Element Fleet Management Corp.

# Management Discussion and Analysis

September 30, 2022

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the financial condition and results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the three- and nine-month periods ended September 30, 2022 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and accompanying notes as at and for the three- and nine-month periods ended September 30, 2022 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2021 filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or percentages or ratios. References to "Q3 2022", "this quarter", or "the quarter" are to the quarter ended September 30, 2022 and references to "Q2 2022" and "Q3 2021" are to the quarters ended June 30, 2022 and September 30, 2021, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

## CAUTIONARY STATEMENT

**THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO NOVEMBER 8, 2022. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, AND DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "WILL", "POTENTIAL", "PROPOSED" AND OTHER SIMILAR WORDS, OR STATEMENTS THAT CERTAIN EVENTS OR CONDITIONS "MAY" OR "WILL" OCCUR ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION. FORWARD-LOOKING STATEMENTS (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS AS AT AND FOR THE PERIODS ENDED ON CERTAIN DATES AND TO PRESENT INFORMATION ABOUT MANAGEMENT'S CURRENT EXPECTATIONS AND PLANS RELATING TO THE FUTURE AND THE READER IS CAUTIONED THAT SUCH STATEMENTS MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS OR INFORMATION. UNDUE RELIANCE SHOULD NOT BE PLACED ON THESE FORWARD-LOOKING STATEMENTS, AS THERE CAN BE NO ASSURANCE THAT THE PLANS, INTENTIONS OR EXPECTATIONS UPON WHICH THEY ARE BASED WILL OCCUR. BY ITS NATURE, FORWARD-LOOKING INFORMATION INVOLVES NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, THAT CONTRIBUTE TO THE POSSIBILITY THAT THE EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THE IMPACT OF THE COVID-19 PANDEMIC ON INDUSTRY AND MARKET CONDITIONS; THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET FINANCING REVENUE YIELD ON AVERAGE NET EARNING ASSETS; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; EXPECTATIONS REGARDING SYNDICATION; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; THE IMPACT OF VEHICLE MANUFACTURERS' ABILITY TO DELIVER VEHICLES; AND THE RESET RATES FOR THE COMPANY'S OUTSTANDING PREFERRED SHARES. ELEMENT BELIEVES THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.**

**THE COVID-19 PANDEMIC HAS CAST ADDITIONAL UNCERTAINTY ON ELEMENT'S INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THERE CAN BE NO ASSURANCE THAT THEY WILL**

CONTINUE TO BE VALID. GIVEN THE CONTINUED UNCERTAINTY WITH RESPECT TO THE IMPACT AND DURATION OF THE COVID-19 PANDEMIC, IT IS PREMATURE TO MAKE FURTHER ASSUMPTIONS ABOUT THESE MATTERS. THE DURATION, EXTENT AND SEVERITY OF THE IMPACT THE COVID-19 PANDEMIC, INCLUDING MEASURES TO PREVENT ITS SPREAD, WILL HAVE ON ELEMENT'S BUSINESS REMAINS UNCERTAIN AND DIFFICULT TO PREDICT AT THIS TIME.

FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO: THE IMPACT THAT THE COVID-19 PANDEMIC MAY HAVE ON ELEMENT'S FINANCIAL CONDITION, OPERATING RESULTS AND CASH FLOWS; THE IMPACT THAT MANUFACTURERS' PRODUCTION DELAYS WILL HAVE ON ELEMENT'S BUSINESS; ELEMENT'S REVENUES, EXPENSES, RUN-RATE AND OPERATIONS, FUTURE CASH FLOWS, FINANCIAL CONDITION, OPERATING PERFORMANCE, FINANCIAL RATIOS, PROJECTED ASSET BASE AND CAPITAL STRUCTURE; ELEMENT'S ABILITY TO RENEW OR REFINANCE CREDIT AND SECURITIZATION FACILITIES; ELEMENT'S STRATEGY TO IMPROVE AND OPTIMIZE THE CLIENT EXPERIENCE AND CLIENT ACQUISITION AND RETENTION; ELEMENT'S EXPECTATIONS REGARDING SYNDICATION; ELEMENT'S ANTICIPATED CASH NEEDS, CAPITAL REQUIREMENTS AND ITS NEEDS FOR ADDITIONAL FINANCING; ELEMENT'S FUTURE GROWTH PLANS; ELEMENT'S EXPECTATIONS REGARDING ITS ORIGINATION VOLUMES; ELEMENT'S ANTICIPATED DELINQUENCY RATES AND CREDIT LOSSES; ELEMENT'S ABILITY TO ATTRACT AND RETAIN PERSONNEL; ELEMENT'S PRESENT INTENTION TO PAY REGULAR DIVIDENDS ON ITS COMMON SHARES AND PREFERRED SHARES; ELEMENT'S TECHNOLOGY AND DATA, AND EXPECTED USES AND BENEFITS; ELEMENT'S COMPETITIVE POSITION AND ITS EXPECTATIONS REGARDING COMPETITION; ANTICIPATED TRENDS AND CHALLENGES IN ELEMENT'S BUSINESS AND THE MARKETS IN WHICH IT OPERATES; THE EVOLUTION OF ELEMENT'S BUSINESS AND THE FLEET MANAGEMENT INDUSTRY; ELEMENT'S GROWTH PROSPECTS AND THE OBJECTIVES, VISION AND STRATEGIES OF ELEMENT; ELEMENT'S OPERATIONS AND ABILITY TO DRIVE OPERATIONAL EFFICIENCIES; ELEMENT'S EXPECTATIONS REGARDING ITS ASSETS; ELEMENT'S BUSINESS STRATEGY; ELEMENT'S EXPECTATION REGARDING THE AVAILABILITY OF FUNDS FROM OPERATIONS, CASH FLOW GENERATION AND CAPITAL ALLOCATION; ELEMENT'S STRATEGIC ASSESSMENT OF CURRENT AND FUTURE ASSETS; ELEMENT'S BUSINESS OUTLOOK AND OTHER EXPECTATIONS REGARDING FINANCING OR OPERATING PERFORMANCE METRICS; THE EVOLUTION OF OPERATIONS AND THE DEVELOPMENT OF PERFORMANCE INDICATORS, AND OTHER FINANCIAL PERFORMANCE METRICS; THE FUTURE FINANCIAL REPORTING OF ELEMENT; ELEMENT'S FUTURE ASSETS AND THE DEMAND FOR ELEMENT'S SERVICES; ELEMENT'S BORROWING BASE; THE EXTENT, NATURE AND IMPACT OF ANY VALUE DRIVER TO CREATE, AND THE ABILITY TO GENERATE, PRE-TAX RUN-RATE OPERATING INCOME; ELEMENT'S ABILITY TO INCREASE TOTAL SHAREHOLDER RETURN; ELEMENT'S DIVIDEND POLICY AND THE PAYMENT OF FUTURE DIVIDENDS; ELEMENT'S PROPOSED SHARE PURCHASES, INCLUDING THE NUMBER OF COMMON SHARES TO BE REPURCHASED, THE TIMING THEREOF AND TSX ACCEPTANCE OF ANY RENEWAL OF THE NORMAL COURSE ISSUER BID; AND ELEMENT'S ABILITY TO PRE-FUND REDEMPTION OF ITS OUTSTANDING CONVERTIBLE DEBENTURES UPON THEIR MATURITY. THE READER IS CAUTIONED TO CONSIDER THESE AND OTHER FACTORS, UNCERTAINTIES AND POTENTIAL EVENTS CAREFULLY AND NOT TO PUT UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. INFORMATION CONTAINED IN FORWARD-LOOKING STATEMENTS IS BASED UPON CERTAIN MATERIAL ASSUMPTIONS THAT WERE APPLIED IN DRAWING A CONCLUSION OR MAKING A FORECAST OR PROJECTION, INCLUDING MANAGEMENT'S PERCEPTIONS OF HISTORICAL TRENDS, CURRENT CONDITIONS AND EXPECTED FUTURE DEVELOPMENTS, AS WELL AS OTHER CONSIDERATIONS THAT ARE BELIEVED TO BE APPROPRIATE IN THE CIRCUMSTANCES. ALTHOUGH ELEMENT BELIEVES THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, THERE CAN BE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO BE CORRECT. ELEMENT CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER ELEMENT NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS AND INFORMATION.

SOME OF THE RISKS AND OTHER FACTORS, SOME OF WHICH ARE BEYOND ELEMENT'S CONTROL, WHICH COULD CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS AND INFORMATION CONTAINED IN THIS MD&A, INCLUDE, BUT ARE NOT LIMITED TO, THOSE SET FORTH UNDER THE HEADING "RISK MANAGEMENT" HEREIN AND UNDER THE HEADING "RISK FACTORS" IN ELEMENT'S ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 2021. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.

