

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

September 30, 2021

Element Fleet Management Corp.

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

	As at September 30, 2021 \$	As at December 31, 2020 \$
ASSETS		
Cash	103,771	8,789
Restricted funds (note 6)	344,120	388,978
Finance receivables (note 3 and 16)	7,680,976	9,561,622
Equipment under operating leases (note 4)	2,224,870	2,157,227
Accounts receivable and other assets	173,119	226,952
Derivative financial instruments (note 16)	21,196	53,629
Property, equipment and leasehold improvements, net	97,623	112,352
Intangible assets, net	822,457	814,378
Deferred tax assets	415,351	444,120
Goodwill	1,221,995	1,223,341
	<u>13,105,478</u>	<u>14,991,388</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,003,874	1,062,610
Derivative financial instruments (note 16)	30,590	68,282
Borrowings (note 6)	8,335,704	9,864,336
Convertible debentures (note 7 and 16)	157,842	154,267
Deferred tax liabilities	77,238	57,776
	<u>9,605,248</u>	<u>11,207,271</u>
Shareholders' equity (note 8)	<u>3,500,230</u>	<u>3,784,117</u>
	<u>13,105,478</u>	<u>14,991,388</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month period ended September 30, 2021	Three-month period ended September 30, 2020
	<u>\$</u>	<u>\$</u>
NET REVENUE		
Interest income, net (note 10)	91,119	122,100
Rental revenue and other (note 10)	175,044	159,381
Depreciation of equipment under operating leases (notes 4 and 10)	<u>(110,230)</u>	<u>(104,908)</u>
	155,933	176,573
Interest expense	<u>46,605</u>	<u>73,301</u>
Net financing revenue	109,328	103,272
Fleet service revenue (note 10)	133,042	135,488
Direct costs of fixed rate service contracts (note 10)	<u>(11,967)</u>	<u>(10,754)</u>
Servicing income, net	121,075	124,734
Syndication revenue, net (note 10 and 18)	13,937	15,246
Net revenue	<u>244,340</u>	<u>243,252</u>
OPERATING EXPENSES		
Salaries, wages and benefits	78,493	74,910
General and administrative expenses	24,355	28,789
Depreciation and amortization (note 15)	15,866	10,568
Amortization of convertible debenture discount (note 7)	903	843
Share-based compensation (note 9)	<u>5,086</u>	<u>5,591</u>
	124,703	120,701
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	8,862	9,338
Restructuring and transformation costs (note 17)	—	24,213
(Gain) loss on investments	<u>(2,776)</u>	<u>710</u>
Income before income taxes from operations	113,551	88,290
Provision for income taxes (note 11)	<u>28,610</u>	<u>17,512</u>
Net income for the period	<u>84,941</u>	<u>70,778</u>
Basic earnings per share (note 12)	<u>\$ 0.18</u>	<u>\$ 0.14</u>
Diluted earnings per share (note 12)	<u>\$ 0.18</u>	<u>\$ 0.14</u>

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Nine-month period ended September 30, 2021	Nine-month period ended September 30, 2020
	\$	\$
NET REVENUE		
Interest income, net (note 10)	288,330	403,490
Rental revenue and other (note 10)	521,469	481,833
Depreciation of equipment under operating leases (notes 4 and 10)	(331,775)	(319,099)
	478,024	566,224
Interest expense	148,324	266,992
Net financing revenue	329,700	299,232
Fleet service revenue (note 10)	381,531	396,227
Direct costs of fixed rate service contracts (note 10)	(32,782)	(31,131)
Servicing income, net	348,749	365,096
Syndication revenue, net (note 10)	49,891	51,666
Net revenue	728,340	715,994
OPERATING EXPENSES		
Salaries, wages and benefits	224,772	225,239
General and administrative expenses	77,327	89,170
Depreciation and amortization (note 15)	36,802	32,134
Amortization of convertible debenture discount (note 7)	2,662	5,401
Share-based compensation (note 9)	17,837	15,455
	359,400	367,399
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 5)	—	38,580
Loss on sale of assets (note 5)	—	(52,442)
Net loss on disposition	—	(13,862)
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	26,442	29,221
Restructuring and transformation costs (note 17)	—	57,871
(Gain) loss on investments	(6,214)	764
Income before income taxes from operations	348,712	246,877
Provision for income taxes (note 11)	87,370	38,147
Net income for the period	261,342	208,730
Basic earnings per share (note 12)	\$ 0.55	\$ 0.40
Diluted earnings per share (note 12)	\$ 0.54	\$ 0.40

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended September 30, 2021	Three-month period ended September 30, 2020
	\$	\$
Net income for the period	84,941	70,778
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss)	5,705	(1,654)
Net unrealized foreign exchange gain (loss)	20,159	(21,699)
	25,864	(23,353)
Provision for income taxes	1,404	1,739
Total other comprehensive gain (loss)	24,460	(25,092)
Comprehensive income for the period	109,401	45,686

See accompanying notes

Element Fleet Management Corp.

