

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2022

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited, thousands of Canadian dollars)

	As at June 30, 2022	As at December 31, 2021
	\$	\$
ASSETS		
Cash	70,581	45,271
Restricted funds (note 5)	455,561	400,930
Finance receivables (notes 3 and 15)	7,384,175	7,436,275
Equipment under operating leases (note 4)	2,431,788	2,297,182
Accounts receivable and other assets	186,598	204,873
Derivative financial instruments (note 15)	99,481	26,302
Property, equipment and leasehold improvements, net	85,157	93,872
Intangible assets, net	833,078	830,013
Deferred tax assets	383,708	417,708
Goodwill	1,236,429	1,220,986
	<u>13,166,556</u>	<u>12,973,412</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,223,626	1,206,550
Derivative financial instruments (note 15)	69,282	28,575
Borrowings (note 5)	8,180,938	8,038,963
Convertible debentures (notes 6 and 15)	161,591	159,072
Deferred tax liabilities	115,641	89,303
	<u>9,751,078</u>	<u>9,522,463</u>
Shareholders' equity (note 7)	<u>3,415,478</u>	<u>3,450,949</u>
	<u>13,166,556</u>	<u>12,973,412</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, thousands of Canadian dollars, except for per share amounts)

	Three-month period ended	Three-month period ended
	June 30, 2022	June 30, 2021
	\$	\$
NET REVENUE		
Interest income, net (note 9)	98,901	93,100
Rental revenue and other (note 9)	204,962	173,430
Depreciation of equipment under operating leases (notes 4 and 9)	(124,735)	(109,653)
	179,128	156,877
Interest expense	55,876	47,525
Net financing revenue	123,252	109,352
Fleet service revenue (note 9)	161,711	122,675
Direct costs of fixed rate service contracts (note 9)	(11,674)	(9,490)
Servicing income, net	150,037	113,185
Syndication revenue, net (note 9)	14,844	12,865
Net revenue	288,133	235,402
OPERATING EXPENSES		
Salaries, wages and benefits	77,786	72,654
General and administrative expenses	28,944	25,826
Depreciation and amortization (note 14)	15,456	10,410
Amortization of convertible debenture discount (note 6)	950	887
Share-based compensation (note 8)	5,211	7,511
	128,347	117,288
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	8,958	8,674
Loss/(gain) on investments	1,322	(637)
Income before income taxes from operations	149,506	110,077
Provision for income taxes	38,386	29,205
Net income for the period	111,120	80,872
Basic earnings per share (note 11)	\$ 0.26	\$ 0.17
Diluted earnings per share (note 11)	\$ 0.25	\$ 0.17

See accompanying notes

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited, thousands of Canadian dollars, except for per share amounts)

	Six-month period ended	Six-month period ended
	June 30, 2022	June 30, 2021
	\$	\$
NET REVENUE		
Interest income, net (note 9)	181,830	197,211
Rental revenue and other (note 9)	405,231	346,425
Depreciation of equipment under operating leases (notes 4 and 9)	(247,285)	(221,545)
	339,776	322,091
Interest expense	101,343	101,719
Net financing revenue	238,433	220,372
Fleet service revenue (note 9)	305,307	248,489
Direct costs of fixed rate service contracts (note 9)	(23,428)	(20,815)
Servicing income, net	281,879	227,674
Syndication revenue, net (note 9)	28,621	35,954
Net revenue	548,933	484,000
OPERATING EXPENSES		
Salaries, wages and benefits	153,998	146,279
General and administrative expenses	56,741	52,972
Depreciation and amortization (note 14)	29,391	20,936
Amortization of convertible debenture discount (note 6)	1,883	1,759
Share-based compensation (note 8)	11,374	12,751
	253,387	234,697
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	17,867	17,580
Loss/(gain) on investments	2,764	(3,438)
Income before income taxes from operations	274,915	235,161
Provision for income taxes (note 10)	70,191	58,760
Net income for the period	204,724	176,401
Basic earnings per share (note 11)	\$ 0.47	\$ 0.37
Diluted earnings per share (note 11)	\$ 0.46	\$ 0.36

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, thousands of Canadian dollars)

	Three-month period ended	Three-month period ended
	June 30, 2022	June 30, 2021
	\$	\$
Net income for the period	111,120	80,872
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	23,045	2,126
Net unrealized foreign exchange gain (loss)	35,896	(7,297)
	58,941	(5,171)
Provision for income taxes	6,351	550
Total other comprehensive income (loss)	52,590	(5,721)
Comprehensive income for the period	163,710	75,151

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, thousands of Canadian dollars)

	Six-month period ended	Six-month period ended
	June 30, 2022	June 30, 2021
	\$	\$
Net income for the period	204,724	176,401
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	57,585	11,624
Net unrealized foreign exchange gain (loss)	46,257	(83,892)
	103,842	(72,268)
Provision for income taxes	15,876	3,060
Total other comprehensive income (loss)	87,966	(75,328)
Comprehensive income for the period	292,690	101,073

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, thousands of Canadian dollars)

