into interest rate swaps in order to align the interest rate variability.

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

To the extent that finance receivables are not part of a secured borrowing program, the Company manages its interest rate risk exposure by entering into interest rate hedges to limit such exposure. As at December 31, 2018, the percentage of the total lease portfolio and the loan portfolio that had fixed interest rates was 48.4% and 98.6%, respectively.

After considering the fixed interest rate spread on the secured borrowing programs and the exposure to fixed rate finance receivables described above, the Company's interest rate risk is limited to cash and restricted cash, floating-rate finance receivables which are neither hedged nor part of a match-funded secured borrowing arrangement, and drawings under the senior revolving credit facility. Based on its exposure as at December 31, 2018, the Company estimates that a 50 basis point increase would decrease net income before taxes by approximately $0.6 million and a 50 basis point decrease in interest rates would increase net income before taxes by approximately $1.6 million.

Foreign Currency Risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/ or net investment in foreign subsidiaries, whereby there is a risk the exchange rates will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2018, the Company did not have a significant un-hedged exposure to this type of foreign currency risk that would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and respective foreign currency exchange rate used to translate the Company's foreign currency denominated net income into the Canadian dollar equivalent during each period. The Company may mitigate this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future net income before transformation costs and income taxes is consistent with the results generated in 2018, each one cent increase (decrease) in the average Canadian/ foreign currency exchange rate would be expected to increase/decrease net income before business acquisition costs and income taxes for the year by approximately $8.2 million in the absence of hedging transactions.

Credit Ratings and Ratings Outlooks may Change

In connection with the Transformation Plan, the credit rating agencies which rate the Company could re-evaluate their current credit ratings or outlook. There can be no assurance that the credit ratings assigned to Element will be confirmed or remain in effect for any given period of time and ratings may be upgraded, downgraded, or placed under review by an applicable credit ratings agency at any time.

In early 2018, the Company received an initial issuer rating of BBB+ with stable outlook from Fitch Ratings, and its investment grade ratings from Kroll Bond Rating Agency and DBRS, Inc. were affirmed at A- and BBB (high), respectively, each with a stable outlook. In September 2018, Fitch Ratings revised the outlook on the Company's long-term Issuer Default Rating and senior credit facility rating to negative from stable, based on both qualitative and quantitative issues. Management believes that the outlook will be revised to stable in the future, but the Company cannot predict with certainty any future rating actions by these agencies.

Negative changes in Element's credit ratings or ratings outlook may increase the cost of borrowing. In addition to higher interest rates, further downgrades could adversely impact the Company's access to capital, cost of capital and financial flexibility, as well as the value of Element's securities.

If Element is Unable to Retain its Clients or Otherwise Effectively Respond to Competitive Pressures, Element's Business, Financial Condition and/or Results of Operations May be Adversely Impacted

Client attrition results from a variety of different factors, including, financial difficulties experienced by the client, the integration of different client systems and platforms, the acquisition or ceasing of operations of the client, competition and other socio-economic factors. Any factors that adversely affect the ability of Element's services to compete with those available from competitors, such as availability of competitors' services and offering more advanced service architecture, superior functionality or performance or lower prices, or factors that reduce demand for Element's services, such as intensifying price competition, could lead to increased rates of client attrition. In particular, integration challenges associated with prior acquisitions may result in client attrition and lead to a temporarily higher cost structure and a revenue growth trajectory below Element's long-term potential. In addition, Element's markets are competitive and characterized by various competitive factors that vary by region, including breadth of service and service features, price, equipment, maintenance, service and geographic coverage. In North America, Australia and New Zealand, Element's competitors in the Fleet Management Business are mostly other established fleet management companies that offer a similar comprehensive suite of services. If Element is unable to retain its clients or otherwise effectively respond to these competitive pressures, Element's business, financial condition and/or results of operations may be adversely impacted.

Element traditionally offers its services to various categories of the fleet industry. Some of Element's competitors may successfully garner significant shares in particular categories of the overall industry. To the extent that Element's competitors are regarded as leaders in specific categories, they may have an advantage over Element as it attempts to further penetrate these categories.

Decreased Demand for Fuel and Other Vehicle Services Could Harm Element's Business, Financial Condition and/or Results of Operations

Demand for fuel and other vehicle services may be reduced by factors that are beyond Element's control, such as the implementation of fuel efficiency standards and the development by vehicle manufacturers and adoption by Element's clients of vehicles with greater fuel efficiency or alternative fuel sources. To the extent that Element's clients require less fuel, that decline in purchase volume could reduce Element's revenues, limiting Element's profitability and preventing Element from taking on other initiatives.