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# Company & Business Overview

Element Fleet Management Corp. is the largest pure-play automotive fleet manager in the world. Our business is exclusively focused on business-to-business services for corporates, governments and not-for-profits that operate large fleets of vehicles. Element has nearly 1.5 million vehicles under management and is the market leader everywhere we operate: the U.S., Canada, Mexico, and Australia and New Zealand (ANZ).

The fleet management industry took shape over 70 years ago and has consistently demonstrated stability and resilience throughout the business cycle. The industry is characterized by high barriers to entry, rational competition and long-term client relationships.

Element specializes in large and often complex fleets. We benefit from a blue-chip client base, significant advantages of scale and expertise, and the financial strength to support the achievement of our own and our clients' business objectives. Element's purpose is to ensure that our clients' vehicles and their drivers are safer, smarter and more productive.

Fleet vehicles are essential to our clients' ability to generate and sustain revenue or, in the case of governments and not-for-profits, fulfill their obligations to stakeholders. Regardless, fleet vehicles have significant associated costs.

Element's value proposition is the material reduction of our clients' total cost of fleet operations ("TCO") and the elimination of related administrative burden. We deliver this value to clients through service solutions that span the fleet lifecycle, from vehicle acquisition and financing to maintenance, repair and remarketing. In plain English, "we make the complex simple for our clients" – a proposition that is becoming increasingly compelling as operators seek to evaluate the addition of electric vehicles ("EVs") to their fleets. Our comprehensive and fully integrated EV offering, *Arc by Element,* is detailed herein.

From September 2018 through December 2020, we successfully executed a three-pronged strategy to transform Element and position the business for sustainable growth. We solidified the Company's core operating platform and client relationships, strengthened and deleveraged the balance sheet and divested of all non-core assets.

We completed the transformation having effected hundreds of changes to the organization resulting in a more consistent, superior client experience; greater operational efficiency and scalability; a materially strengthened financial position and maturing capital structure; diversified funding sources (including approximately $2.2 billion of committed, undrawn liquidity at September 30, 2022); and meaningfully improved profitability.

Beginning in 2018 in Mexico and 2020 in the U.S., Canada and ANZ, our successful transformation efforts empowered Element's commercial teams to focus on the aggressive pursuit of profitable, organic revenue growth. Our global growth strategy leverages the Company's market leadership to (i) exceed the industry average 98% client retention rate, (ii) increase service and financing penetration - and service utilization - within our existing client base ("share of wallet"), (iii) steal market share from other fleet managers, (iv) convert self-managed fleets into Element clients, and (v) win government and "mega" fleet[1] opportunities.

The last four years have given our people the skills and confidence to recognize and capitalize on a myriad of opportunities while managing complicated, deeply nuanced business issues. These capabilities were on full display as our organization deftly adapted to operating through the COVID-19 pandemic while maintaining sharp focus on our three strategic growth priorities:

- Aggressively pursue organic growth in all our geographies and demonstrate the scalability of Element's transformed operating platform by growing annual operating income in excess of the annual net revenue growth rate;

- Advance a capital-light*er* business model by growing services revenue and strategically syndicating fleet assets, which enhances return on equity; and

- Given the expected double-digit annual free cash flow per share growth rate, predictably return excess equity to investors by way of growing common dividends and share buybacks.

[1] A "mega" fleet is a very large client or prospect with complex needs, being provided or requiring a high number of services that (a) generate significant annual net revenue and (b) necessitate the development of custom service delivery capabilities beyond Element's standard operations.

# Financial Highlights

## Select Q3 2022 Results

| Earnings per share | After-tax adjusted operating income per share[2] | Free cash flow per share[3] |
|---|---|---|
| $ 0.25 | $ 0.30 | $ 0.38 |
| **Net revenue growth** | **Pre-tax income margin[3]** | **Adjusted operating margin[2]** |
| 19.0 % | 49.0 % | 56.9 % |
| **Average vehicles under management** | **Return on common equity[2]** | **Pre-tax return on common equity[3]** |
| 1,466,000 | 11.7 % | 17.8 % |

## Income Summary

| *(in $000's for stated values, except per share amounts)* | | **For the three-month period ended September 30, 2022** |
|---|---|---|
| Servicing income, net | **$** | **149,931** |
| Net financing revenue | | **124,859** |
| Syndication revenue, net | | **15,998** |
| Net revenue | | **290,788** |
| *Adjusted operating expenses* | | ***125,382*** |
| Total operating expenses | | **139,233** |
| Total other expenses | | **9,144** |
| Pre-tax income | | **142,411** |
| Earnings per share [basic] | | **0.25** |
| *Adjusted operating income before taxes* | | ***165,406*** |
| *After-tax adjusted operating income per share [basic]* | ***$*** | ***0.30*** |

[2] Please refer to the Descriptions of Non-GAAP Measures section for a description of this non-GAAP measure.
[3] Please refer to the Glossary of Terms section for a description of this non-GAAP measure.

# Achievements and Initiatives in the Period

## Global Balanced Scorecard

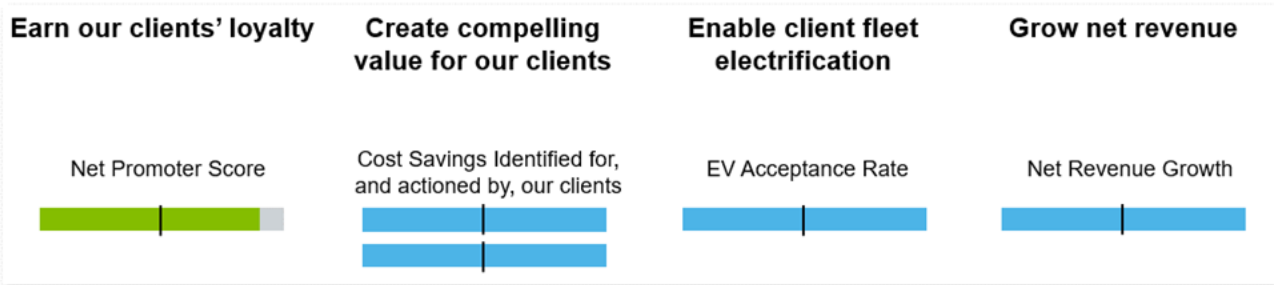
Element uses a balanced scorecard strategy and performance management system, which forges tighter alignment and focus throughout the Company, resulting in the rapid advancement of our strategic objectives. The balanced scorecard frames the business in four dimensions, representing Element's chief stakeholders: our clients, business, people and investors.

As mentioned in previous quarters this year, our 2022 Global Balanced Scorecard ("Global BSC") includes one new strategic objective and three new metrics (as compared to our 2021 Global Balanced Scorecard). The 2022 alterations to the Global BSC have been supportive of our direction and overall ambitions:

- New strategic objective: Enable client fleet electrification
    - Accompanying new metric: EV acceptance rate
- New metrics:
    - Operating margin (replacing Operational efficiency index)
    - Free cash flow per share (replacing Free cash flow)

Element's Q3 Global BSC results were as follows:

## Our Clients




**<u>Earning our clients' loyalty</u>**

We consider Net Promoter Scores ("NPS") to be invaluable indicators of the consistency and effectiveness with which we deliver Element's superior client experience. Our continued focus on consistency and effectiveness yielded strong NPS results through Q3 2022.

Our Global NPS is an average of the current and prior three quarters' NPS from each of our operating geographies, weighted to account for differences in business size.

Global NPS for the last twelve months ("LTM") ended September 30, 2022 was 41, which is a 15-point increase over September 30, 2021 and represents continued momentum in delivering a consistent superior client experience.

Year-over-year NPS improvements were consistent across the organization, led by 19- and 31-point gains in the U.S.+ Canada and our Strategic Relationships Business Unit ("SRBU") respectively; a 1-point increase in ANZ; and Mexico maintaining an elite NPS of over 50.

Client feedback regarding the ease of doing business remains at an all-time high, demonstrating our continued ability to "make the complex simple for our clients".

**<u>Creating compelling value for our clients</u>**

Our global Strategic Consulting Services ("SCS") team provides significant value to clients by proactively identifying challenges and opportunities specific to each client's fleet and sharing responsive solutions and strategies directly with the client. Year-to-date, our SCS team identified over $1.1 billion of cost saving opportunities for clients. Opportunities to save approximately $340 million in value were "actioned" by our clients year-to-date.