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2021	2,951,596	511,869	13,829	—	(22,536)	(3,809)	3,450,949
Comprehensive income for the period	—	—	—	—	204,724	87,966	292,690
Dividends - Preferred shares (note 7)	—	—	—	—	(16,206)	—	(16,206)
Dividends - Common shares (note 7)	—	—	—	—	(61,782)	—	(61,782)
Redemption of preferred shares (note 7)	—	(146,756)	—	—	(3,244)	—	(150,000)
Options exercised (notes 7 and 8)	7,213	—	—	—	(1,697)	—	5,516
Shares repurchased for cancellation (note 7)	(61,495)	—	—	—	(44,194)	—	(105,689)
Balance, June 30, 2022	2,897,314	365,113	13,829	—	55,065	84,157	3,415,478
Balance, December 31, 2020	3,180,379	511,869	59,603	51,788	(64,057)	44,535	3,784,117
Comprehensive income (loss) for the period	—	—	—	—	176,401	(75,328)	101,073
Dividends - Preferred shares (note 7)	—	—	—	—	(16,206)	—	(16,206)
Dividends - Common shares (note 7)	—	—	—	—	(55,680)	—	(55,680)
Options exercised (notes 7 and 8)	40,484	—	—	(13,607)	—	—	26,877
Shares repurchased for cancellation (note 7)	(155,021)	—	—	(38,403)	(100,507)	—	(293,931)
Employee stock option expense (note 8)	—	—	—	222	—	—	222
Balance, June 30, 2021	3,065,842	511,869	59,603	—	(60,049)	(30,793)	3,546,472

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, thousands of Canadian dollars)

	Six-month period ended	
	June 30, 2022	June 30, 2021
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	204,724	176,401
Items not affecting cash		
Share-based compensation (note 8)	—	222
Depreciation of property, equipment and leasehold improvements	10,834	12,259
Amortization of intangible assets, including from acquisitions	36,424	26,258
Amortization of deferred lease costs	14,779	13,788
Amortization of deferred financing costs	7,642	11,387
Depreciation of equipment under operating leases (note 4)	247,285	221,545
Amortization of convertible debenture discount and deferred costs (note 6)	2,519	2,364
Loss/(gain) on investments	2,764	(3,438)
Provision for credit losses	(432)	(5,012)
	526,539	455,774
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(3,029,946)	(2,172,684)
Repayments of finance receivables	1,649,936	1,877,207
Investment in equipment under operating leases	(539,663)	(436,277)
Proceeds on disposal of equipment under operating leases	131,904	136,394
Syndications of finance receivables	1,474,020	1,664,270
Cash payments for interest portion of lease liability	(997)	(1,162)
Other non-cash operating assets and liabilities	115,581	(36,523)
Cash provided by operating activities	327,374	1,486,999
INVESTING ACTIVITIES		
Investments	938	(270)
Purchase of property, equipment and leasehold improvements	(2,245)	(2,799)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	1,404	677
Purchase of intangible assets, including computer software	(31,725)	(38,116)
Decrease in notes receivable	384	94
Cash used in investing activities	(31,244)	(40,414)
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(4,777)	(4,160)
(Increase)/decrease in restricted funds	(49,778)	5,932
Increase in deferred financing costs	(717)	(10,916)
Issuance of share capital, net	5,516	26,877
Shares repurchased (note 7)	(109,312)	(290,135)
Issuance of term facilities (note 5)	375,334	—
Repayments of borrowings, net	(245,586)	(1,762,502)
Dividends paid (note 7)	(78,604)	(73,097)
Issuance of senior notes (note 5)	—	628,750
Redemption of preferred shares (note 7)	(150,000)	—
Cash used in financing activities	(257,924)	(1,479,251)
Effects of foreign exchange rates on cash	(12,896)	45,427
Net increase in cash during the period	25,310	12,761
Cash, beginning of the period	45,271	8,789
Cash, end of the period	70,581	21,550
Supplemental cash flow information:		
Cash taxes paid	30,131	31,878
Cash interest paid	101,048	90,106

See accompanying notes

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with \$13.2 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, reaching 53 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping thousands of clients optimize the performance and productivity of over 1.4 million fleet vehicles under management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2021, which include information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these unaudited interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 10, 2022.

Accounting policies

These unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2021, except as discussed below.

Syndication

The Company periodically syndicates certain finance lease receivables, either through transferring ownership of the syndicated lease receivables to the third-party investor or through the transfer of an interest in interest bearing notes to third-party investors with the finance lease receivables as a security against the issued note, as well as all contractual rights to future cash flow, interest rate risk, credit risk and tax benefits, if applicable, related to the syndicated lease receivables. In the event the lessee terminates its lease agreement prior to the lease term, the Company is required to pay the third-party investor the foregone interest it would have earned

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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if there was no early lease termination. For each syndication transaction, the Company evaluates the extent to which the risks and rewards of ownership have been transferred.

When substantially all the risks and rewards of ownership have been transferred, the Company derecognizes the lease receivables. When the Company has neither transferred nor retained substantially all the risk and rewards of ownership, a continuing involvement asset and associated liability are recognized to the extent of the Company's maximum continuing involvement. Element's continuing involvement is the amount of syndication fees earned that would be required to be returned to third-party investors if all vehicle leases, not meeting full derecognition criteria, are terminated as of the balance sheet date. The Company accounts for the likelihood of such early terminations separately from its continuing involvement.