Concentration of Leases and Loans within the Fleet Leasing Industry or within a Particular Region May Negatively Impact Element's Business, Financial Condition and/or Results of Operations

Element specializes in vehicle fleet management. As a result, Element has a significant concentration of risk exposure related to this industry segment. If this industry segment experiences adverse economic or business conditions, Element's delinquencies, default rate and charge-offs may increase, which may negatively impact its business, financial condition and/or results of operations. Furthermore, Element may have significant exposures to unique regions and industries, such as Alberta and its oil sands industry, which, if negatively impacted by macroeconomic trends, could negatively impact Element's business, financial condition and/or results of operations.

Element Derives a Significant Portion of its Revenue from Program Fees and Charges Paid by its Clients. Any Decrease in Element's Receipt of Such Fees and Charges, or Limitations on Element's Service Fees and Charges, Could Materially and Adversely Affect Element's Business, Financial Condition and/or Results of Operations

Element's service programs include a variety of service fees and charges associated with transactions, cards, reports, optional services and late payments. Element derives a significant amount of its consolidated revenues from these service fees and charges. If the users of Element's cards or other services decrease their transaction activity, or the extent to which they use optional services, Element's revenue could be materially adversely affected. In addition, several market factors can affect the amount of Element's service fees and charges, including the market for similar charges for competitive card services and the availability of alternative payment methods. Furthermore, regulators may scrutinize the electronic payments industry's pricing, charges and other practices related to Element's business. Any legislative or regulatory restrictions on Element's ability to price its services could materially and adversely affect Element's revenue. Any decrease in Element's revenue derived from these service fees and charges could materially and adversely affect Element's business, financial condition and/or results of operations.

Risks Relating to the Transformation Plan

Element believes that implementation of the Transformation Plan will provide benefits to the Company, including operating income improvements, improvements in Element's earnings profile and realization of residual book value in 19th Capital. However, such expectations are based on certain estimates and assumptions, which may subsequently be determined to be incorrect or inaccurate, and the realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Company. Accordingly, there is a risk that Element may not be able to achieve the level of benefits that it expects to realize from the Transformation Plan, may not be able to realize these benefits within the expected time frames or may incur further impairment charges in relation to its interests in 19th Capital. Failure to realize the anticipated benefits of the Transformation Plan could have a material adverse effect on Element's business, financial condition and/or results of operations. In addition, the steps to be taken by Element pursuant to the Transformation Plan, and the results of such steps, could adversely affect current operations or the current valuations or accounting of Element's operations and businesses, which could be detrimental to Element's business, financial condition, and/or results of operation.

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

Element has obtained secured funding from a number of financial institutions. Element's reliance on such financial institutions for a significant amount of its funding exposes Element to funding risks. If these financial institutions decided to terminate, or not extend these secured borrowing arrangements, Element's business, financial condition and/or results of operations could be materially adversely affected.

Global Financial Markets and General Economic Conditions May Adversely Affect Element's Business, Financial Condition, and/or Results of Operations

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

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

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

Element has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes in jurisdictions in which Element operates. These factors could negatively affect Element's future results of operations in those markets.

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

While most of Element loans and leases are secured by a lien on specified collateral of the client, there is no assurance that Element has obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect Element from suffering a partial or complete loss if the loan or lease becomes non-performing and Element moves to foreclose on the collateral. In such event, Element could suffer loan or lease losses which could have a material adverse effect on its business, financial condition and/or results of operations. Certain of Element's Non-Core assets are also secured by collateral, including the loans and leases in 19th Capital and the heavy truck portfolio which were originated by others, and there similarly can be no assurance that those originators have properly perfected its interests in this collateral, or that the value of the collateral securing such loans and leases will protect Element from suffering a partial or complete loss if the loan or lease becomes non-performing and Element moves to foreclose on the collateral.

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

Further, certain equipment realization values are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity. The degree of realization risk varies by transaction type.

Element's Provision for Credit Losses May Prove Inadequate

Element's business depends on the creditworthiness of its clients and their ability to fulfill their obligations to Element. Element maintains a provision for credit losses that reflects management's judgment of losses inherent in the portfolio. Element periodically reviews its provision for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets.