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

	Nine-month period ended September 30, 2021	Nine-month period ended September 30, 2020
	\$	\$
Net income for the period	261,342	208,730
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss)	17,329	(43,292)
Net unrealized foreign exchange loss	(63,733)	(14,574)
	(46,404)	(57,866)
Provision for (recovery of) income taxes	4,464	(9,373)
Total other comprehensive loss	(50,868)	(48,493)
Comprehensive income for the period	210,474	160,237

See accompanying notes

Element Fleet Management Corp.

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

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
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	—	—	—	—	261,342	(50,868)	210,474
Dividends - Preferred shares (note 8)	—	—	—	—	(24,309)	—	(24,309)
Dividends - Common shares (note 8)	—	—	—	—	(82,526)	—	(82,526)
Options exercised (notes 8 and 9)	42,797	—	—	(14,160)	—	—	28,637
Shares repurchased for cancellation (note 8)	(218,506)	—	—	(37,860)	(160,029)	—	(416,395)
Employee stock option expense (note 9)	—	—	—	232	—	—	232
Balance, September 30, 2021	3,004,670	511,869	59,603	—	(69,579)	(6,333)	3,500,230
Balance, December 31, 2019	3,127,714	680,412	59,603	68,754	(217,900)	94,062	3,812,645
Comprehensive income (loss) for the period	—	—	—	—	208,730	(48,493)	160,237
Dividends - Preferred shares (note 8)	—	—	—	—	(32,717)	—	(32,717)
Dividends - Common shares (note 8)	—	—	—	—	(59,729)	—	(59,729)
Redemption for preferred shares (note 8)	—	(168,543)	—	—	(3,957)	—	(172,500)
Options exercised (notes 8 and 9)	21,050	—	—	(7,225)	—	—	13,825
Issuance of shares, net of share issue costs (note 8)	12,171	—	—	—	—	—	12,171
Employee stock option expense (note 9)	—	—	—	625	—	—	625
Balance, September 30, 2020	3,160,935	511,869	59,603	62,154	(105,573)	45,569	3,734,557

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Nine-month period ended	
	September 30, 2021	September 30, 2020
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	261,342	208,730
Items not affecting cash		
Share-based compensation (note 9)	232	625
Depreciation of property, equipment and leasehold improvements	18,354	21,362
Amortization of intangible assets, including from acquisitions	44,890	39,993
Amortization of deferred lease costs	19,949	19,607
Amortization of deferred financing costs	17,113	28,873
Depreciation of equipment under operating leases (note 4)	331,775	319,099
Amortization of convertible debenture discount and deferred costs (note 7)	3,575	8,522
Disposal of intangible assets	—	1,089
(Gain) loss on investments	(6,214)	764
Loss on disposal of 19 th Capital, excluding fees	—	7,504
Impairment of fixed assets (note 15)	—	4,113
Provision for credit losses	(6,945)	12,236
	684,071	672,517
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(2,932,761)	(3,959,822)
Repayments of finance receivables	2,770,856	3,703,971
Investment in equipment under operating leases	(712,120)	(647,178)
Proceeds on disposal of equipment under operating leases	214,973	219,174
Syndications of finance receivables	2,198,846	2,236,910
Cash payments for interest portion of lease liability	(1,722)	(2,197)
Other non-cash operating assets and liabilities	(162,047)	(69,125)
Cash provided by operating activities	2,060,096	2,154,250
INVESTING ACTIVITIES		
Investments	(270)	(201)
Sale of 19 th Capital Group LLC (note 5)	—	63,283
Purchase of property, equipment and leasehold improvements	(5,684)	(5,594)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	692	814
Purchase of intangible assets, including computer software	(55,964)	(43,587)
Decrease in notes receivable	102	1,063
Cash (used in) provided by investing activities	(61,124)	15,778
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(6,423)	(5,361)
Decrease (increase) in restricted funds	41,082	(42,069)
Increase in deferred financing costs	(13,948)	(17,626)
Issuance of share capital, net	28,637	13,825
Shares repurchased (note 8)	(417,770)	—
Repayments of borrowings, net	(2,053,472)	(1,741,867)
Settlement of 19 th Capital Group LLC debt (note 5)	—	(59,479)
Dividends paid (note 8)	(108,622)	(79,925)
Issuance of senior notes (note 6)	628,750	550,520
Repayment of 2015 convertible debenture	—	(567,200)
Redemption of preferred shares (note 8)	—	(172,500)
Cash used in financing activities	(1,901,766)	(2,121,682)
Effects of foreign exchange rates on cash	(2,224)	3,063
Net increase in cash during the period	94,982	51,409
Cash, beginning of the period	8,789	24,224
Cash, end of the period	103,771	75,633
Supplemental cash flow information:		
Cash taxes paid	43,306	33,983
Cash interest paid	132,597	242,761