In these unprecedented times, our clients continue to move towards more sustainable fleet practices, many with aggressive corporate sustainability goals in place. The SCS team spent a significant amount of Q3 informing clients about the electric vehicle ("EV") landscape, performing feasibility analyses to initiate early rollout / pilot planning, and providing guidance on overall approaches to transitioning from internal combustion engine-powered ("ICE") vehicles to EVs, while also addressing client concerns around range and charging infrastructure.

At the beginning of the year, SCS launched an innovative EV tool to help clients identify existing ICE vehicles in their fleets that they can begin to transition to EVs based on objective criteria that are critical to the success of an EV in the field. In Q3, we enhanced the EV tool to include hybrid (versus pure EV) vehicles. Based on client feedback, this was an important factor to consider as vehicle availability is limited and thus transitioning to fully electrified fleets can be challenging for clients. Our SCS team listened to client feedback and quickly responded to provide an option to evaluate an interim step in the EV transition.

This quarter, we continued to leverage our expertise and data to build models that allow us to identify cost saving opportunities for *prospective* clients who may not know their current fleet spend amounts or key performance indicators. Capturing, consolidating, measuring, and reporting on fleet data can be a significant challenge for prospects. This tool helps establish a baseline to measure against and allows us to identify the greatest cost savings opportunities available to them.

As we continue to enhance our data capabilities, we launched our refreshed Xcelerate Intelligence platform to allow clients to access a greater breadth of information and data insights compiled by our SCS team specifically for them. Data visualization features make it easier to understand and identify opportunities that drive savings. Early feedback has been very positive as the platform provides clients with direct access to information such as costs, billing breakdowns and inventory statuses that were not previously available within Xcelerate on an on-demand basis.

In New Zealand, the Custom Fleet SCS team continues to lead clients through EV suitability and cost savings analyses. Notable Q3 analyses included (i) the transition of a multinational pharmaceutical company's fleet from ICE vehicles to battery electric vehicle ("BEV") or hybrid alternatives, whereby $3.6 million Australian dollars ("AUD") in savings were identified and (ii) the performance of vehicle selection and fit-for-purpose reviews for Asia Pacific's leading provider of vehicle parts, accessories, and equipment, resulting in $5.4 million AUD in savings for the client.

## Enabling client fleet electrification

As previously noted, we continue to see growing client interest in and demand for EVs. Element is well-positioned to support our clients and lead our industry through the gradual electrification of automotive fleets.

*Arc by Element* – our comprehensive, integrated end-to-end EV offering – brings our EV services to market under a single banner, ensuring consistency for our global clients and reinforcing the program's seamless nature across our geographies.

*Arc by Element* builds on the success of our colleagues at Custom Fleet in New Zealand, who innovated and brought to market an end-to-end EV fleet management product called EV+ years ago; a best-in-class offering by global standards that remains the only one of its kind in ANZ today. The rebranding of EV+ to the *Arc by Element* name is now complete.

Last year, we built out the *Arc by Element* product and pre-launch initiatives, which included the expansion of core Element offerings (*eg*. maintenance, collision, titling & registration, tolls & violations, etc.) to accommodate EVs at scale (while maintaining or enhancing the caliber of our ICE vehicle service capabilities). *Arc by Element* also encompasses new services related to road mapping and planning, charging infrastructure, pilot and rollout support, incentive identification and capture, and turnkey solutions for home and public charging of EVs.

In the U.S. and Canada, we are continuing to support our growing portfolio of EV pilots, where we have nearly doubled our EV pilot targets and tripled the number of chargers to be deployed across our EV fleet. In Q3, we began the delivery of nearly 100 EVs across multiple large client fleets (and the installation of associated infrastructure), all of which will continue into next quarter. One EV pilot success for a U.S. multinational information technology company led to the expansion of the client's electrification pilot scope into service vans, as well as a sedan pilot in Canada - with further plans to add additional vehicles.

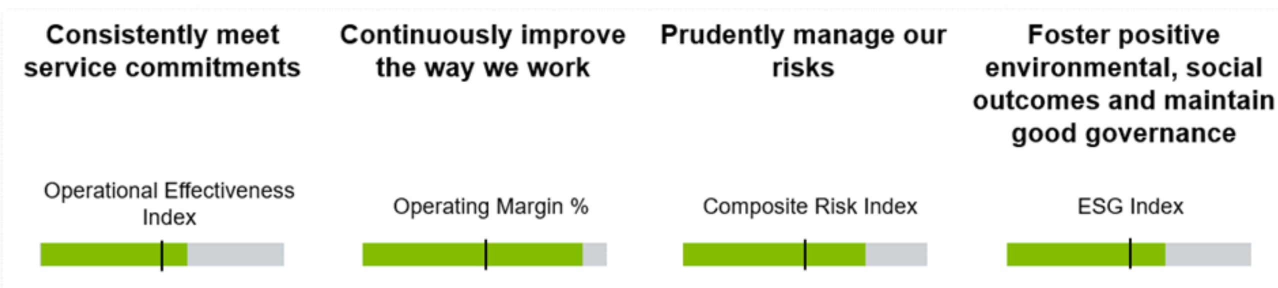
In New Zealand (where it all started) our business continues to increase capability in the government fleet sector. Custom Fleet was appointed to a national Government panel last year to provide consultancy services for agencies looking to transition their fleet to electric vehicles. In Q3 alone, Custom Fleet commenced installations for 25 EV chargers for two New Zealand government agencies and is now working on an EV transition plan for a major Australian bank whereby Custom Fleet has successfully secured government EV incentives on their behalf.

In Australia, Custom Fleet hosted events in Sydney and Brisbane headlined by clients sharing their experience and insights on transitioning their fleet from ICE vehicles to EVs. The events were well received from a highly engaged audience.

In Mexico, sustainability objectives are the main driving force behind client fleet electrification initiatives. The success our Mexico team has had in fleet electrification for multiple large clients has established us as a trusted strategic partner, especially in the medium- and heavy-duty truck segments. In Q3 alone, we had 9 clients express interest in investing in an EV transition, and delivered dozens of BEVs to our clients. We also delivered ten heavy-duty BEV trucks in the quarter for a large Mexican logistics client, with an aim for their fleet to reach 35 BEV’s by the end of 2022.

Last quarter, we ordered 120 electric heavy-duty trucks from BYD Motors Mexico (an EV OEM) on behalf of our client that is one of Mexico’s top freight carriers. All 120 trucks were delivered in October, making this the second largest heavy-duty electric fleet outside of China. The heavy trucks also have the greatest towing capacity in Latin America.

## Our Business




**Consistently meeting service commitments**

Over the course of the last 24+ months of global pandemic conditions and, more recently, OEM production delays, our clients have gained a new level of appreciation for Element's consistent, superior service experience. Our investment in technology and our continuous improvement mindset have enabled us to deliver this client experience, and those same attributes are reflected in our Global BSC Operational Effectiveness Index score.

In Q3, our Accident Management services team introduced new tools and processes to expedite the assessment and repair of damaged vehicles within our supplier network. This feature simplifies the driver experience while improving accident remediation for our clients, translating into less vehicle downtime.

Our new state-of-the-art Maintenance Management platform has greatly improved our ability to serve our clients and suppliers throughout the repair process. 90% of all our maintenance transactions are now submitted electronically using the platform, improving the overall client experience through efficiency and ease. Our maintenance team handled 40,000 more transactions in Q3 2022 than in Q3 2021 -- a 9% increase year-over-year -- with the same-sized team, driving a material reduction in cost per transaction. In addition, the platform upholds accountability by revealing repair time stamps for increased visibility into the repair cycle, and increases the speed at which these repairs are billed to our clients.

Also in Q3, we implemented our new digital communications platform, beginning the journey to realizing a comprehensive view of driver-centric communications across the Element product offering and enabling proactive engagement with drivers through their channel of choice (web, app, phone, email, SMS and chat). As part of this platform, we launched pre-registration notification emails to our clients’ drivers that allow them to increase our overall pre-registration rates, with an aim of helping both drivers and clients understand and manage prerequisites for license plate renewal. Our newest capability features a chat tool within Xcelerate for drivers, which includes chatbot-based interactions to answer common registration renewal questions (early results indicate 80% of all interactions can be supported in an automated fashion) and live agent chat support for drivers is available where further support is required. This feature further improves our clients' overall service experience by increasing efficiency.

In New Zealand, we helped one of our largest clients - which operates in the emergency services sector - fit approximately 90% of their fleet with telematics that provide us detailed trip level data for every vehicle, including trip start and end time as well as distance travelled. This data has allowed us to provide the client with detailed analysis of their fleet utilization and fuel usage, and recommendations for improvements.