Element has and will continue to provide for credit losses based on industry specific historical losses considering the categories, segmentation and distribution of the assets being financed and its client base. However, Element's provision for credit losses may prove inadequate and Element cannot assure that it will be adequate over time to cover credit losses in Element's portfolio because of adverse changes in the economy or events adversely affecting specific clients, industries or markets. Element's credit reserves may not keep pace with changes in the creditworthiness of Element's clients or in collateral values. If the credit quality of Element's client base declines, if the risk profile of a market, industry, or group of clients changes significantly, or if the markets for equipment or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of Element's reserves for credit losses, it could have a material adverse effect on Element's business, financial condition and/or results of operations.

Competitive environment

There can be no assurance that the Company will be able to compete successfully against its current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Company. Overall, the market for the financial services offered by the Company is highly competitive and some of the companies operating in this sector have greater financial resources than the Company.

Potential acquisitions and investments

The Company may seek to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

Personnel significance

Employees are a significant asset of the Company. Market forces and competitive pressures may adversely affect the ability of the Company to recruit and retain key qualified personnel. The Company mitigates this risk by providing a competitive compensation and benefits package, as it continuously seeks to align the interest of employees and shareholders.

Technological Change may Challenge Element Business Prospects or Require Significant Investment

Element's business depends on the efficient and uninterrupted operation of information technology infrastructure. If systems were to fail or Element was unable to successfully expand the capacity of these systems or was unable to integrate new technologies into its existing infrastructure, its operations and financial results could suffer. Any changes to technologies associated with Element's business or analytics systems and platforms, or to technologies used by Element's competitors, clients, suppliers or other third parties, may make it more difficult for Element to maintain or increase revenues and earnings and could adversely impact Element's business and prospects.

The services Element delivers are designed to process large complex data sets and provide reports and other information on that data on a timely basis. Any failure to deliver an effective, secure service or any performance issue that arises with a new service could result in significant processing or reporting errors or other losses. Element may rely on third parties to develop or co-develop solutions, or to incorporate Element's solutions into broader platforms. Element may not be able to enter into such relationships on attractive terms, or at all, and these relationships may not be successful.

Element expects that new services and technologies applicable to the fleet management business in which it operates will continue to emerge and evolve. These new services and technologies may be superior to, impair, or render obsolete the services Element currently offers, or the technologies Element currently uses to provide them. Further, if Element offers new services in the future, there is no guarantee that it will be successful in integrating the new services into its operations, which could materially and adversely affect Element's operating results and financial condition. Various investors, competitors or other third parties have invested or may invest significant amounts of capital in technologies that may impact the operation of the fleet management business and the services offered by Element. Element may be required to make significant investments in technology, in acquisitions, or in its business structure to continue to adapt to technological change. While Element has invested resources in technologies that benefit its clients and believes that its technological platform is one of its competitive advantages, there can be no guarantee that Element will continue to be able to adapt to technological change, and Element may have to invest additional capital to adapt in the future. Further, Element may enter into new lines of business in the future. There is no guarantee that Element will be successful in integrating these new lines of business into its operations, which could materially and adversely affect Element's operating results and financial condition.

Data Privacy and Information Technology Security Breaches May Negatively Impact Element

Element collects and processes confidential information in the course of providing its services. Any inability on Element's part to protect the security of its platforms or the privacy of confidential information could have a material adverse effect on Element's profitability by exposing Element to additional liability, increasing Element's expenses relating to resolution of these breaches, and deterring users from using Element's services.

Element has administrative, technical, and physical security measures in place to protect the privacy of this confidential information as well as policies and procedures to contractually require third parties to whom Element transfers data to implement and maintain appropriate security measures. However, Element cannot ensure that its current security measures will effectively counter security risks, prevent future slowdowns or disruptions, protect against cyber-attacks or address the security and privacy concerns of existing and potential users. If Element's security measures or those of the previously mentioned third parties are inadequate or are breached as a result of cyber-attacks, computer viruses, unauthorized access, employee error, malfeasance, system error, trickery, natural disasters, terrorism, war and telecommunication and electrical failures or otherwise, and, as a result, someone obtains unauthorized access to sensitive information, including personally identifiable information or protected health information, on Element's systems or its partners' systems, Element's reputation and business could be damaged. The deletion or modification of records could cause interruptions in Element's services and operations. Any system failures, slowdowns or disruptions will likely result in unanticipated disruptions in service to Element's users, decreased levels of user satisfaction and significant negative effects on Element's reputation. If the sensitive information is lost or improperly disclosed or threatened to be disclosed, Element could incur significant liability and be subject to regulatory scrutiny and penalties, including costs associated with remediation. Additionally, if Element's own confidential business information were improperly disclosed, Element's business could be materially and adversely affected. To address these matters, Element continues to evolve security safeguards.