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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 \$13.1 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 over 50 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 more than 5,500 clients optimize their fleet performance and productivity.

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 ("IASB").

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, 2020, 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 November 10, 2021.

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, 2020, except as discussed below.

COVID-19

The extent and duration of the impact of COVID-19 on communities and the economy continues to remain unclear. In the preparation of these unaudited interim condensed consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as at September 30, 2021. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the estimate of any expected credit losses on its net investment in

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

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 our 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.

On March 5, 2021, the Financial Conduct Authority, LIBOR's regulator and administrator, announced that publication of the one-week and two-month USD LIBOR rates will cease after December 31, 2021, and the remaining USD LIBOR rates, including the 1-month and 3-month USD LIBOR rates, will cease after June 30, 2023, finalizing the end dates of USD LIBOR rates.

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.

Hedge accounting

The Company's accounting policies relating to hedge accounting are described in note 2 and note 20 of the Company's consolidated financial statements for the year ended December 31, 2020. The Company applies hedge accounting when designated hedging instruments are highly effective in offsetting changes in the fair value or cash flows of the hedged items at inception and on an ongoing basis. Retrospective assessments are performed to demonstrate that the relationship has been effective since designation of the hedge and prospective assessments to evaluate whether the hedge is expected to be effective over the remaining term of the hedge. While uncertainty due to the IBOR Reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in note 19 of the Company's consolidated financial statements for the year ended December 31, 2020, the Reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may occur at different times. This may result in different impacts on the valuation or cash flow variability of hedged items and related hedging instruments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

Cash flow hedges

The Company applies hedge accounting for cash flow hedges when the cash flows giving rise to the risk being hedged have a high probability of occurring. While uncertainty due to the IBOR Reform exists, the Company applies the relief provided by the Amendments that the IBOR benchmarks, on which the highly probable hedged cash flows are based, are not altered as a result of the Reform. In addition, associated cash flow hedge reserves are not recycled into net income solely due to changes related to the transition from IBOR to new risk-free rates.

Fair value hedges

The Company also applies hedge accounting for interest rate swaps used to hedge our exposure to changes in a fixed interest rate instrument's fair value caused by changes in interest rates. While uncertainty due to the IBOR Reform exists, as a result of adopting the Amendments, the Company applies hedge accounting to IBOR rates which may not be contractually specified when that rate is separately identifiable and reliably measurable at inception of the hedge relationship.

Interest rate benchmark reform exposure

The following table shows the Company's exposure at September 30, 2021 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)	2,258,337	—	2,777,563
USD LIBOR (3 month)	716,177	—	—
	2,974,514	—	2,777,563

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rate jurisdictions, including the Canadian Dollar Offered Rate ("CDOR"), Australian Bank Bill Swap Rates ("BBSW"), and New Zealand Bank Bill Rates ("BBR").

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

3. FINANCE RECEIVABLES

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

	As at September 30, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	6,179,001	251,511	412,497	6,843,009
Unguaranteed residual values	—	60,090	—	60,090
Gross investment	6,179,001	311,601	412,497	6,903,099
Unearned income	(349,135)	(35,196)	(55,922)	(440,253)
Net investment	5,829,866	276,405	356,575	6,462,846
Net realizable value of impaired receivables	2,155	172	—	2,327
Unamortized deferred costs and subsidies	(45,687)	—	—	(45,687)
Prepaid lease payments and security deposits	(17,011)	—	(26,154)	(43,165)
Interim funding	453,707	—	27,009	480,716
Fleet management receivables	477,491	38,854	22,046	538,391
Other receivables	151,649	77,091	65,421	294,161
Allowance for credit losses (Subsection B)	(6,252)	(1,258)	(1,103)	(8,613)
Total finance receivables	6,845,918	391,264	443,794	7,680,976