## Continuously improving the way we work

The Continuous Improvement Group continues to expand project focus, training, and automation as we drive our commitment to a continuous improvement culture at Element.

In Q3, the Continuous Improvement Group continued to make progress against three key priorities:

- Maintaining a team of dedicated resources to drive Continuous Improvement at Element;
- Implementing a scoring model to evaluate where and how Continuous Improvement team members are deployed on projects across Element (including Custom Fleet); and
- Developing automation solutions.

Our CI Skills and Mindset Program continues to develop Lean Six Sigma skills in the organization, with our 8$^{th}$ Yellow Belt Cohort having launched in the quarter. The program encourages and trains employees to identify innovative cost- and time-saving opportunities for clients as well as improve the overall client experience.

In Q3, we developed and implemented ten additional new automation solutions by leveraging Robotic Process Automation "bots" and other light-touch tools. Our total library of automations now contains 143 solutions accounting for over 319,313 transactions processed and 9,485 hours saved for our employees in Q3 2022 alone. These automation solutions decrease cycle times, provide increased accuracy leading to a superior employee and client experience, and make our business more scalable.

*Xcelerate Ordering*

We continue to successfully migrate Element clients to our state-of-the-art North American Vehicle Ordering ("NAVO") platform. Nearly ninety percent of NAVO orders were placed directly by our clients, without the need for Element assistance, as interactive help and support tools within the platform provide guidance throughout the ordering process. Feedback received to date confirms the NAVO platform is more user-friendly and easier to navigate for clients than predecessor systems, with a better flow of information. In addition to perpetuating a consistent, superior client experience, the NAVO platform is already delivering approximately $2 million of annual operating cost savings through the reduction of manual processing requirements and automation of order transmission, thereby bolstering the scalability of our operating platform.

## Prudently managing our risks

In 2021, we introduced Element's first Enterprise Composite Risk Index ("ECRI") based on our key risk universe, translated into Risk Appetite Statements ("RAS") with applicable metrics and thresholds. The ECRI has contributed to a deeper understanding of our risk universe and of the interconnectivity of risks, helping us to build a stronger risk awareness within the organization.

For 2022, we refreshed our risk universe based on the current environment, added required RAS and reviewed our existing metrics and thresholds based on our learnings of the past year. We have also introduced a cross-functional Enterprise Risk Council led by our Chief Financial Officer, which focuses on large and emerging risks to the business. The council is staffed cross-functionally and is driving the risk culture more deeply into the organization.

The ECRI is tracking above target as reported on our Global BSC this quarter.

**Fostering positive environmental and social outcomes and maintaining good governance**

Our ESG strategy is based on four key pillars:

- Sustainability: Our core objective is to reduce greenhouse gas emissions, focusing on expanding our EV offerings and offering consulting services to help our clients optimize the fuel-efficiency of their fleets.

- Diversity, Equity & Inclusion ("DE&I"): We are committed to doing more – to being an organization wherein mutual respect and mutual trust are absolute and where each of us is respected and has an equal opportunity to thrive.

- Satisfaction & Safety: We have set meaningful targets for Satisfaction & Safety for our clients and employees. Our goals include fostering accident avoidance for client drivers, maintaining a best-in-class global employee engagement score and further increasing our Global NPS. (Please see "Earning our clients' loyalty" above for a discussion of our outperformance against target on our Global NPS.)

- Governance: We will continue to evolve our board composition and our ESG reporting to maintain the high standing we have become known and recognized for.

In Q3 2022, we participated in the United Nations ESG Reporting Peer Review program, and were awarded the ESR Socially Responsible Company certification for the third consecutive year in Mexico, which recognizes companies for their internal ESG initiatives as well as initiatives with key stakeholders.

These activities are advancing Element's ESG agenda and, in many cases, will help us track our ESG performance to build a robust baseline on which we can aim to improve in subsequent years. Our Second annual ESG report details progress on our ESG strategy, goals and commitments first outlined in our inaugural report while mapping out our goals for the remainder of 2022 and beyond.

*Supplier Diversity*

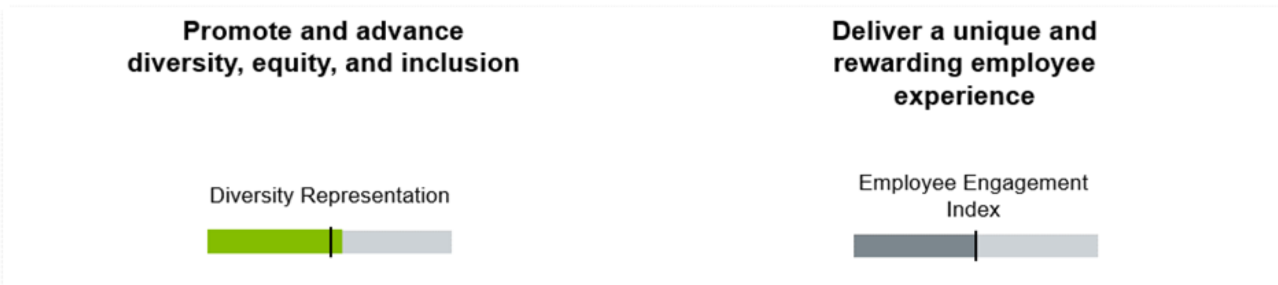
We have a long and well-established track record of fostering supplier diversity, dating back to the early 1990s at Element's predecessor companies. Our ongoing supplier diversity initiatives are something Element is very proud of and are increasingly important to our clients. Last quarter, we published our Supplier Diversity Program overview, which is available on our website. The purpose of our Supplier Diversity Program is to provide opportunities for diverse suppliers that satisfy our procurement and contractual requirements; and support our clients in achieving their own supplier diversity spend goals.

Notably in Q3, Element has taken on a leadership role in the industry as our people leaders have presented on topics related to supplier diversity on industry-leading stages. We also shared our commitment to supplier diversity with our stakeholders which includes the 3 Cs of Element's stand-out supplier diversity program (Culture, Consultation and Change).

We track diversity spend and offer clients customized tracking solutions to ensure their diversity commitments applicable to their fleet operations are understood, organized and can be accurately reported. Moreover, our SCS team applies a "client diversity spend requirements" lens to all our proactive advisory work, offering actionable insights to clients that will improve their practices in this area.

Element is a member of the National Minority Supplier Development Council (NMSDC), Disability:IN Minnesota, and the Women's Business Enterprise National Council (WBENC) in the U.S., as well as the Canadian Council for Aboriginal Business (CCAB) and the Canadian Aboriginal and Minority Supplier Council (CAMSC) -- for which we just sponsored the CAMSC Annual Business Awards.

## Our People




Propelled by our strong performance in the first half of the year, and enabled by continuing investment in them and the systems that support them, our people continued to drive results in Q3 thanks to an unwavering focus on delivering a consistent superior client experience and a reinvigorated return to in-person collaboration.

### Recognizing tremendous work

Our people are focused on what matters most to our business as outlined in our Global BSC objectives – the foundation of our pay-for-performance culture. In recognition of our outstanding first-half performance against those objectives, we announced an accelerated short-term incentive plan (STIP) payment for employees at Director-level and below. Our people received half their annual incentive bonus in October, with the remaining half to be paid in February 2023. This decision underlines the confidence we have in our people to sustain our great momentum and close the year strong.

### Getting back to the office and supporting our people

In September, we renewed our commitment to in-person collaboration at least two days a week while encouraging client visits on high-attendance days to showcase Element at its best. In response to employee feedback from our summer Element Engage sessions, we refreshed our meeting guidelines and shortened standard meeting times so our people can manage their time more effectively and consistently. We also immediately offered Element Days – company-wide days-off in July and September – to give our people time to recharge.

The health and safety of our people continues to be our top priority, and as community guidelines continue to evolve, we updated our COVID-19 protocols to align with same, removing the vaccine requirement from our Healthy Workplace Policy and no longer requiring social distancing in our offices. We also rolled out new health and wellbeing services for our people – whether working remotely or in the office – as well as new learning pathways to help with work life balance in this new hybrid way of working.

### Fostering inclusion and supporting our communities

Our Diversity Equity and Inclusion (DE&I) strategy continues to build awareness, education, and action to foster a more inclusive workplace. Beginning in September, we celebrated Hispanic Heritage Month with our Latin Business Resource Group[4] hosting weekly activities and events. Our Black Employee, Latin and

[4] Formerly known as Element "employee networks", Business Resource Groups (BRGs) are employee-led groups that foster an inclusive culture by bringing together employees who have similar backgrounds, experiences, and/or interests and their allies. BRG participation is voluntary and open to employees in all global regions who are interested in and support the objectives of the BRG, regardless of their background.