Element's business depends on the efficient and uninterrupted operation of computer and communications systems and networks, hardware and software systems and other information technology. If systems were

to fail or Element is unable to successfully expand the capacity of these systems or is unable to integrate new technologies into its existing systems, its operations and financial results could suffer.

Element relies on third-party encryption and authentication technology to provide secure transmission of confidential information over the Internet. Advances in technological capabilities, new discoveries in the field of cryptography, or other events or developments, could result in a compromise or breach of the technology Element uses to protect sensitive data. In addition, because techniques used to obtain unauthorized access or to sabotage systems change frequently and may not be recognized until launched against a target, Element may be unable to anticipate these techniques or to implement adequate preventative measures. If any such compromise of Element's security, or the security of Element's clients, were to occur, it could result in misappropriation of confidential information, proprietary information or interruptions in operations, and have an adverse impact on Element's reputation or the reputation of Element's clients. If Element is unable to detect and prevent unauthorized use of sensitive or confidential data, its business, financial condition and/ or results of operations could be materially and adversely affected.

Dependence on Strategic Relationships

Element has strategic relationships in place with a number of organizations including Arval, original equipment manufacturers (OEM's), major oil companies, and fuel, tire, and maintenance service providers. While Element regularly monitors these relationships, there can be no guarantee that Element will be able to maintain them in the future. These relationships are important for Element's long-term business operations, and its results of operations could be lower in the event that certain of these relationships cease to exist. The termination of certain of these relationships could impact Element's competitive advantage, and its operating results could be adversely affected.

Element May Be Unable to Protect, or May be Required to Incur Significant Cost and Attention to Protect, its Intellectual Property Rights and Confidential Information and May Be Required to Defend against Intellectual Property Infringement Claims of Third Parties

To protect its proprietary technology, which includes Xcelerate™ and Connected Data™, Element relies on copyright, trade secret, patent and other intellectual property law and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite such precautions, it may be possible for third parties to obtain and use - without Element's consent - confidential information or infringe on its intellectual property rights, and Element's ability to police such misappropriation or infringement is uncertain. In addition, confidentiality agreements with employees, vendors, clients and other third parties may not effectively prevent disclosure or use of proprietary technology or confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure. Protecting against the unauthorized use of Element's intellectual property and confidential information is expensive, difficult and not always possible.

Third parties could in the future claim that the technologies and processes underlying Element's services infringe their intellectual property. Element may, in the future, receive notices alleging that we have misappropriated or infringed a third party’s intellectual property rights. Any claims of infringement or misappropriation by a third party, even those without merit, could cause us to incur substantial defense costs and could distract management from Element's business, and there can be no assurance that we it be able to prevail against such claims.

Element Faces Tax Risks in Multiple Jurisdictions

Element is a Canadian corporation which operates in multiple jurisdictions. As a result, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments and of the governments of foreign jurisdictions in which Element operates, as well as to any income tax treaties between Canada and any such jurisdictions, and to the risk that those tax laws, regulations and treaties may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, and the effective tax rate in the jurisdictions in which Element operates.

The determination of Element's provision for income taxes in Canada and elsewhere, including current and deferred tax assets and liabilities on Element's financial statements, requires estimates, interpretation and significant judgment. Various internal and external factors may have favorable or unfavorable effects on future provisions for income taxes and Element's effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, and changes in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements can have a material impact on Element's effective income tax rate.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation includes, among other changes, a reduction in the U.S. federal corporate income tax rate, limitations on interest deductibility and a new tax on base erosion payments. This legislation may have long-term negative impacts on Element's financial condition.

Element could be impacted by certain tax treatments for various revenue streams in different tax jurisdictions. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties or fines. This would potentially reduce the amounts of revenue ultimately received by Element.

Element, from time to time, has executed or may execute reorganization transactions impacting its tax structure. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties or fines on Element.

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, compliance with existing provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109") and the other applicable Canadian securities laws and regulation and related rules and policies, may cause Element to incur increased costs as it evaluates the implications of new rules and implements any new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

Any new laws and regulations may make it more expensive for Element to provide indemnities to Element's officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers. Accordingly, Element may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for Element to attract and retain qualified persons to serve on its Board of Directors or as executive officers. Element may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which could cause general and administrative costs to increase beyond what Element currently has planned. Element is continuously evaluating and monitoring developments with respect to these laws, rules and regulations and it cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs.