	As at December 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	8,223,841	268,465	376,170	8,868,476
Unguaranteed residual values	3,178	61,964	—	65,142
Gross investment	8,227,019	330,429	376,170	8,933,618
Unearned income	(529,040)	(39,082)	(56,740)	(624,862)
Net investment	7,697,979	291,347	319,430	8,308,756
Net realizable value of impaired receivables	19,116	6,347	—	25,463
Unamortized deferred costs and subsidies	(78,396)	—	—	(78,396)
Prepaid lease payments and security deposits	(62,475)	—	(22,550)	(85,025)
Interim funding	512,381	—	113,397	625,778
Fleet management receivables	447,089	38,872	19,545	505,506
Other receivables	153,014	76,140	48,104	277,258
Allowance for credit losses (Subsection B)	(13,007)	(2,438)	(2,273)	(17,718)
Total finance receivables	8,675,701	410,268	475,653	9,561,622

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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

	As at September 30, 2021		As at December 31, 2020	
	Leases	Loans	Leases	Loans
Net investment	\$ 6,347,513	\$ 115,333	\$ 8,207,238	\$ 101,518
Weighted average fixed interest rate	4.54 %	9.21 %	4.68 %	8.93 %
Weighted average floating interest rate	2.71 %	3.30 %	2.75 %	4.68 %
Percentage of portfolio with fixed interest rate	43.28 %	99.94 %	45.64 %	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 the global COVID-19 pandemic and information available to the Company as at September 30, 2021.

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 September 30, 2021, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

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 third quarter of 2021, maintaining continued low loss given default ("LGD") levels as at September 30, 2021. The Company expects the used vehicle market will remain strong through the balance of the year due to 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) as a consequence of the pandemic, reducing the supply in the used car market and increasing 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 in light of COVID-19 such as 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 COVID-19, including expected time periods of market slow-down and recovery as a whole and as it pertains to specific industries hit hardest by the pandemic. Despite the continued uncertainty of the pandemic, namely as it relates to new strains of the virus and the pace of vaccinations, the resilience of our clients, the favorable evolution of our portfolio, and improved forward-looking macroeconomic expectations resulted in a reduction of the Company's allowance for credit losses to \$8,613 as at September 30, 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

The Company's evaluation of the above inputs to its model resulted in a benefit of \$1,933 and \$6,945 in the provision for credit losses through the unaudited interim condensed consolidated statement of operations for the three- and nine-month periods ended September 30, 2021, respectively.

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, 2021	17,457	261	17,718
Transfer to Performing	184	(184)	—
Transfer to Impaired	(2)	2	—
Lease originations	6,423	—	6,423
Changes in models and inputs, derecognition, and repayments	(13,351)	(17)	(13,368)
Total	10,711	62	10,773
Charge-offs, net of recoveries	(1,853)	(8)	(1,861)
Foreign exchange	(268)	(31)	(299)
Balance as at September 30, 2021	8,590	23	8,613

Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2020	7,857	575	8,432
Transfer to Performing	495	(495)	—
Transfer to Impaired	(225)	225	—
Lease originations	16,575	—	16,575
Changes in models and inputs, derecognition, and repayments	(4,933)	10	(4,923)
Total	19,769	315	20,084
Charge-offs, net of recoveries	(1,581)	(48)	(1,629)
Foreign exchange	(731)	(6)	(737)
Balance as at December 31, 2020	17,457	261	17,718

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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

	Nine-month period ended	Year ended
Allowance for credit losses	September 30, 2021	December 31, 2020
	\$	\$
Allowance for credit losses, beginning of the period	17,718	8,432
(Recovery of) provision for credit losses	(6,945)	11,652
Charge-offs, net of recoveries	(1,861)	(1,629)
Impact of foreign exchange rates	(299)	(737)
Allowance for credit losses, end of the period	8,613	17,718
Allowance as a percentage of total finance receivables before allowance	0.11 %	0.18%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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 September 30, 2021			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
Low	4,073,715	—	4,073,715
Medium	2,205,472	—	2,205,472
High	183,659	—	183,659
Fleet management receivables	538,089	302	538,391
Other finance receivables	294,161	—	294,161
Impaired	—	2,327	2,327
	7,295,096	2,629	7,297,725
Allowance for credit losses	(8,590)	(23)	(8,613)
Net carrying value	7,286,506	2,606	7,289,112