Women's BRGs also partnered in Q3 to deliver a professional development and role preparedness series to all our people. In July, we were thrilled to host veteran and disability rights advocate, Dr. Richard Pimentel who joined our ADEPT and Veterans BRGs in a two-part event to share his story and perspective on disability management, recruitment and retention and the *Americans with Disabilities Act*. We also hosted a successful BRG summit with 50 leaders, recognizing their contributions to our employee experience and culture.

## Our Investors


**<u>Business outlook</u>**

Management and the Board recently completed their annual strategic review, confirming the organization's commitment to our three strategic growth priorities, and updating our three-year view of operating and financial performance.

*Profitable revenue growth atop a scalable operating platform*

Having assessed our reinvigorated Commercial capabilities and their ability to both grow vehicles under management ("VUM") and increase share-of-wallet (through higher penetration, utilization, and pricing), we believe Element can reliably deliver **6% to 8% annual organic net revenue growth in normal market conditions**; materially better than our prior 4% to 6% annual organic net revenue growth benchmark. Our confidence is grounded in the progress made to date and the market prospects we envision.

To better attain (and onboard) this growth, we plan on slightly elevated levels of operating expenses over the next five quarters, beginning this (fourth) quarter (of 2022, and running through 2023). That said, we continue to target annual expansion in operating margins over this period (and elevated levels of expansion thereafter), such that revenue growth rates are expected be in excess of operating expense growth, creating superior growth in operating income.

*A capital-lighter business model*

In addition to the increased focus on Services growth noted above, we continue to see Syndication as a key enabler to advance our capital-lighter business model and enhance return on equity for the foreseeable future. Growing originations (and thus lease activations) from increasing OEM production should provide a ready supply of lease assets to sell to a broadening geographic base of Syndication investors (already in Canada and, eventually, in Mexico). Accordingly, we expect syndication volume to step-up significantly in 2023 and remain at those levels thereafter.

*Growing free cash flow per share and the return of capital to shareholders*

Strong growth in operating income combined with our capital-lighter business model has produced outsized growth in free cash flow per share for Element. We expect that to continue. And we plan to allocate this excess capital as follows:

- Eliminate the last of the high-cost legacy financing instruments (convertible debentures and preferred shares);
- Grow the common dividend consistent with the growth in free cash flow per share; and
- Repurchase common shares under Normal Course Issuer Bids ("NCIB"s).

## Full-year 2023 results guidance

We provided full-year 2022 results guidance last quarter, both including and excluding $25 million of net revenue (and resulting operating income and cash flow) from actions being taken this year that are not expected to generate similar levels of net revenue next year or in subsequent years. The guidance excluding such revenue is 2022 "organic" results guidance. At $25 million, these revenues were significant, which warranted their call-out. However, we do not forecast or expect any such revenues in 2023.

| We expect to deliver the following results for full-year 2023[1] | Implied year-over-year growth[2] |
|---|---|
| • Net revenue of $1.14 to $1.17 billion | 6-9% |
| • Operating margin of 54-55% | 100 bps |
| • Adjusted operating income of $615 to $645 million | 7-12% |
| • Adjusted EPS of $1.12 to $1.17 | 9-14% |
| • Free cash flow per share of $1.45 to $1.50 | 16-20% |

1. Based on a CAD:USD exchange rate of 1.29:1

2. Year-over-year growth rates are implied based on our expectation of full-year 2022 “organic” performance that is at or near the top-end of our 2022 “organic” results guidance ranges.

Both adjusted EPS and FCF per share growth will be aided by common share buybacks under Element's NCIB, the upshot of which is a projected weighted average outstanding common share count of 385-395 million for 2023.

We expect originations of approximately $7.5 to $8.0 billion in 2023 (implying approximately 25-35% year-over-year volume growth) and we plan to syndicate in the range of $4.0 to 4.5 billion of lease assets in 2023, consistent with the growth in originations.

Further details are available in our Supplementary Information document for the third quarter, available on the Company's website.

## Profitable revenue growth atop a scalable operating platform

Element's third quarter net revenue grew 19.0% year-over-year (17.0% in constant currency) to $290.8 million, led by services revenue growth of 23.8% (20.9% constant currency). Q3 net financing revenue grew 14.2% (13.5% in constant currency) year-over-year while syndication revenue improved by 14.8% (10.3% in constant currency).

Approximately $17 million of such revenue was a product of actions taken this year that are not expected to generate similar levels of net revenue (and resulting operating income and cash flow) next year or in subsequent years. (We generated approximately $8 million of such revenue in Q2 this year and do not expect any in Q4, or the full year 2023.)

The Company's "organic" Q3 net revenue of $273.8 million (*ie*. excluding such $17 million of Q3 revenue) represents 12.1% growth year-over-year (10.2% in constant currency). Q3 "organic" services revenue growth was 19.3% (16.4% in constant currency) and "organic" net financing revenue growth was 6.0% (5.4% in constant currency) year-over-year.

Net revenue growth was demonstrably profitable as year-over-year pre-tax income and AOI growth rates - at 25.4% and 31.7%, respectively - exceeded the year-over-year net revenue growth rate. The same is true of our "organic" results: AOI of $148.4 million grew 18.2% (16.3% in constant currency) year-over-year, exceeding the comparable net revenue growth rates.

Pre-tax income margin expanded to 49.0% and operating margin expanded 547 basis points year-over-year to 56.9% for the quarter. Q3 "organic" operating margin was 54.2%, representing 281 bps of expansion year-over-year.

Element's Q3 EPS were $0.25 and adjusted EPS were $0.30, the latter up 9 cents per share or 42.9% year-over-year. Q3 "organic" adjusted EPS of $0.26 was up 5 cents per share or 23.8% year-over-year.

## A capital-lighter business model

Element's services revenue growth is one of two thrusts of the Company's capital-lighter business model. (Services revenue has much lower funding needs than net financing revenue: only the net working capital required to procure parts and services for clients.)

Third quarter services revenue increased $28.9 million or 23.8% year-over-year ($25.9 million or 20.9% in constant currency). "Organic" services revenue of $144.4 million represents 19.3% growth year-over-year (16.4% in constant currency), driven by:

A. The speed at which Element is converting new client and share of wallet wins into active services being provided to new and existing clients (penetration);

B. Element clients' increasing use of services (utilization) due to increased vehicle activity levels in general, and - due to the ongoing, unprecedented OEM production delays - the advanced average age of clients' vehicles in particular; and, to a lesser extent,

C. Parts and labour cost inflation across our service-supplier networks.

The Company's Supplementary Information document for the quarter contains further details of Q3 services revenue composition and growth.

Element's syndication function - our sale of fleet assets to third party financial buyers with a lower cost of capital - is the second thrust of our capital-lighter business model.

Element syndicated $599.2 million of assets in the third quarter, generating $16.0 million of net revenue or a 2.67% "yield" on assets syndicated. Reported Q3 syndication revenue benefitted from approximately $2.5 million of non-recurring revenue contribution, meaning "organic" syndication revenue "yield" on assets syndicated was approximately 2.25% for the quarter.

Following quarter-end, in October this year, Element syndicated another tranche of Canadian fleet assets, further expanding the market to derive superior economic value from the Company's balance sheet assets.

Element's advance of its capital-lighter business model continues to enhance ROE: year-over-year at September 30, return on common equity had improved to 11.7% and pre-tax return on common equity improved 210 basis points to 17.8%, our highest yet. Using the last four quarters' "organic" AOI to calculate pre-tax return on common equity, the result is 17.0%.

## Growing free cash flow per share and the return of capital to shareholders

Element generated $0.38 of FCF per share in the third quarter, which is 11 cents per share growth year-over-year.

Per share growth is aided by Element's return of capital to common shareholders through buybacks pursuant to the Company's NCIB. Combined with Element's common dividend payout, the Company returned $92.3 million cash to common shareholders in the third quarter.

When Element announced the establishment of its NCIB in 2020, the Company noted the program represented the first year of what management envisioned as a regular, ongoing return of capital strategy. Element renewed its NCIB in November 2021 and today, the Company announced its intention to renew its NCIB once again.

Element also announced today a 29% increase to its common dividend, from $0.31 to $0.40 per share annually, effective immediately and therefore to be reflected in the Q4 2022 common dividend authorized and declared today to be paid in respect of Q4 2022 on January 13, 2023.