Element is required annually to review and report on the effectiveness of its internal control over financial reporting in accordance with NI 52-109. The results of this review are reported in the section of this MD&A titled "Internal Control over Disclosure and Financial Reporting". Element's Chief Executive Officer and Chief Financial Officer are required to report on the effectiveness of Element's internal control over financial reporting.

Management's review is designed to provide reasonable assurance, not absolute assurance, that all material weaknesses existing within Element's internal controls are identified. Material weaknesses represent deficiencies existing in Element's internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of Element. In addition, management cannot provide assurance that the remedial actions being taken by Element to address any material weaknesses identified will be successful, nor can management provide assurance that no

further material weaknesses will be identified within its internal controls over financial reporting in future years.

Further, NI 52-109 requires that Element establish and maintain disclosure controls and procedures. Element's disclosure controls and procedures are designed to reasonably ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is processed on a timely basis to enable appropriate decisions to be made regarding public disclosure. Element believes that any disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are and will be met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

If Element fails to maintain effective (i) internal controls over its financial reporting or (ii) disclosure controls and procedures, there is the possibility of errors or omissions occurring or misrepresentations in Element's disclosures which could have a material adverse effect on Element's business, its financial statements and the value of the Common Shares.

Public Company Requirements May Strain Resources

As a public company, Element is subject to the reporting requirements of the Securities Act (Ontario) (the "Act"), as amended, the regulations and rules thereto, including the national and multilateral instruments adopted as rules, decisions, rulings and orders promulgated under the Act and the published policy statements issued by the Ontario Securities Commission and the listing requirements of the TSX. The ever-increasing obligations of operating as a public company will require significant expenditures and will place additional demands on management as Element complies with the reporting requirements of a public company. Element may need to hire additional accounting, financial and legal staff with appropriate public company experience and technical accounting and regulatory knowledge.

In addition, actions that may be taken by any significant shareholders, if any, may divert the time and attention of Element's Board of Directors and management from its business operations. Campaigns by significant investors to effect changes at publicly-traded companies have increased in recent years. If a proxy contest were to be pursued by any of Element's shareholders, it could result in substantial expense to Element and consume significant attention of management and the Board of Directors. In addition, there can be no assurance that any shareholder will not pursue actions to effect changes in the management and strategic direction of Element, including through the solicitation of proxies from Element's shareholders.

Dilution from Further Equity Financing

If Element raises additional financing through the issuance of equity securities (including securities convertible into or exchangeable for equity securities) or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of Element and reduce the value of their investment. The market price of the Common Shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for Element itself to sell equity securities at a time and price that it deems appropriate.

Element is Not Subject to the Same Extensive Supervision and Regulation as Certain Other Financial Services Companies

Element competes with financial institutions that are subject to extensive and complex federal, state and provincial regulatory requirements that do not apply to Element. For example, federally regulated financial institutions that are engaged in fleet financing may be subject to amplified supervisory activities (such as those of Canada's Office of the Superintendent of Financial Institutions), regulatory requirements relating to

capital adequacy and market liquidity risk, and more rigorous financial reporting standards. Element operates in an unregulated environment with regard to capital requirements and its risk management policies and procedures may not be fully effective to identify, monitor and manage the risks that may jeopardize Element's ability to continue to satisfy its capital requirements. To the extent that Element must comply with financial reporting standards that are less extensive than those applicable to a competitor, it may be more difficult for an investor to completely and accurately assess Element's financial condition.

Litigation May Negatively Impact Element's Business, Financial Condition and/or Results of Operations

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

Non-Core portfolio risks

Credit risk

Credit risks associated with the Non-Core portfolio differ from those in the core Fleet Management portfolio. Non-Core portfolios are generally assessed for credit risk by third parties. Despite following accepted credit risk assessment processes similar to those in the Fleet Management portfolio, the credit profile of underlying borrowers is not as consistently high as in the Fleet Management portfolio, and the underlying collateral, consisting mainly of highway tractors and trailers, and aircraft, is subject to market forces that may affect eventual collectability. Provisions are established as required under accepted credit risk assessment processes.

The Non-Core Portfolio Faces Counter-Party Operational Risk and Increased Concentration Risk

The Non-Core portfolio includes outsourced servicers that do not form part of the Core Fleet portfolio, which could negatively impact Element's operational control. Although Element monitors the actions and financial condition of these counter-parties, future changes could impact the timing and amounts of cash flows from the Non-Core portfolio.