When a syndication either qualifies for derecognition or is transferred with continuing involvement, the resulting gain from the syndication is recorded in the consolidated statements of operations in Syndication revenue, net, and the Company recognizes its estimated obligation for early lease terminations as a liability.

The Company continues to perform certain administrative tasks related to the lease receivables after assets are syndicated including billing and cash collections and remits such cash collections directly to the third-party investor. As a result, the Company retains the management fee billed to its clients to cover charges for the performance of these tasks in the majority of syndications.

The Company will continue to provide fleet management services (including accident management services, maintenance services, and fuel cards) regardless of whether or not the lease receivable is syndicated.

Interest Rate Benchmark Reform

The Company adopted amendments ("Amendments") to IFRS 9, *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures (Amendments)*, applicable from November 1, 2019. These Amendments modify certain hedge accounting requirements to provide relief from the effect of uncertainty caused by interbank offered rate ("IBOR") reform ("the IBOR Reform") prior to the transition to alternative interest rates. The adoption of the Amendments had no impact to the Company's unaudited interim condensed consolidated financial statements.

The Company adopted *Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16* ("Phase 2 Amendments") effective January 1, 2021. The Phase 2 Amendments include additional disclosure requirements for financial instruments that have yet to transition to an alternative interest rate at the end of the reporting period.

The Company will cease to apply the Amendments and Phase 2 Amendments as IBOR based cash flows transition to new alternative interest rates or when the hedging relationships to which the relief is applied to are discontinued.

Effective December 31, 2021, the publication of LIBOR settings has ceased for the 1-week and 2-month US LIBOR setting. The overnight, one-month, three-month, six-month and 12-month US LIBOR settings is expected to be terminated on June 30, 2023. To manage the IBOR transition, the Company has established a cross functional initiative with dedicated work streams to evaluate and address the key areas of impact on the Company's leases, services, systems, documents, processes, models, funding and liquidity planning, risk management frameworks, and financial reporting with the intention of managing the impact through appropriate mitigating actions. The Company is progressing on its transition plan and incorporating market developments as they arise.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The following table shows the Company's exposure at June 30, 2022 to IBOR subject to reform that have yet to transition to Secured Overnight Financing Rates. These exposures will remain outstanding as of June 30, 2023 until IBOR ceases and will therefore transition in the future:

	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount ⁽¹⁾
	\$	\$	\$
USD LIBOR (1 month)	1,283,778	—	2,974,064
USD LIBOR (3 month)	728,891	—	—
	2,012,669	—	2,974,064

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rate jurisdictions, including the Australian Bank Bill Swap Rates ("BBSW"), New Zealand Bank Bill Rates ("BBR"), and MXN-TIE-Banxico ("MXIBTIE").

On May 16, 2022, Refinitiv Benchmark Services (UK) Ltd. (RBSL), the administrator of the Canadian Dollar Offered Rate (CDOR), announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Company has determined that its exposure to CDOR is immaterial.

3. FINANCE RECEIVABLES

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

	As at June 30, 2022			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,212,146	234,822	584,379	6,031,347
Unguaranteed residual values	—	61,221	—	61,221
Gross investment	5,212,146	296,043	584,379	6,092,568
Unearned income	(424,954)	(33,783)	(82,579)	(541,316)
Net investment	4,787,192	262,260	501,800	5,551,252
Net realizable value of impaired receivables	2,689	69	—	2,758
Unamortized deferred costs and subsidies	(51,123)	—	—	(51,123)
Prepaid lease payments and security deposits	(24,916)	—	(28,859)	(53,775)
Interim funding	693,313	—	51,228	744,541
Fleet management receivables	636,899	46,248	26,099	709,246
Other receivables	286,649	79,913	104,309	470,871
Continuing involvement asset	20,165	—	—	20,165
Allowance for credit losses (Subsection B)	(7,029)	(1,433)	(1,298)	(9,760)
Total finance receivables	6,343,839	387,057	653,279	7,384,175

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

	As at December 31, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,527,923	248,720	477,520	6,254,163
Unguaranteed residual values	—	61,692	—	61,692
Gross investment	5,527,923	310,412	477,520	6,315,855
Unearned income	(307,650)	(34,792)	(67,436)	(409,878)
Net investment	5,220,273	275,620	410,084	5,905,977
Net realizable value of impaired receivables	2,477	288	—	2,765
Unamortized deferred costs and subsidies	(40,729)	—	—	(40,729)
Prepaid lease payments and security deposits	(34,564)	—	(26,415)	(60,979)
Interim funding	468,512	—	181,643	650,155
Fleet management receivables	546,692	40,232	22,526	609,450
Other receivables	226,572	76,694	76,616	379,882
Allowance for credit losses (Subsection B)	(7,551)	(1,468)	(1,227)	(10,246)
Total finance receivables	6,381,682	391,366	663,227	7,436,275

A) Interest rate characteristics of net investment in finance lease receivables and loan receivables

	As at June 30, 2022		As at December 31, 2021	
	Leases	Loans	Leases	Loans
Net investment	\$ 5,334,419	\$ 216,833	\$ 5,724,951	\$ 181,026
Weighted average fixed interest rate	5.03 %	9.19 %	4.74 %	8.39 %
Weighted average floating interest rate	4.15 %	3.89 %	2.74 %	3.32 %
Percentage of portfolio with fixed interest rate	45.29 %	99.97 %	41.05 %	99.97 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the expected credit loss ("ECL") model to ensure it appropriately reflects current market conditions in light of a potential recession, current inflationary environment, rising interest rates, global COVID-19 pandemic, and information available to the Company as at June 30, 2022.