With this increase, Element's common dividend represents 30% of the Company's last twelve months' (at September 30, 2022) FCF per share, the mid-point of the Company's 25% to 35% target payout range.

Element expects its common dividend to continue to grow - consistent with FCF per share growth - and thereby become a larger component of the Company's return of capital strategy.

Lastly, Element plans to redeem its outstanding preferred share series (at the time but in lieu of rate reset) and convertible debentures, thereby further maturing and optimizing the Company's capital structure.

# Effect of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where 14%, 6%, 10% and 64%, respectively, of our last 12 months' net revenue was generated. Element has established local currency funding structures in each of these countries. We also institute certain designated hedges that further mitigate the effects of FX exposure. Notwithstanding, our assets, liabilities, and foreign operating results do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar. We do not hedge pure currency translation risk.

In the following "Quarterly Results of Operations" section, we include tables containing summaries of the Company's results on a constant currency basis. We provide certain further details in our Supplementary Information document (available on the Company's website) regarding results for the relevant periods before the impact of changes in FX (*ie.* in constant currency). The Company calculates constant currency for prior year results by applying the current year monthly average rate to the same prior year period (*eg*. the July, August, and September 2022 monthly averages are applied to the July August, and September 2021 results, respectively). The prior quarter constant currency results are calculated by applying the current quarter monthly average rate to the prior quarterly months (*eg*. the July, August, and September 2022 monthly averages are applied to the April, May, and June 2022 results, respectively). The current spot rate is used for all balance sheet constant currency calculations. The table immediately below illustrates the FX impact on the reported consolidated financial results for prior periods that are discussed on the following pages:

| | For the three-months ended | | | | | For the nine-months ended | | |
|---|---|---|---|---|---|---|---|---|
| (in $000's for stated values) | **September 30, 2022** | Change from Q2 2022 | June 30, 2022 | Change from Q3 2021 | September 30, 2021 | **September 30, 2022** | Change from Q3 2021 | September 30, 2021 |
| | **$** | % | $ | % | $ | **$** | % | $ |
| Servicing income, net, constant currency | **149,931** | (1.8)% | 152,706 | 20.9 % | 124,002 | **431,810** | 22.2 % | 353,487 |
| Fx impact | **—** | | (2,669) | | (2,927) | **—** | | (4,738) |
| Servicing income, net, as reported | **149,931** | (0.1)% | 150,037 | 23.8 % | 121,075 | **431,810** | 23.8 % | 348,749 |
| Net financing revenue, constant currency | **124,859** | 1.0 % | 123,681 | 13.5 % | 109,995 | **363,292** | 10.3 % | 329,497 |
| Fx impact | **—** | | (429) | | (667) | **—** | | 203 |
| Net financing revenue, as reported | **124,859** | 1.3 % | 123,252 | 14.2 % | 109,328 | **363,292** | 10.2 % | 329,700 |
| Syndication revenue, constant currency | **15,998** | 4.8 % | 15,261 | 10.3 % | 14,508 | **44,619** | (12.7)% | 51,111 |
| Fx impact | **—** | | (417) | | (571) | **—** | | (1,220) |
| Syndication revenue, as reported | **15,998** | 7.8 % | 14,844 | 14.8 % | 13,937 | **44,619** | (10.6)% | 49,891 |
| **Net revenue, constant currency** | **290,788** | (0.3)% | 291,648 | 17.0 % | 248,505 | **839,721** | 14.4 % | 734,095 |
| **Fx impact** | **—** | | (3,515) | | (4,165) | **—** | | (5,755) |
| **Net revenue, as reported** | **290,788** | 0.9 % | 288,133 | 19.0 % | 244,340 | **839,721** | 15.3 % | 728,340 |
| Salaries, wages and benefits, constant currency | **80,708** | 2.5 % | 78,716 | 1.0 % | 79,904 | **234,706** | 3.4 % | 226,949 |
| Fx impact | **—** | | (930) | | (1,411) | **—** | | (2,177) |
| Salaries, wages and benefits, as reported | **80,708** | 3.8 % | 77,786 | 2.8 % | 78,493 | **234,706** | 4.4 % | 224,772 |
| General and administrative expenses, constant currency | **29,654** | 1.0 % | 29,351 | 19.4 % | 24,842 | **86,395** | 10.5 % | 78,202 |
| Fx impact | **—** | | (407) | | (487) | **—** | | (875) |
| General and administrative expenses, as reported | **29,654** | 2.5 % | 28,944 | 21.8 % | 24,355 | **86,395** | 11.7 % | 77,327 |
| Depreciation and amortization, constant currency | **15,020** | (4.3)% | 15,695 | (7.2)% | 16,180 | **44,411** | 19.4 % | 37,186 |
| Fx impact | **—** | | (239) | | (314) | **—** | | (384) |
| Depreciation and amortization, as reported | **15,020** | (2.8)% | 15,456 | (5.3)% | 15,866 | **44,411** | 20.7 % | 36,802 |
| **Adjusted operating expenses, constant currency** | **125,382** | 1.3 % | 123,762 | 3.7 % | 120,926 | **365,512** | 6.8 % | 342,337 |
| **Fx impact** | **—** | | (1,576) | | (2,212) | **—** | | (3,436) |
| **Adjusted operating expenses, as reported** | **125,382** | 2.6 % | 122,186 | 5.6 % | 118,714 | **365,512** | 7.9 % | 338,901 |
| **Adjusted operating income, constant currency** | **165,406** | (1.5)% | 167,886 | 29.6 % | 127,579 | **474,209** | 21.0 % | 391,758 |
| **Fx impact** | **—** | | (1,939) | | (1,953) | **—** | | (2,319) |
| **Adjusted operating income, as reported** | **165,406** | (0.3)% | 165,947 | 31.7 % | 125,626 | **474,209** | 21.8 % | 389,439 |
| Provision for taxes applicable to adjusted operating income, constant currency | **42,179** | (1.5)% | 42,811 | 32.2 % | 31,908 | **121,643** | 25.8 % | 96,696 |
| Fx impact | **—** | | (494) | | (489) | **—** | | (572) |
| Provision for taxes applicable to adjusted operating income, as reported | **42,179** | (0.3)% | 42,317 | 34.2 % | 31,419 | **121,643** | 26.5 % | 96,124 |
| **After-tax adjusted operating income, constant currency** | **123,227** | (1.5)% | 125,075 | 28.8 % | 95,671 | **352,566** | 19.5 % | 295,062 |
| **Fx impact** | **—** | | (1,445) | | (1,464) | **—** | | (1,747) |
| **After-tax adjusted operating income, as reported** | **123,227** | (0.3)% | 123,630 | 30.8 % | 94,207 | **352,566** | 20.2 % | 293,315 |

# Quarterly Results of Operations

| (in $000's for stated values, except per share amounts) | For the three-month periods ended September 30, 2022 | June 30, 2022 | September 30, 2021 | For the nine-month periods ended September 30, 2022 | September 30, 2021 |
|---|---|---|---|---|---|
| | **$** | $ | $ | **$** | $ |
| **Net revenue** | | | | | |
| Net interest income and rental revenue | **203,099** | 179,128 | 155,933 | **542,875** | 478,024 |
| Interest expense | **78,240** | 55,876 | 46,605 | **179,583** | 148,324 |
| Net financing revenue | **124,859** | 123,252 | 109,328 | **363,292** | 329,700 |
| Servicing income, net | **149,931** | 150,037 | 121,075 | **431,810** | 348,749 |
| Syndication revenue, net | **15,998** | 14,844 | 13,937 | **44,619** | 49,891 |
| **Net revenue** | **290,788** | 288,133 | 244,340 | **839,721** | 728,340 |
| **Operating expenses** | | | | | |
| Salaries, wages and benefits | **80,708** | 77,786 | 78,493 | **234,706** | 224,772 |
| General and administrative expenses | **29,654** | 28,944 | 24,355 | **86,395** | 77,327 |
| Depreciation and amortization | **15,020** | 15,456 | 15,866 | **44,411** | 36,802 |
| Amortization of convertible debenture discount | **966** | 950 | 903 | **2,849** | 2,662 |
| Share-based compensation | **12,885** | 5,211 | 5,086 | **24,259** | 17,837 |
| **Operating expenses** | **139,233** | 128,347 | 124,703 | **392,620** | 359,400 |
| **Other expenses** | | | | | |
| Amortization of intangible assets from acquisition | **9,144** | 8,958 | 8,862 | **27,011** | 26,442 |
| Loss/(Gain) on investments | **—** | 1,322 | (2,776) | **2,764** | (6,214) |
| **Other expenses** | **9,144** | 10,280 | 6,086 | **29,775** | 20,228 |
| **Income before taxes** | **142,411** | 149,506 | 113,551 | **417,326** | 348,712 |
| Provision for income taxes | **38,708** | 38,386 | 28,610 | **108,899** | 87,370 |
| **Net income for the period** | **103,703** | 111,120 | 84,941 | **308,427** | 261,342 |
| Weighted average number of shares outstanding [basic] | **395,117** | 398,242 | 416,353 | **398,287** | 427,753 |
| Earnings per share [basic] | **0.25** | 0.26 | 0.18 | **0.72** | 0.55 |
| Dividends declared, per share | | | | | |
| Common share | **0.077500** | 0.077500 | 0.065000 | **0.232500** | 0.195000 |
| Preferred Shares, Series A | **0.433313** | 0.433313 | 0.433313 | **1.299939** | 1.299938 |
| Preferred Shares, Series C | **0.388130** | 0.388130 | 0.388130 | **1.164390** | 1.164390 |
| Preferred Shares, Series E | **0.368938** | 0.368938 | 0.368938 | **1.106814** | 1.106814 |
| Preferred Shares, Series I | **—** | 0.359375 | 0.359375 | **0.718750** | 1.078125 |