The Non-Core portfolio also involves increased concentration risk, as Non-Core investments are concentrated in individual entities such as 19th Capital and ECAF Holdings Ltd. While ECAF Holdings Ltd. has diversified obligors, the exposure is less diversified than typical Core Fleet portfolio individual exposures. A decline in the performance of a Non-Core portfolio investment could lead to direct losses incurred by the Company. The Company also borrows against certain of its Non-Core portfolio investments. A decline in the performance of a Non-Core portfolio investment could therefore reduce the Corporation's borrowing capacity or increase its cost of funds, which could be detrimental to Element Fleet's business, financial condition and/or results of operations.

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, creditworthy clients, and has demonstrated resilience across the business cycle.

As previously indicated 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 our operating performance,

client relationships, corporate structure and balance sheet (see also the section of this MD&A titled "Strategy and Transformation"). This transformational reset is well underway, effecting hundreds of changes to our organization which we anticipate will result in a superior client experience, greater efficiency, and generate meaningfully improved profitability going forward. Accordingly, management and the Board of Directors believe that Element is well positioned to execute on its strategy and 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 $0.90 to $0.95 based on a U.S. dollar equal to $1.32 Canadian dollars.

Normal Course Issuer Bid

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid [the "NCIB"]. The NCIB allowed the Company to repurchase on the open market [or as otherwise permitted], at its discretion during the period from June 12, 2017 to its expiry on June 11, 2018, subject to a maximum purchase of 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the year ended December 31, 2017, 9,014,600 common shares were repurchased for cancellation for $78.9 million at a volume weighted average price of $8.75 per common share, respectively. No repurchases were made in the current year prior to expiry.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial conditions and results of operations are made with reference to the consolidated financial statements for the year ended December 31, 2018. 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 International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

Allowance for credit losses

Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of leased assets, and past experience.

The Company reviews its individually significant leases and loans at each consolidated balance sheet date to assess the adequacy of the allowance for credit losses and to determine whether an impairment loss should be recorded in the consolidated statement of operations. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the allowance. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. Leases and loans that have been assessed individually and found not to be impaired and all individually insignificant leases are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio such as levels of arrears and credit utilization and judgments to the effect of concentrations of risks.

As at December 31, 2018, the allowance for credit losses as a percentage of outstanding finance receivables was 0.07%.

Deferred income tax assets

Deferred income tax assets are recognized for unused income tax loss carry forwards and deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses and temporary differences can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Share-based compensation

Compensation expense relating to stock options granted by the Company to employees and directors in exchange for service is based on the grant-date fair value of the option. The stock option fair value is determined using the Black-Scholes option valuation model which requires the use of assumptions and is, by its nature, subject to measurement uncertainty.

Useful lives and residual values of equipment under operating leases

The Company's equipment under operating leases are recorded at cost and depreciated over their estimated useful lives to an estimated residual value using the straight-line method. The Company determines the economic useful life based on management's estimate of the period which the asset will generate revenue. The residual values are based on historical experience and economic factors. Management will periodically review the appropriateness of the estimated useful lives and residual values based on changes in economic circumstances and other factors. Changes in these estimates would result in a change in future depreciation expense.

Business combination

Business combinations require management to exercise judgment in measuring the fair value of the assets acquired, equity instrument issued, and liabilities and contingent liabilities incurred or assumed.

The majority of assets acquired in the Company's business combinations are finance receivables. The Company fair values these based on the characteristics of the portfolio acquired and are similar to the judgment used in the assessment of the allowance for credit losses.

Investment in joint venture

The cost of the investment in joint venture requires management to exercise judgment in measuring the fair value of the assets contributed by the Company to the joint venture.

Intangible assets valuation - Customer Relationships

The Company's client relationships require management to use judgment in estimating the fair value of this intangible asset acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating client attrition rates to determine the appropriate amortization period for the client relationship intangible asset.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable value of the Company's cash generating unit ("CGU") and uses internally

developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Recently Adopted Accounting Standards

IFRS 9, *Financial Instruments* ("IFRS 9")

Effective January 1, 2018, the Company adopted IFRS 9, issued by IASB. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entities business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remained generally unchanged. The new standard replaced the existing incurred loss model used for measuring the allowance for credit losses with an expected credit loss model. The standard introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The Company elected to not restate comparative periods and has recognized any classification and measurement adjustments on January 1, 2018, through opening retained earnings.