The Company evaluates its credit risk exposure broadly in line with Standard & Poor's and Moody's ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company's evaluation of the probability of default ("PD") as at June 30, 2022, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

The Company's lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Additionally, used vehicle pricing remained strong throughout the second quarter of 2022, maintaining continued low loss given default ("LGD") levels as at June 30, 2022. The Company expects the used vehicle market to remain strong through 2022 due to continuing supply/demand imbalance. An increasing number of drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles) consequently reducing the supply in the used car market and maintaining higher prices. The microchip shortage remains a vehicle manufacturing industry challenge which continues to impact most OEMs as they are being forced to either slow down or suspend new vehicle production. This impacts new vehicle deliveries, and some of the consumer demand has shifted towards the used vehicle market, further increasing demand and price for used vehicles.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information, pointing to an increasing possibility of an economic recession given the inflationary environment, rising rates, and continued normalization from COVID-19, namely the impact that potential upward or downward trends in Gross Domestic Product ("GDP") and default rates might have on the Company's lease and loan portfolio. The Company has also evaluated multiple scenarios related to this environment, including how it is expected to affect markets and as it pertains to specific industries or customers most susceptible to be impacted by recession and the continuing pandemic situation. Despite unfavorable forward-looking macroeconomic expectations, the resilience of our clients and the favorable evolution of our portfolio allowed Element to reduce the Company's allowance for credit losses to \$9,760 as at June 30, 2022.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

An analysis of the Company's allowance for credit losses under IFRS 9 is as follows:

Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2022	10,218	28	10,246
Transfer to Performing	4	(4)	—
Transfer to Impaired	—	—	—
Lease originations	6,490	—	6,490
Changes in models and inputs, derecognition, and repayments	(7,043)	121	(6,922)
Total	9,669	145	9,814
Charge-offs, net of recoveries	—	(117)	(117)
Foreign exchange	63	—	63
Balance as at June 30, 2022	9,732	28	9,760

Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2021	17,457	261	17,718
Transfer to Performing	184	(184)	—
Transfer to Impaired	(3)	3	—
Lease originations	10,383	—	10,383
Changes in models and inputs, derecognition, and repayments	(17,538)	1,620	(15,918)
Total	10,483	1,700	12,183
Charge-offs, net of recoveries	—	(1,639)	(1,639)
Foreign exchange	(265)	(33)	(298)
Balance as at December 31, 2021	10,218	28	10,246

A summary view of the Company's allowance for credit losses is as follows:

Allowance for credit losses	Six-month period ended	Year ended
	June 30, 2022	December 31, 2021
	\$	\$
Allowance for credit losses, beginning of the period	10,246	17,718
Recovery of credit losses	(432)	(5,535)
Charge-offs, net of recoveries	(117)	(1,639)
Impact of foreign exchange rates	63	(298)
Allowance for credit losses, end of the period	9,760	10,246
Allowance as a percentage of total finance receivables before allowance	0.13 %	0.14%

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

C) Credit risk exposure

The following table sets out the credit risk exposure for finance receivables, fleet management service receivables, and the impaired values and allowances for credit losses recorded.

As at June 30, 2022			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
Low	3,460,342	—	3,460,342
Medium	1,986,918	—	1,986,918
High	103,992	—	103,992
Fleet management receivables	708,958	288	709,246
Other finance receivables	470,871	—	470,871
Impaired	—	2,758	2,758
	6,731,081	3,046	6,734,127
Allowance for credit losses	(9,732)	(28)	(9,760)
Net carrying value	6,721,349	3,018	6,724,367

1. Loan balances of \$19,052, \$197,776 and \$5 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

As at December 31, 2021			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽²⁾			
Low	3,102,417	—	3,102,417
Medium	2,525,526	—	2,525,526
High	278,034	—	278,034
Fleet management receivables	609,108	342	609,450
Other finance receivables	379,882	—	379,882
Impaired	—	2,765	2,765
	6,894,967	3,107	6,898,074
Allowance for credit losses	(10,218)	(28)	(10,246)
Net carrying value	6,884,749	3,079	6,887,828

2. Loan balances of \$8,265, \$172,642 and \$120 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

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The Company's internal risk rating grades broadly align to external ratings as follows:

Internal risk rating grade	Standard & Poor's	Moody's
Low risk	AAA to BBB-	Aaa to Baa3
Medium risk	BB+ to B-	Ba1 to B3
High risk	CCC+ and below	Caa1 and below
Impaired receivables	Default	Default

4. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with operating leases and recognizes the leased assets in its unaudited interim condensed consolidated statements of financial position. The lease payments received are recognized in income as rental revenue. Leased assets under operating leases were as follows:

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Cost	3,543,633	3,271,322
Accumulated depreciation	1,111,845	974,140
Net carrying amount	2,431,788	2,297,182

5. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at June 30, 2022			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	1,548,210	1.45	1,663,494	19,681
Variable funding notes	3,706,509	2.29	4,092,320	25,910
Other	106,421	3.18	106,178	—
Vehicle management asset-backed debt	5,361,140	2.08	5,861,992	45,591
Revolving senior credit facilities	1,321,024	4.65	—	—
Senior notes	1,158,858	2.60	—	—
Term facilities	375,334	2.50	—	—
	8,216,356	2.59	5,861,992	45,591
Deferred financing costs	(20,172)			
Hedge accounting fair value adjustments	(35,411)			
Continuing involvement liability	20,165			
Total borrowings	8,180,938			

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	As at December 31, 2021			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	2,154,974	1.38	2,278,618	22,506
Variable funding notes	3,605,799	1.03	3,911,834	25,519
Other	61,693	3.05	62,096	—
Vehicle management asset-backed debt	5,822,466	1.19	6,252,548	48,025
Revolving senior credit facilities	1,106,629	2.19	—	—
Senior notes	1,143,015	2.60	—	—
	8,072,110	1.53	6,252,548	48,025
Deferred financing costs	(27,023)			
Hedge accounting fair value adjustments	(6,124)			
Total borrowings	8,038,963			

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

The Company was in compliance with all financial and reporting covenants with all of its lenders at June 30, 2022.

Vehicle management asset-backed debt

As at June 30, 2022, the Company had available capacity in variable funding notes of \$973,415 (December 31, 2021 – \$1,073,472) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

As at June 30, 2022, the Company had access to \$1,061,073 (December 31, 2021 - \$1,242,903) of available financing under the revolving senior credit facilities.

Senior notes

As at June 30, 2022, the Company had \$1,158,858 (US \$900,000) in outstanding senior unsecured notes (December 31, 2021 - \$1,143,015 (US \$900,000)).

Term facilities

During the second quarter of 2022, the Company issued \$150,000 and \$225,334 (USD \$175,000) term facilities. Both are set to expire in one year. As at June 30, 2022, the Company had \$375,334 in outstanding term facilities (December 31, 2021 - nil).

Restricted funds

As at June 30, 2022, restricted funds include (i) cash reserves of \$45,591 (December 31, 2021 - \$48,025), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$404,826 (December 31, 2021 - \$347,148), which represents repayments received on assets

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financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions and other payments received that are due back to clients in accordance with their contracts; and (iii) cash of \$5,144 (December 31, 2021 - \$5,757) provided to counter-parties as collateral against derivative liabilities.

6. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

As at June 30, 2022							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	11.91	4.250	172,500	(2,706)	(8,203)	161,591

As at December 31, 2021							
Issue Date	Final maturity date	Conversion price per share	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(3,342)	(10,086)	159,072

1. The conversion price was adjusted on March 31, 2022, the ex-dividend date for dividends to be paid on April 14, 2022, to \$11.9084 for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

7. SHARE CAPITAL

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

	Common shares	
	Shares #	Amount \$
Balance, December 31, 2020	440,275,293	3,180,379
Share repurchase	(39,002,033)	(284,081)
Exercise of options	3,803,967	55,298
Balance, December 31, 2021	405,077,227	2,951,596
Share repurchase	(8,291,100)	(61,495)
Exercise of options	626,185	7,213
Balance, June 30, 2022	397,412,312	2,897,314

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Share repurchase

On November 4, 2020, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 10, 2020 and ending on the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 common shares of the Company, subject to the normal terms and limitations of such bids which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period. On November 10, 2021, the TSX approved Element's notice of intention to renew its NCIB. The renewal allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 15, 2021 and ending on the earlier of November 14, 2022 or the completion of purchases under the NCIB, up to 40,968,811 common shares of the Company, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period.

For the three- and six-month periods ended June 30, 2022, 2,480,900 and 8,291,100, respectively, common shares have been repurchased for cancellation for \$31,177 and \$105,689, respectively, including commission, at a volume weighted average price of \$12.57 and \$12.75, respectively, per common share. For the three- and six-month periods ended June 30, 2021, 13,515,159 and 21,360,045, respectively, common shares have been repurchased for cancellation for \$189,449 and \$293,931, respectively, including commission, at a volume weighted average price of \$14.02 and \$13.76, respectively, per common share. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

Common share dividends

For the three- and six-month periods ended June 30, 2022, the Company declared \$30,800 and \$61,782, respectively, in common share dividends or \$0.0775 and \$0.155 per common share (June 30, 2021 - \$27,421 \$55,680, respectively, or \$0.065 and \$0.13, respectively, per common share).

As at June 30, 2022, the accrued common share dividends were \$30,800 (December 31, 2021 – \$31,415).

Increase in common share dividend

On November 10, 2021, the Board approved an increase in the quarterly common share dividend from \$.065 to \$.0775 per share.