1. Loan balances of \$7,774, \$107,423 and \$136 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

As at December 31, 2020			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽²⁾			
Low	4,964,294	—	4,964,294
Medium	3,028,747	—	3,028,747
High	315,715	—	315,715
Fleet management receivables	504,005	1,501	505,506
Other finance receivables	277,258	—	277,258
Impaired	—	25,463	25,463
	9,090,019	26,964	9,116,983
Allowance for credit losses	(17,457)	(261)	(17,718)
Net carrying value	9,072,562	26,703	9,099,265

2. Loan balances of \$14,098, \$86,612 and \$809 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and \$25 in Impaired.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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 September 30, 2021	As at December 31, 2020
	\$	\$
Cost	3,202,978	3,067,363
Accumulated depreciation	978,108	910,136
Net carrying amount	2,224,870	2,157,227

5. 19TH CAPITAL

During the second quarter of 2020, the Company continued to shift its efforts to accelerate the run-off of 19th Capital, including ramping-up the pace of liquidation of the entity's assets, immediately reducing the scale of 19th Capital operations. On May 1, 2020, the Company sold the equipment under operating leases and certain other assets of 19th Capital and will have no continuing involvement in the operations, results or cash flows of 19th Capital.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

6. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at September 30, 2021			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	2,827,550	1.60	2,915,710	29,883
Variable funding notes	3,339,713	1.06	3,628,606	22,916
Other	38,560	4.49	38,104	—
Vehicle management asset-backed debt	6,205,823	1.33	6,582,420	52,799
Revolving senior credit facilities	1,007,628	1.44	—	—
Senior notes	1,144,051	2.60	—	—
	8,357,502	1.52	6,582,420	52,799
Deferred financing costs	(26,599)			
Hedge accounting fair value adjustments	4,801			
Total borrowings	8,335,704			

	As at December 31, 2020			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	4,005,371	2.25	4,097,274	48,365
Variable funding notes	3,768,395	1.25	3,974,534	27,667
Other	44,841	4.50	44,406	—
Vehicle management asset-backed debt	7,818,607	1.78	8,116,214	76,032
Revolving senior credit facilities	1,551,939	1.41	—	—
Senior notes	509,080	3.85	—	—
	9,879,626	1.83	8,116,214	76,032
Deferred financing costs	(29,911)			
Hedge accounting fair value adjustments	14,621			
Total borrowings	9,864,336			

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 September 30, 2021.

Vehicle management asset-backed debt

As at September 30, 2021, the Company had available capacity in variable funding notes and other of \$1,336,601 (December 31, 2020 – \$1,910,587) under its vehicle management asset-backed debt facilities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

On March 23, 2021, the Company issued \$944,470 (US \$750,004) of amortizing term notes at an initial weighted average interest rate of 0.51%. The proceeds from this issuance were used to pay down variable funding notes.

Revolving senior credit facilities

As at September 30, 2021, the Company had access to \$1,979,617 (December 31, 2020 - \$1,120,731) of available financing under the revolving senior credit facilities.

Senior notes

As at September 30, 2021, the Company had \$1,144,051 (US \$900,000) in outstanding senior unsecured notes (December 31, 2020 - \$509,080 (US \$400,000)).

On April 6, 2021, the Company issued \$629,644 (US \$500,000) in aggregate principal amount of 1.60% senior unsecured notes due April 6, 2024. The senior unsecured notes were priced at \$99.883 per \$100 principal amount for an effective yield of 1.64%. Interest is paid semi-annually in arrears on April 6 and October 6, commencing on October 6, 2021. The proceeds received at the time of closing will be used for working capital and general corporate purposes.

Restricted funds

As at September 30, 2021, restricted funds include (i) cash reserves of \$52,799 (December 31, 2020 - \$76,032), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$288,652 (December 31, 2020 - \$297,373), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions; and (iii) cash of \$2,669 (December 31, 2020 - \$15,573) provided to counterparties as collateral against derivative liabilities.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

Issue Date	As at September 30, 2021						
	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	12.05	4.250	172,500	(3,654)	(11,004)	157,842

Issue Date	As at December 31, 2020						
	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	(4,567)	(13,666)	154,267

1. There was no change to the conversion price from the date of issuance for the April 5, 2019 issuance.

2. Stated interest rate on principal face value.

May 29, 2015 Issuance

On June 30, 2020, the \$567,200 4.25% extendible convertible unsecured subordinated debentures matured and were repaid in full, including accrued interest, by the Company, on June 29, 2020, in accordance with the Trust Indenture.