On transition to IFRS 9, the Company's investment in ECAF I Ltd. through ECAF I Holdings Ltd. was classified as fair value through profit and loss, as a result the accrued interest previously recognized using the effective interest method for amortized cost investments has been reversed, and the Company recognized a fair value adjustment. In addition, the Company increased the allowance for credit losses as a result of the transition to the expected loss model, including an allowance for loans to 19th Capital Group LLC. The impact of these two changes has been recognized through opening retained earnings. The Company has adopted hedge accounting under IFRS 9 and there were no adjustments to the Company's Interim Financial Statements and did not have a material impact on our accounting policies.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

Effective January 1, 2018, the Company adopted IFRS 15, issued by IASB. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with clients and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. The adoption of this standard did not result in any adjustments to the Company's interim financial statements and did not have a material impact on our accounting policies.

Impact of transition to IFRS 9

The following table shows the pre-transition IAS 39 and post-transition IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for finance receivables and other financial assets as at January 1, 2018 as a result of adopting IFRS 9:

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 carrying value as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 Carrying value as at January 1, 2018
			$	$	$	$
Financial Assets						
ECAF	Amortized cost	FVTPL	130,588	(8,303)	(9,164)	113,121
Finance receivables	Amortized cost	Amortized cost	12,768,133	—	(68,854)	12,699,279
Total pre-tax impact of IFRS 9 adoption			12,898,721	(8,303)	(78,018)	12,812,400
Total after-tax Retained earnings			248,843	(6,300)	(59,004)	183,539
Total after-tax Shareholders' Equity			3,740,083	(6,300)	(59,004)	3,674,779

Future Accounting Changes

All accounting standards effective for periods beginning on or after January 1, 2018 have been adopted by the Company. The following new IFRS pronouncements have been issued but are not yet effective and may have a future impact on the Company's financial statements.

IFRS 16, Leases ["IFRS 16"], will replace IAS 17, Leases ["IAS 17"]. IFRS 16 substantially carries forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management does not expect the adoption of IFRS 16 to have a material impact on the Company's consolidated financial statements. The impact of IFRS 16 is limited to leases where the Company is the lessee and is primarily related to the leases of its office spaces.

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 years ended	
(in $000's for stated values)		**December 31, 2018**	September 30, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Reported and adjusted income measures						
Net income (loss)	A	**41,145**	(341,105)	(1,463)	**(199,104)**	154,644
Adjustments:						
Amortization of debenture synthetic discount		**3,597**	3,537	3,368	**14,038**	13,147
Share-based compensation		**5,037**	8,867	4,505	**23,642**	19,930
Amortization of intangible assets from acquisitions		**10,495**	10,442	12,254	**44,744**	55,823
Restructuring and transformation costs		**35,615**	35,000	13,581	**112,732**	82,001
Impairment of loans to 19th Capital		**—**	480,000	—	**480,000**	—
Provision (recovery) of income taxes		**3,072**	(118,650)	9,650	**(121,382)**	20,075
Share of (income) loss from investments		**(2,432)**	20,000	60,781	**32,473**	120,982
Before-tax adjusted operating income	B	**96,529**	98,091	102,676	**387,143**	466,602
Provision for taxes applicable to adjusted operating income	C	**17,375**	17,658	20,625	**67,221**	93,063
After-tax adjusted operating income	D=B-C	**79,154**	80,433	82,051	**319,922**	373,539
Cumulative preferred share dividends during the period	Y	**11,068**	11,068	11,068	**44,273**	41,301
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**68,086**	69,365	70,983	**275,649**	332,238
Selected statement of financial position amounts						
Finance receivables, before allowance for credit losses	E	**13,240,478**	13,078,725	12,772,439	**13,240,478**	12,772,439
Allowance for credit losses	F	**9,332**	549,798	4,304	**9,332**	4,304
Earning assets						
Net investment in finance receivable	G	**11,528,716**	11,502,463	11,481,480	**11,528,716**	11,481,480
Equipment under operating leases	H	**2,134,105**	1,677,911	1,599,423	**2,134,105**	1,599,423
Other earning assets	H1	**—**	—	122,286	**—**	122,286
Total earning assets	I=G+H +H1	**13,662,821**	13,180,374	13,203,189	**13,662,821**	13,203,189
Average earning assets, net	J	**13,192,743**	13,547,614	13,331,974	**13,353,198**	13,478,946
Goodwill and intangible assets	K	**2,156,669**	2,062,097	2,028,652	**2,156,669**	2,028,652
Average goodwill and intangible assets	L	**2,108,293**	2,080,857	2,047,335	**2,075,762**	2,096,541
Secured borrowings	M	**13,270,780**	12,401,398	12,307,873	**13,270,780**	12,307,873
Unsecured convertible debentures	N	**897,435**	891,929	875,918	**897,435**	875,918
Total debt	O=M+N	**14,168,215**	13,293,327	13,183,791	**14,168,215**	13,183,791
Average debt	P	**13,594,547**	13,650,625	13,308,427	**13,584,054**	13,716,102
Total shareholders' equity	Q	**3,975,485**	3,452,681	3,740,083	**3,975,485**	3,740,083
Preferred shares	R	**680,412**	680,736	680,412	**680,412**	680,412
Common shareholders' equity	S=Q-R	**3,295,073**	2,771,945	3,059,671	**3,295,073**	3,059,671
Average common shareholders' equity	T	**3,079,564**	3,078,468	3,156,910	**3,096,142**	3,302,314
Average total shareholders' equity	U	**3,759,975**	3,758,765	3,837,322	**3,776,553**	3,926,282