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Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at June 30, 2022 consist of the following:

Series	Issue date	Interest rate %	Gross \$	After tax transaction costs \$	Net proceeds \$	Shares #
A	December 17, 2013	6.93 ¹	115,000	4,625	110,375	4,600,000
C	March 7, 2014	6.21 ²	128,160	3,416	124,744	5,126,400
E	June 18, 2014	5.903 ³	133,048	3,054	129,994	5,321,900

1. On December, 20, 2018, Preferred Shares Series A dividend rate was reset from 6.60% to 6.93%.

2. On June 21, 2019, Preferred Shares Series C dividend rate was reset from 6.50% to 6.21%.

3. On September 19, 2019, Preferred Shares Series E dividend rate was reset from 6.40% to 5.903%.

Series I Preferred Shares Redemption

On June 30, 2022, the Company redeemed all of its 6,000,000 Series I Preferred Shares for a redemption price equal to \$25.00 per share for a total of \$150,000 together with all accrued and unpaid dividends.

Preferred share dividends

For the three- and six-month periods ended June 30, 2022, the Company declared \$8,103 and \$16,206, respectively, in preferred share dividends (June 30, 2021 – \$8,103 and \$16,206, respectively).

As at June 30, 2022, the accrued preferred share dividends were \$89 (December 31, 2021 – \$89).

8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
(a) Stock options	—	51	—	222
(b) Deferred share units	413	312	799	651
(c) Performance share units	2,478	3,832	6,593	5,844
(d) Restricted share units	2,320	3,316	3,982	6,034
	5,211	7,511	11,374	12,751

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(a) Stock options

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

	Number of options #	Weighted average exercise price \$
Outstanding, December 31, 2020	11,022,659	10.01
Forfeited	(20,434)	10.21
Expired	(928,221)	12.79
Exercised ⁽¹⁾	(4,549,219)	10.79
Outstanding, December 31, 2021	5,524,785	8.45
Forfeited	(1,667)	12.65
Expired	(261,692)	12.11
Exercised ⁽¹⁾	(626,185)	8.81
Outstanding, June 30, 2022	4,635,241	8.20

1. Weighted average share price of options exercised during the six-month period ended June 30, 2022 was \$12.94 (year ended December 31, 2021 – \$13.67).

(b) Deferred share units, performance share units and restricted share units

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2020	633,971	1,881,250	1,510,207
Granted	137,482	807,642	904,146
Forfeited	—	—	(105,908)
Redeemed	—	(569,552)	(776,521)
Outstanding, December 31, 2021	771,453	2,119,340	1,531,924
Granted	80,208	1,845,461	905,888
Forfeited	—	—	(81,718)
Redeemed	—	(2,135,422)	(474,251)
Outstanding, June 30, 2022	851,661	1,829,379	1,881,843

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9. REVENUE

Set out below is the disaggregation of the Company's revenue before interest expense.

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Major service lines				
Interest income, net	98,901	93,100	181,830	197,211
Rental revenue	175,198	152,458	345,796	306,331
Gain on sale of equipment under operating leases	29,764	20,972	59,435	40,094
Depreciation of equipment under operating leases	(124,735)	(109,653)	(247,285)	(221,545)
Financing revenue before interest expense	179,128	156,877	339,776	322,091
Service revenue, net	124,681	89,990	235,133	179,781
Vehicle sales and end of contract fees	25,356	23,195	46,746	47,893
Servicing income, net	150,037	113,185	281,879	227,674
Syndication revenue, net	14,844	12,865	28,621	35,954
Net revenue before interest expense	344,009	282,927	650,276	585,719
Primary geographical markets				
US and Canada	230,509	188,472	430,007	398,080
Australia and New Zealand	63,129	56,623	126,081	114,414
Mexico	50,371	37,832	94,188	73,225
Net revenue before interest expense	344,009	282,927	650,276	585,719
Timing of revenue recognition				
Revenue earned at a point in time	138,806	93,950	263,840	203,785
Revenue earned over time	205,203	188,977	386,436	381,934
Net revenue before interest expense	344,009	282,927	650,276	585,719

Revenue earned at a point in time includes gain on sale of equipment under operating leases, commissions from repairs due to accidents, fuel, title and registration fees, syndication revenue, and vendor commissions. Revenue earned over time includes interest income and rental revenue, fleet maintenance and accident management fees, and telematics fees.

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A) Contract balances

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Contract assets	11,299	12,619

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. For the three- and six-month periods ended June 30, 2022, the Company has recorded \$2,300 and \$4,255, respectively, of amortization on its service contract assets (June 30, 2021 - \$1,824 and \$4,914, respectively).

B) Performance obligations

Fixed-fee Service Contracts. The Company provides separately priced and contracted service contracts to its fleet clients that include fuel cards, accident management services, and maintenance services. These service contracts generally have open-ended terms and can be in place as long as the client uses the underlying vehicle that is being serviced. Fees are billed monthly and revenue is recognized over the term of the agreement proportionally over the passage of time.

10. INCOME TAXES

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. IAS 34 requires this annual tax rate to be reviewed each quarter and applied to the profits earned to date.