8. SHARE CAPITAL

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

	Common shares	
	Shares #	Amount \$
Balance, December 31, 2019	436,509,117	3,127,714
Share issuance	1,677,274	18,140
Share repurchase	(762,100)	(5,500)
Exercise of options	2,851,002	40,025
Balance, December 31, 2020	440,275,293	3,180,379
Share repurchase	(30,085,733)	(218,506)
Exercise of options	2,690,238	42,797
Balance, September 30, 2021	412,879,798	3,004,670

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

Share Repurchase

On November 4, 2020, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid (the "NCIB"). The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on 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. Under this bid for the three- and nine-month periods ended September 30, 2021, 8,725,688 and 30,085,733, respectively, common shares have been repurchased for cancellation for \$122,464 and \$416,395, respectively, including commission, at a volume weighted average price of \$14.03 and \$13.84 per common share, respectively. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. Trade date accounting is the date on which the Company commits itself to purchase the shares.

Issuance of common shares

On October 27, 2020, the Board approved the termination of the dividend reinvestment plan ("DRIP") which was originally announced on October 1, 2018. The DRIP provided eligible shareholders the opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX. Eligible shareholders were required to reside in Canada. Dividends declared after October 27, 2020 are not eligible for the DRIP.

For the three- and nine-month periods ended September 30, 2021, the Company issued nil common shares under the DRIP (September 30, 2020 - 601,483 and 1,164,435 common shares, respectively).

Common share dividends

For the three- and nine-month periods ended September 30, 2021, the Company declared \$26,846 and \$82,526, respectively, in common share dividends or \$0.065 and \$0.195, respectively, per common share (September 30, 2020 - \$19,882 and \$59,427, respectively, or \$0.045 and \$0.136, respectively, per common share).

As at September 30, 2021, the accrued common share dividends were \$26,846 (December 31, 2020 – \$28,623).

Increase in Common Share Dividend

On October 27, 2020, the Board approved the increase in the quarterly common share dividend from \$0.045 to \$0.065 per share.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at September 30, 2021 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
I	May 5, 2017	5.75	150,000	3,244	146,756	6,000,000

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 G Preferred Shares Redemption

On September 30, 2020, the Company redeemed all of its 6,900,000 Series G Preferred Shares for a redemption price equal to \$25.00 per share for a total of \$172,500 together with all accrued and unpaid dividends.

Preferred share dividends

For the three- and nine-month periods ended September 30, 2021, the Company declared \$8,103 and \$24,309, respectively, in preferred share dividends (September 30, 2020 – \$10,906 and \$32,717, respectively).

As at September 30, 2021, the accrued preferred share dividends were \$89 (December 31, 2020 – \$89).

9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
(a) Stock options	10	3	232	625
(b) Deferred share units	318	511	969	1,387
(c) Performance share units	2,881	2,249	8,725	6,805
(d) Restricted share units	1,877	2,828	7,911	6,638
	5,086	5,591	17,837	15,455

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

(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, 2019	16,412,433	10.26
Forfeited	(62,984)	8.69
Expired	(1,565,163)	12.13
Exercised ⁽¹⁾	(3,761,627)	10.22
Outstanding, December 31, 2020	11,022,659	10.01
Forfeited	(20,434)	10.21
Expired	(810,630)	12.78
Exercised ⁽¹⁾	(3,435,490)	11.46
Outstanding, September 30, 2021	6,756,105	8.58

1. Weighted average share price of options exercised during the nine-month period ended September 30, 2021 was \$13.82 (year-ended December 31, 2020 – \$12.45).

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2019	682,703	1,507,806	1,896,940
Granted	176,534	578,018	786,848
Forfeited	—	(1,388)	(102,527)
Redeemed	(225,266)	(203,186)	(1,071,054)
Outstanding, December 31, 2020	633,971	1,881,250	1,510,207
Granted	101,078	797,283	872,085
Forfeited	—	—	(69,276)
Redeemed	—	(569,552)	(727,638)
Outstanding, September 30, 2021	735,049	2,108,981	1,585,378

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

10. REVENUE

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

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Major service lines				
Interest income, net	91,119	122,100	288,330	403,490
Rental revenue	155,302	143,139	461,633	445,891
Gain on sale of equipment under operating leases	19,742	16,242	59,836	35,942
Depreciation of equipment under operating leases	(110,230)	(104,908)	(331,775)	(319,099)
Financing revenue before interest expense	155,933	176,573	478,024	566,224
Service revenue, net	99,713	98,119	279,494	287,601
Vehicle sales and end of contract fees	21,362	26,615	69,255	77,495
Servicing income, net	121,075	124,734	348,749	365,096
Syndication revenue, net	13,937	15,246	49,891	51,666
Net revenue before interest expense	290,945	316,553	876,664	982,986
Primary geographical markets				
US and Canada	197,515	235,476	595,595	758,939
Australia and New Zealand	53,574	50,000	167,988	135,207
Mexico	39,856	31,077	113,081	88,840
Net revenue before interest expense	290,945	316,553	876,664	982,986
Timing of revenue recognition				
Revenue earned at a point in time	112,876	110,417	316,661	313,214
Revenue earned over time	178,069	206,136	560,003	669,772
Net revenue before interest expense	290,945	316,553	876,664	982,986

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.