Immediately below, we present and offer commentary on certain results quantified by IFRS measures (such as operating expenses) whose counterpart non-GAAP measures (such as adjusted operating expenses) are presented and commented-on further below.

## Operating expenses

Operating expenses for the quarter were $139.2 million, up 8.5% or $10.9 million from Q2 2022 ("quarter-over-quarter") and 11.7% or $14.5 million over Q3 2021 ("year-over-year").

## Pre-tax income margin

Pre-tax income margin for the quarter was 49.0%, expanding 290 basis points quarter-over-quarter and 250 basis point year-over-year.

## Net income

Element earned net income of $103.7 million for the quarter, a decrease of $7.4 million or 6.7% from Q2 2022 but an increase of $18.8 million or 22.1% over Q3 2021.

Q3 2022 net income per share was $0.25; $0.01 per share lower than prior quarter but $0.07 per share higher than Q3 2021.

## Adjusted Operating Results as reported

| (in $000's for stated values, except per share amounts) | For the three-month periods ended September 30, 2022 $ | June 30, 2022 $ | September 30, 2021 $ | For the nine-month periods ended September 30, 2022 $ | September 30, 2021 $ |
|---|---|---|---|---|---|
| Servicing income, net | **149,931** | 150,037 | 121,075 | **431,810** | 348,749 |
| Net financing revenue | **124,859** | 123,252 | 109,328 | **363,292** | 329,700 |
| Syndication revenue, net | **15,998** | 14,844 | 13,937 | **44,619** | 49,891 |
| **Net revenue** | **290,788** | 288,133 | 244,340 | **839,721** | 728,340 |
| Salaries, wages and benefits | **80,708** | 77,786 | 78,493 | **234,706** | 224,772 |
| General and administrative expenses | **29,654** | 28,944 | 24,355 | **86,395** | 77,327 |
| Depreciation and amortization | **15,020** | 15,456 | 15,866 | **44,411** | 36,802 |
| **Adjusted operating expenses** | **125,382** | 122,186 | 118,714 | **365,512** | 338,901 |
| **Adjusted operating income** | **165,406** | 165,947 | 125,626 | **474,209** | 389,439 |
| Provision for taxes applicable to adjusted operating income | **42,179** | 42,317 | 31,419 | **121,643** | 96,124 |
| Cumulative preferred share dividends | **5,923** | 8,103 | 8,103 | **22,129** | 24,309 |
| **After-tax adjusted operating income attributable to common shareholders** | **117,304** | 115,527 | 86,104 | **330,437** | 269,006 |
| Weighted average number of shares outstanding [basic] | **395,117** | 398,242 | 416,353 | **398,287** | 427,753 |
| After-tax adjusted operating income per share [basic] | **0.30** | 0.29 | 0.21 | **0.83** | 0.63 |

## Adjusted Operating Results in constant currency[5]

| (in $000's for stated values) | For the three-month periods ended September 30, 2022 $ | June 30, 2022 $ | September 30, 2021 $ | For the nine-month periods ended September 30, 2022 $ | September 30, 2021 $ |
|---|---|---|---|---|---|
| Servicing income, net | **149,931** | 152,706 | 124,002 | **431,810** | 353,487 |
| Net financing revenue | **124,859** | 123,681 | 109,995 | **363,292** | 329,497 |
| Syndication revenue, net | **15,998** | 15,261 | 14,508 | **44,619** | 51,111 |
| **Net revenue** | **290,788** | 291,648 | 248,505 | **839,721** | 734,095 |
| Salaries, wages and benefits | **80,708** | 78,716 | 79,904 | **234,706** | 226,949 |
| General and administrative expenses | **29,654** | 29,351 | 24,842 | **86,395** | 78,202 |
| Depreciation and amortization | **15,020** | 15,695 | 16,180 | **44,411** | 37,186 |
| **Adjusted operating expenses** | **125,382** | 123,762 | 120,926 | **365,512** | 342,337 |
| **Adjusted operating income** | **165,406** | 167,886 | 127,579 | **474,209** | 391,758 |
| Provision for taxes applicable to adjusted operating income | **42,179** | 42,811 | 31,908 | **121,643** | 96,696 |
| Cumulative preferred share dividends | **5,923** | 8,103 | 8,103 | **22,129** | 24,309 |
| **After-tax adjusted operating income attributable to common shareholders** | **117,304** | 116,972 | 87,568 | **330,437** | 270,753 |
| Weighted average number of shares outstanding [basic] | **395,117** | 398,242 | 416,353 | **398,287** | 427,753 |
| After-tax adjusted operating income per share [basic] | **0.30** | 0.29 | 0.21 | **0.83** | 0.63 |

**Please note**: In the following commentary, we restrict citation of constant currency results to the instances where FX had a noteworthy impact on comparative results.

Net revenue

Q3 net revenue grew $46.4 million or 19.0% year-over-year and $2.7 million or 0.9% quarter-over-quarter.

Year-over-year growth was driven primarily by services revenue growth, secondarily by net financing revenue growth, and aided by syndication revenue growth.

[5] Please refer to the Effect of Foreign Currency Exchange Rate Changes section for reconciliations of certain non-GAAP "constant currency" measures to their counterpart IFRS measures as reported.

For the reasons noted below (see "Servicing income, net", "Net financing revenue" and "Syndication revenue"), Q3

- services revenue grew $28.9 million or 23.8% year-over-year,
- net financing revenue grew $15.5 million or 14.2% year-over-year, and
- syndication revenue grew $2.1 million year-over-year.

On a constant currency basis, Q3 net revenue grew $42.3 million or 17.0% year-over-year.

Year-over-year Q3 net revenue growth was bolstered by approximately $17 million of net revenue generated by Element actions being taken this year that are not expected to generate similar levels of net revenue (and resulting operating income and cash flow) next year or in subsequent years. (Element generated approximately $8 million of such revenue in Q2 this year, none in Q1, and we do not expect any in Q4 2022 or the full year 2023.) Absent this $17 million, Q3 net revenue grew $29.4 million or 12.0% year-over-year, and $25.2 million or 10.2% year-over-year in constant currency.

Quarter-over-quarter net revenue growth was driven by modest improvements in net financing revenue (of $1.6 million or 1.3%) and syndication revenue (of $1.2 million or 7.8%), while services revenue was essentially flat.

The strengthening of the U.S. dollar against the Canadian dollar in Q3 resulted in an $0.9 million decrease in net revenue quarter-over-quarter on a constant currency basis. Changes in FX reduced the extent to which net financing and syndication revenue grew quarter-over-quarter, and caused a modest decrease of $2.8 million in services revenue quarter-over-quarter.

Both Q3 2022 and Q2 2022 net revenue were bolstered by the non-recurring net revenue described above. Absent these contributions - of approximately $17 million in Q3 (as noted above) and approximately $8 million in Q2 (as noted above and communicated last quarter) - Q3 net revenue decreased $6.3 million or 2.3% quarter-over-quarter, and $9.8 million or 3.5% in constant currency, consistent with our communications last quarter that Q2 2022 likely represented a high water mark for 2022.

## Orders and Originations

### *Orders*

Originations are necessarily preceded by vehicle orders, which are legally binding commitments by our clients to lease or purchase vehicles from Element upon production by the relevant OEM. Our clients placed $1.5 billion of orders with OEMs in Q3 2022. At quarter end, our global order backlog was approximately $2.9 billion.