The effective income tax rate was 25.68% and 25.53% for the three- and six-month periods ended June 30, 2022, respectively (three- and six-month periods ended June 30, 2021 - 26.53% and 25.00%, respectively). The effective tax rate is higher than prior years reflecting year-over-year variances in pre-tax income and other tax related adjustments.

11. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Net income attributable to shareholders	111,120	80,872	204,724	176,401
Cumulative dividends on preferred shares	(8,103)	(8,103)	(16,206)	(16,206)
Net income available to common shareholders	103,017	72,769	188,518	160,195
Weighted average number of common shares outstanding – basic (number)	398,242,052	428,646,160	399,899,132	433,547,176
Basic earnings per share	\$ 0.26	\$ 0.17	\$ 0.47	\$ 0.37

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Diluted earnings per share is as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Net income available to common shareholders adjusted for the effects of dilution	104,609	74,356	191,700	163,420
Weighted average number of common shares outstanding – basic (number)	398,242,052	428,646,160	399,899,132	433,547,176
Convertible debentures (number)	14,485,564	14,315,353	14,485,564	14,315,353
Dilutive stock options and warrants (number)	1,710,145	2,702,363	1,704,118	2,510,649
Weighted average number of common shares outstanding – diluted (number)	414,437,761	445,663,876	416,088,814	450,373,178
Diluted earnings per share	\$ 0.25	\$ 0.17	\$ 0.46	\$ 0.36

Instruments outstanding as at June 30, 2022 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, included 490,503 and 490,503 stock options for the three- and six-month periods ended June 30, 2022, respectively (June 30, 2021 - 50,000 and 50,000 stock options, respectively).

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12. CAPITALIZATION

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value. Element's funding activities are well diversified by facility, geography, investor, and lender and include both secured and unsecured sources.

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

As at	June 30, 2022	December 31, 2021
	\$	\$
Cash	70,581	45,271
Unsecured debt		
Revolving senior credit facilities	1,321,024	1,106,629
4.250% Convertible Debentures due 2024	161,591	159,072
3.850% Senior Notes due 2025	515,048	508,007
1.600% Senior Notes due 2024	643,810	635,008
Term facilities	375,334	—
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	1,548,210	2,154,974
Variable funding notes	3,706,509	3,605,799
Other	106,421	61,693
Deferred financing costs	(20,172)	(27,023)
Continuing involvement liability	20,165	—
Hedge accounting fair value adjustments	(35,411)	(6,124)
Total debt	8,342,529	8,198,035
Shareholders' equity		
Common share capital	2,897,314	2,951,596
Preferred share capital	365,113	511,869
Other	153,051	(12,516)
Total Shareholders' Equity	3,415,478	3,450,949
Total Capitalization	11,758,007	11,648,984

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13. GEOGRAPHIC INFORMATION

The Company primarily operates in the US and Canada, Australia and New Zealand, and Mexico.

Selected geographic assets are as follows:

	As at June 30, 2022				As at December 31, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	6,343,839	387,057	653,279	7,384,175	6,381,682	391,366	663,227	7,436,275
Equipment under operating leases	26,677	1,235,726	1,169,385	2,431,788	30,697	1,295,034	971,451	2,297,182
Goodwill and intangible assets	2,032,778	28,986	7,743	2,069,507	2,013,326	30,412	7,261	2,050,999
Property, equipment and leasehold improvements	60,891	11,066	13,200	85,157	68,273	13,255	12,344	93,872
	8,464,185	1,662,835	1,843,607	11,970,627	8,493,978	1,730,067	1,654,283	11,878,328

Geographic selected assets are based on the location of the assets.

14. LEASES

The Company leases its office space and certain office equipment. The Company accounts for the lease components (fixed payments including rent and variable payments that depend on an index or rate) separately from the non-lease components (e.g. common-area maintenance costs).

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or more. The exercise of lease renewal options is at the sole discretion of the Company and is included in determining the lease liability and right-of-use asset if the Company assesses it is highly likely to exercise the lease renewal options at the inception of the lease. Subsequent to the inception of the lease, management continues to evaluate the likelihood of exercising the lease renewal options to ensure it aligns with the Company's business strategy. Adjustments to the lease liability and right-of-use asset as a result of a modification to the expected lease term are made in accordance with IFRS 16.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of the Company's leases include rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Management evaluates all facilities to ensure the Company's footprint continues to support business activities, employees and client needs. In support of this and to align with the Company's growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year ended December 31, 2020. The remaining lease liability for the closed facilities is \$2,377 as at June 30, 2022 (December 31, 2021 - \$2,772).

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		As at June 30, 2022	As at December 31, 2021
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	58,812	64,188
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	67,304	73,059

1. As at June 30, 2022, right-of-use assets are recorded net of accumulated amortization of \$47,408 (December 31, 2021 - \$41,761).