(A) Contract balances

	As at September 30, 2021	As at December 31, 2020
	\$	\$
Contract assets	14,242	15,214

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

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 nine-month periods ended September 30, 2021, the Company has recorded \$2,101 and \$7,015, respectively, of amortization on its service contract assets (September 30, 2020 - \$2,268 and \$7,156, 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.

11. 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 25.2% and 25.1% for the three- and nine-month periods ended September 30, 2021, respectively (three- and nine-month periods ended September 30, 2020 - 19.8% and 15.4%, respectively). The effective tax rate is higher than prior years reflecting a number of adjustments in the prior year that temporarily reduced the tax rate during the three- and nine-month periods ended September 30, 2020.

12. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Net income attributable to shareholders	84,941	70,778	261,342	208,730
Cumulative dividends on preferred shares	(8,103)	(10,875)	(24,309)	(32,687)
Net income available to common shareholders	76,838	59,903	237,033	176,043
Weighted average number of common shares outstanding – basic (number)	416,353,081	438,853,873	427,752,829	438,006,373
Basic earnings per share	\$ 0.18	\$ 0.14	\$ 0.55	\$ 0.40

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

Diluted earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Net income available to common shareholders adjusted for the effects of dilution	78,444	61,608	241,863	181,430
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	416,353,081	438,853,873	427,752,829	438,006,373
Convertible debentures (number)	14,315,353	14,315,353	14,315,353	14,315,353
Dilutive stock options and warrants (number)	2,564,280	1,497,772	2,495,828	1,487,215
Weighted average number of common shares outstanding – diluted (number)	433,232,714	454,666,998	444,564,010	453,808,941
Diluted earnings per share	\$ 0.18	\$ 0.14	\$ 0.54	\$ 0.40

1. Prior year weighted average number of common shares outstanding has been adjusted for the impact of the issuance of shares under the DRIP by 12,014 and 9,511 shares for the three- and nine-month periods ended September 30, 2020, respectively.

Instruments outstanding as at September 30, 2021 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 701,143 and 701,143 stock options for the three- and nine-month periods ended September 30, 2021, respectively (September 30, 2020 - 7,534,573 and 7,534,573 stock options, respectively).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

13. 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	September 30, 2021	December 31, 2020
	\$	\$
Cash	103,771	8,789
Unsecured debt		
Senior credit facilities	1,007,628	1,551,939
4.250% Convertible Debentures due 2024	157,842	154,267
3.850% Senior Notes due 2025	508,467	509,080
1.600% Senior Notes due 2024	635,584	—
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	2,827,550	4,005,371
Variable funding notes	3,339,713	3,768,395
Other	38,560	44,841
Deferred financing costs	(26,599)	(29,911)
Hedge accounting fair value adjustments	4,801	14,621
Total debt	8,493,546	10,018,603
Shareholders' equity		
Common share capital	3,004,670	3,180,379
Preferred share capital	511,869	511,869
Other	(16,309)	91,869
Total Shareholders' Equity	3,500,230	3,784,117
Total Capitalization	11,993,776	13,802,720

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

14. 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 September 30, 2021				As at December 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	6,845,918	391,264	443,794	7,680,976	8,675,701	410,268	475,653	9,561,622
Equipment under operating leases	32,990	1,278,906	912,974	2,224,870	43,255	1,334,370	779,602	2,157,227
Goodwill and intangible assets	2,008,761	29,737	5,954	2,044,452	2,002,565	32,090	3,064	2,037,719
Property, equipment and leasehold improvements	71,389	13,393	12,841	97,623	82,572	17,478	12,302	112,352
	8,959,058	1,713,300	1,375,563	12,047,921	10,804,093	1,794,206	1,270,621	13,868,920

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

15. 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. As a result, the Company recorded an impairment charge of \$4,113 through Transformation on the right of use, property, plant, and equipment assets at the closed facilities. The remaining lease liability for the closed facilities was \$2,941 as at September 30, 2021 (December 31, 2020 - \$3,580).