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 years ended	
(in $000's for stated values, except ratios and per share amounts)		**December 31, 2018**	September 30, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Key annualized operating ratios						
Leverage ratios						
Financial leverage ratio	O/Q	**3.56**	3.85	3.52	**3.56**	3.52
Tangible leverage ratio	O/ (Q-K)	**7.79**	9.56	7.70	**7.79**	7.70
Average financial leverage ratio	P/U	**3.62**	3.63	3.47	**3.60**	3.49
Average tangible leverage ratio	P/(U-L)	**8.23**	8.14	7.43	**7.99**	7.50
Other key operating ratios						
Allowance for credit losses as a percentage of finance receivables	F/E	**0.07%**	4.20%	0.03%	**0.07%**	0.03%
Adjusted operating income on average earning assets	B/J	**2.93%**	2.90%	3.08%	**2.90%**	3.46%
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	**19.17%**	19.17%	18.34%	**18.81%**	20.41%
Per share information						
Number of shares outstanding	V	433,204	380,356	380,356	433,204	380,356
Weighted average number of shares outstanding [basic]	W	424,795	380,639	380,155	391,652	385,420
Pro forma diluted average number of shares outstanding	X	487,189	438,941	438,198	454,046	443,463
Cumulative preferred share dividends during the period	Y	11,068	11,068	11,068	44,273	41,301
Other effects of dilution on an adjusted operating income basis	Z	$ 9,133	$ 9,095	$ 9,059	$ 36,419	$ 36,129
Net income (loss) per share [basic]	(A-Y)/W	$ 0.07	$ (0.93)	$ (0.03)	$ (0.62)	$ 0.29
Net income (loss) per share [diluted]		$ 0.07	$ (0.93)	$ (0.03)	$ (0.62)	$ 0.29
Book value per share	S/V	$ 7.61	$ 7.29	$ 8.04	$ 7.61	$ 8.04
Before tax adjusted operating income per share [basic]	**(B-Y)/W**	**$ 0.20**	$ 0.23	$ 0.24	**$ 0.88**	$ 1.10
After-tax adjusted operating income per share [basic]	**(D1)/W**	**$ 0.16**	$ 0.18	$ 0.19	**$ 0.70**	$ 0.86
After-tax pro forma diluted adjusted operating income per share	**(D1+Z)/ X**	**$ 0.16**	$ 0.18	$ 0.18	**$ 0.69**	$ 0.83

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 December 31, 2018:

(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	96,529		0.23
Less:			
Income taxes related to adjusted operating income	(17,375)		(0.04)
Preferred share dividends	(11,068)		(0.03)
After-tax adjusted operating income attributable to common shareholders	68,086	424,795	0.16
Dilution items:			
Employee stock option plan	—	3,288	—
Convertible debentures (after-tax net interest expense)	9,133	59,106	—
After-tax pro forma diluted adjusted operating income	77,219	487,189	0.16

Description of Non-IFRS Measures

Our 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 consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at December 31, 2018 and December 31, 2017, the results of operations, comprehensive income and cash flows for the year ended December 31, 2018 and December 31, 2017.

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 and, general and administrative expenses.

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 synthetic discount, share-based compensation, and the impairment on loans to 19th Capital.

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 Fleet 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.

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 synthetic 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.

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 March 6, 2019, the Company had 433,841,583 common shares issued and outstanding. In addition, 25,181,907 options were issued and outstanding under the Company's stock option plan as at March 6, 2019. These convertible securities are convertible into, or exercisable for common shares of the Company of which 18,732,978 are exercisable at December 31, 2018 for proceeds to the Company upon exercise of $208.5 million. In addition, the Company had extendible convertible debentures outstanding that are convertible into an aggregate of 56,400,530 common shares.

As at March 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 Preferred Shares, Series I issued and outstanding.

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