		Three-month period ended		Six-month period ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
		\$	\$	\$	\$
Lease cost	Classification				
Amortization of leased assets	Depreciation and amortization	2,816	2,905	5,625	5,823
Interest on lease liabilities	Interest expense	491	562	997	1,162
Net lease cost		3,307	3,467	6,622	6,985

Maturity of lease liabilities	As at June 30, 2022
	\$
2022	5,864
2023	10,404
2024	5,936
2025	4,388
2026	4,285
Thereafter	36,427

	As at June 30, 2022	As at December 31, 2021
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	11.6	11.5
Weighted-average discount rate	2.93 %	2.94 %

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., the exit price). The determination of fair value requires judgment and is based on market information, where available and appropriate. Fair value measurements are categorized into three levels within a fair value hierarchy (Level 1, 2, or 3) based on the valuation inputs used in measuring the fair value, as outlined below.

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- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities the Company can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.
- Level 2 – Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation techniques where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.
- Level 3 – Non-observable or indicative prices or use of valuation techniques where one or more significant inputs are non-observable.

Valuation methods and assumptions

Finance lease receivables, finance loan receivables, and borrowings on finance receivables

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

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost. The fair market value of the debt component is calculated by discounting the stream of remaining payments at 5.50%, which represents the rate of interest prevailing for instruments of similar terms and risks without the conversion feature.

Derivatives

The fair values of derivatives are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps.

Investments

The fair value through profit and loss ("FVTPL") investments are valued based on bids received in the private market or using valuation techniques and/or inputs that are based on unobservable market data.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

Accounts receivable, accounts payable, and accrued liabilities

The carrying value of the accounts receivable, accounts payable, and accrued liabilities approximates their fair value.

The tables below summarize the Company's fair value measurement hierarchy for its financial assets and financial liabilities. There were no transfers between Level 2 and Level 3 for the years presented and there were no significant changes in valuation techniques or the range of significant non-observable inputs used in measuring the Company's Level 3 financial assets and liabilities during the year.

	As at June 30, 2022				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non-observable market inputs	
	\$	\$	\$	\$	\$
Financial assets					
Assets not carried at fair value					
Cash	70,581	70,581	—	—	70,581
Finance lease receivables ¹	7,147,177	—	—	7,147,177	7,147,177
Finance loans receivables	216,833	—	—	216,833	216,833
Accounts receivable and other assets	177,114	—	—	177,114	177,114
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	67,471	—	67,471	—	67,471
Interest rate caps	113	—	113	—	113
Equity swaps	31,897	—	31,897	—	31,897
Investments classified as FVTPL	9,484	—	—	9,484	9,484
Total financial assets	7,720,670	70,581	99,481	7,550,608	7,720,670
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,223,626	—	—	1,223,626	1,223,626
Borrowings on finance receivables ¹	8,160,773	—	—	8,160,773	8,160,773
Convertible debentures	161,591	—	167,720	—	167,720
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	69,282	—	69,282	—	69,282
Total financial liabilities	9,615,272	—	237,002	9,384,399	9,621,401

1. As at June 30, 2022, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$20,165.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

	As at December 31, 2021				Total
	Level 1	Level 2	Level 3		
	Quoted market price	Observable market inputs	Non- observable market inputs		
Carrying value	\$	\$	\$	\$	\$
Financial assets					
Assets not carried at fair value					
Cash	45,271	45,271	—	—	45,271
Finance lease receivables	7,255,249	—	—	7,255,249	7,255,249
Finance loans receivables	181,026	—	—	181,026	181,026
Accounts receivable and other assets	191,819	—	—	191,819	191,819
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	20,041	—	20,041	—	20,041
Interest rate caps	17	—	17	—	17
Equity Swaps	6,244	—	6,244	—	6,244
Investments classified as FVTPL	13,054	—	—	13,054	13,054
Total financial assets	7,712,721	45,271	26,302	7,641,148	7,712,721
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,206,550	—	—	1,206,550	1,206,550
Borrowings on finance receivables	8,038,963	—	—	8,038,963	8,038,963
Convertible debentures	159,072	—	166,788	—	166,788
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	28,575	—	28,575	—	28,575
Total financial liabilities	9,433,160	—	195,363	9,245,513	9,440,876

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, thousands of Canadian dollars, except where otherwise noted and per share amounts)

June 30, 2022

16. SYNDICATIONS

The following represents the detail of the Company's syndicated assets that qualify for full derecognition:

		As at June 30, 2022	As at December 31, 2021
	Classification	\$	\$
Allowance for early termination	Accounts payable and accrued liabilities	14,771	21,497
Deferred servicing fee	Finance receivables	401	512

The following represents the detail of the Company's syndicated assets subject to continuing involvement:

		As at June 30, 2022	As at December 31, 2021
	Classification	\$	\$
Continuing involvement in syndicated assets	Finance receivables	20,165	—
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	20,165	—
Allowance for early termination	Accounts payable and accrued liabilities	4,370	—
Net book value of assets related to deals remaining in continuing involvement	N/A	1,295,823	—

The following represents the detail of the Company's syndicated assets for the:

		Three-month period ended		Six-month period ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	Classification	\$	\$	\$	\$
Syndication revenue, net	Syndication revenue, net	14,844	12,865	28,621	35,954
Net book value of assets syndicated	n/a	791,122	610,662	1,451,820	1,626,316

17. COMPARATIVE FIGURES

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