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

		As at September 30, 2021	As at December 31, 2020
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	67,045	76,607
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	75,272	84,970

1. As at September 30, 2021, right-of-use assets are recorded net of accumulated amortization of \$38,948 (December 31, 2020 - \$31,134).

		Three-month period ended		Nine-month period ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
		\$	\$	\$	\$
Lease cost	Classification				
Amortization of leased assets	Depreciation and amortization	2,817	3,255	8,640	10,466
Interest on lease liabilities	Interest expense	560	712	1,722	2,197
Net lease cost		3,377	3,967	10,362	12,663

Maturity of lease liabilities	As at September 30, 2021
	\$
2021	2,795
2022	11,653
2023	10,400
2024	5,975
2025	4,445
Thereafter	40,004

	As at September 30, 2021	As at December 31, 2020
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	11.5	11.6
Weighted-average discount rate	2.95 %	2.95 %

16. 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

- 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, in thousands of Canadian dollars, except where otherwise noted and per share amounts)

September 30, 2021

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 September 30, 2021				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	103,771	103,771	—	—	103,771
Finance lease receivables	7,565,643	—	—	7,565,643	7,565,643
Finance loans receivables	115,333	—	—	115,333	115,333
Accounts receivable and other assets	160,427	—	—	160,427	160,427
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	14,532	—	14,532	—	14,532
Interest rate caps	13	—	13	—	13
Equity swaps	6,651	—	6,651	—	6,651
Investments classified as FVTPL	12,692	—	—	12,692	12,692
Total financial assets	7,979,062	103,771	21,196	7,854,095	7,979,062
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,003,874	—	—	1,003,874	1,003,874
Borrowings on finance receivables	8,335,704	—	—	8,335,704	8,335,704
Convertible debentures	157,842	—	166,332	—	166,332
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	30,590	—	30,590	—	30,590
Total financial liabilities	9,528,010	—	196,922	9,339,578	9,536,500

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

	As at December 31, 2020				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	8,789	8,789	—	—	8,789
Finance lease receivables	9,460,104	—	—	9,460,104	9,460,104
Finance loans receivables	101,518	—	—	101,518	101,518
Accounts receivable and other assets	221,129	—	—	221,129	221,129
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	46,655	—	46,655	—	46,655
Interest rate caps	80	—	80	—	80
Equity Swaps	6,894	—	6,894	—	6,894
Investments classified as FVTPL	5,823	—	—	5,823	5,823
Total financial assets	9,850,992	8,789	53,629	9,788,574	9,850,992
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,062,610	—	—	1,062,610	1,062,610
Borrowings on finance receivables	9,864,336	—	—	9,864,336	9,864,336
Convertible debentures	154,267	—	165,000	—	165,000
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	68,282	—	68,282	—	68,282
Total financial liabilities	11,149,495	—	233,282	10,926,946	11,160,228

17. RESTRUCTURING AND TRANSFORMATION

For the three- and nine-month periods ended September 30, 2021, the Company recorded transformation expenses of nil, (three- and nine-month periods ended September 30, 2020 - \$24,213 and \$57,871, respectively). All amounts have been paid or expect to be paid by the end of 2021 with the exception of accrued operating expenses on closed facilities for \$1,978, included in Other, which will be paid out over the remaining term of the lease.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2021

Transformation and restructuring expenses for the three- and nine-month periods ended:

Nature of expenses	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Severance	—	8,576	—	14,347
Professional fees and other	—	15,637	—	43,524
Total	—	24,213	—	57,871

Remaining unpaid liabilities related to transformation expenses.

Nature of expenses	As at September 30, 2021	As at December 31, 2020
	\$	\$
Severance	1,879	9,136
Professional fees	660	22,884
Other	1,978	2,881
Total	4,517	34,901

18. SYNDICATIONS

The following represents the detail of the Company's syndicated assets.

Classification	As at September 30, 2021	As at December 31, 2020
	\$	\$
Allowance for early termination Accounts payable and accrued liabilities	20,637	12,835
Deferred servicing fee Finance receivables	578	814

Classification	Three-month period ended		Nine-month period ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Syndication revenue, net Syndication revenue, net	13,937	15,246	49,891	51,666
Net book value of assets syndicated n/a	521,306	600,442	2,147,622	2,192,614

19. COMPARATIVE FIGURES

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2021

20. SUBSEQUENT EVENTS

Share Repurchase

On November 10, 2021, the TSX approved Element's notice of intention to renew its 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 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, 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. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting Element.

Increase in Common Share Dividend

On November 10, 2021, the Board approved the increase in the quarterly common share dividend from \$0.065 to \$0.0775 per share.