### *Originations*

Third quarter global originations of $1.4 billion were $131.6 million or 10.0% higher than Q3 2021 ($100.9 million or 7.5% higher in constant currency), and $467.2 million or 24.4% lower quarter-over-quarter, as expected and previously communicated due to OEM production facility retooling for model year 2023 vehicles and fluctuation in originate-to-syndicate volumes from OEM employee programs.

The table below sets out the geographic distribution of these originations for the relevant three-month periods ended.

| (in $000's for stated values) | **September 30, 2022** | | June 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **1,085,311** | **75.06** | 1,550,121 | 81.03 | 996,511 | 75.82 |
| Mexico | **224,111** | **15.50** | 238,459 | 12.46 | 181,610 | 13.82 |
| Australia and New Zealand | **136,416** | **9.44** | 124,452 | 6.51 | 136,113 | 10.36 |
| Total | **1,445,838** | **100.00** | 1,913,032 | 100.00 | 1,314,234 | 100.00 |

Year-over-year global originations growth was driven by U.S. and Canadian volume, up $88.8 million or 8.9% in Q3 on account of (a) robust client demand (as represented by our historic order backlog), (b) the ongoing gradual return of OEM productive capacity (as we forecast) and (c) inflation. Q3 originations in Mexico grew $42.5 million or 23.4% year-over year, while originations were essentially flat in ANZ on the same basis.

Quarter-over-quarter, U.S. and Canadian originations decreased $464.8 million or 30.0% in Q3 for the reasons noted above. Mexico decreased $14.3 million or 6.0% on the same comparative basis, while Q3 originations improved $12.0 million or 9.6% in ANZ as anticipated and communicated last quarter.

We expect Q4 originations to resemble this quarter's profile, and -- as previously communicated -- we expect to finish 2022 having returned to full-year 2019 levels of Originations, on a constant currency basis and excluding Armada.

## Net financing revenue

Q3 net financing revenue grew $15.5 million or 14.2% year-over-year, driven by gains on sale (GOS) in ANZ and Mexico, and improvements in "yield" on our net earning assets (NEA). Among other things, yield improvements are driven by savings on the cost of funds, shifts in the geographic mix of NEA (towards ANZ and Mexico), and variances in provisioning. Net financing revenue grew year-over-year despite the material decrease in NEA on the same comparative basis due to syndication volumes and below average originations over the period.

As noted above, Q3 net revenue benefitted from Element actions being taken this year that are not expected to generate similar levels of net revenue (and resulting operating income and cash flow) next year or in subsequent years. The value of this benefit to net financing revenue in Q3 was approximately $9 million. Absent this benefit, net financing revenue grew $6.6 million or 6.0% year-over-year.

Quarter-over-quarter, net financing revenue grew $1.6 million or 1.3%. Absent the $9 million benefit in Q3, net financing revenue decreased $7.4 million or 6.0% quarter-over-quarter, predominantly driven by lower GOS.

We expect net financing revenue to soften in Q4 2022 as GOS in ANZ continues to moderate - which is common in that geography due to the combination of summer and Christmas holidays in Q4 - and we experience pressure on our interest expenses as a consequence of increasing our local currency funding structure in Mexico (as previously communicated).

Third quarter net financing revenue yield on average net earning assets improved 129 basis points year-over-year and 11 basis points quarter-over-quarter.

## Net financing revenue yield on average net earning assets

| | For the three-month periods ended | | | For the nine-month periods ended | |
|---|---|---|---|---|---|
| (in $000's for stated values) | **September 30, 2022** | June 30, 2022 | September 30, 2021 | **September 30, 2022** | September 30, 2021 |
| Average net earning assets | **$ 8,069,879** | $ 8,110,310 | $ 8,928,182 | **$ 8,083,879** | $ 9,412,812 |
| Net interest income and rental revenue | **10.07 %** | 8.84 % | 6.99 % | **8.95 %** | 6.77 % |
| Interest expense | **3.88 %** | 2.76 % | 2.09 % | **2.96 %** | 2.10 % |
| Net financing revenue yield on average net earning assets | **6.19 %** | 6.08 % | 4.90 % | **5.99 %** | 4.67 % |
| Average debt outstanding | **$ 8,196,262** | $ 7,951,617 | $ 7,937,478 | **$ 8,165,416** | $ 8,636,010 |
| Average cost of debt (Interest expense / average debt) | **3.82 %** | 2.81 % | 2.35 % | **2.93 %** | 2.29 % |
| Average 1-Month LIBOR rates | **1.00 %** | 0.23 % | 0.08 % | **0.62 %** | 0.13 % |

## Servicing income, net

Third quarter services revenue grew $28.9 million or 23.8% year-over-year ($25.9 million or 20.9% in constant currency) driven by

A. The conversion of share of wallet (penetration) wins into active services being provided to vehicles under Element's management;

B. Increased client use (utilization) of vehicle maintenance, accident recovery and other services, largely for the following reasons:

- As a result of unprecedented OEM production delays, our clients' fleet vehicles have never been as old (on average) as they currently are;
- As fleets age, regular and preventive maintenance becomes increasingly important in order to avoid vehicle downtime due to substantial (and costly) repairs being required.
    - Given the essential nature of fleet vehicles to our clients' businesses, vehicle downtime is far more financially damaging than any additional vehicle maintenance costs.
- Older vehicles also tend to require more expensive maintenance procedures, such as drivetrain repair or replacement; and

C. Fuel, parts and labour cost inflation across our service-supplier network.

In addition, we generated $5.5 million of services revenue in the quarter that is not expected to be generated again next year or in subsequent years.

Quarter-over-quarter, services revenue was relatively resilient (decreased only $0.1 million or 0.1%; $2.8 million or 1.8% in constant currency) given that there is typically a larger quarter-over-quarter decrease in Q3 due to seasonality.

## Syndication revenue, net

We syndicated $599 million of assets in the third quarter -- $78 million more than Q3 last year and $192 million less than last quarter (given lower originations this quarter) -- and generated $13.5 million of "organic" syndication revenue or a 2.25% "yield" on assets syndicated. The $16.0 million of Q3 syndication revenue we reported benefitted from $2.5 million of revenue that is not expected to be generated again next year (or in subsequent years).

Q3 "organic" syndication revenue was down $0.4 million or 3.2% year-over-year ($1.0 million or 7.2% in constant currency) but up $1.2 million or 9.3% quarter-over-quarter ($0.7 million or 5.5% in constant currency).

Syndication continues to be an economically beneficial, reliable source of recurring, high margin revenue for Element. Syndication increases our velocity of cash flow while facilitating a capital-lighter business model, tangible leverage management, and our ability to predictably return excess equity to shareholders.

## Adjusted operating expenses

Adjusted operating expenses of $125.4 million were $6.7 million or 5.6% higher than in Q3 last year ($4.5 million or 3.7% higher on a constant currency basis), driven primarily by modest G&A growth as we return to traveling for client and prospect meetings in person and resume normal pre-pandemic levels of activity, offset by lower depreciation and amortization as previously signaled. Q3 salaries, wages and benefit expenses were essentially flat year-over-year on a constant currency basis.

Quarter-over-quarter adjusted operating expenses increased modestly -- by $3.2 million or 2.6% ($1.6 million or 1.3% in constant currency) -- led by compensation and G&A cost growth, partly offset by reduced depreciation and amortization.

We expect Q4 2022 adjusted operating expenses to be at the high end of the range implied by our guidance as we re-invest some of the non-recurring revenue generated this year into our commercial capabilities to support our elevated 6% to 8% long-term organic annual net revenue growth benchmark.

## Adjusted operating income ("AOI") and margins

Element generated $165.4 million of AOI in the quarter, which is $39.8 million or 31.7% year-over-year growth and equivalent to $0.30 on a per share basis.

AOI growth was driven by organic net revenue growth -- led by services revenue growth, with net financing revenue growth in support -- and comparatively modest adjusted operating expense growth. AOI growth was enhanced by approximately $17 million of net revenue generated by Element actions being taken this year that are not expected to generate similar levels of net revenue next year or in subsequent years. Absent the impact of this $17 million, Q3 AOI grew $22.8 million or 18.2% year-over-year .

Operating margin for the quarter was 56.9%, which is 547 basis points of expansion year-over-year. "Organic" operating margin for the quarter (*ie*. excluding $17 million from Q3 net revenue and AOI) was 54.2%, which is 279 basis points of expansion year-over-year.

Quarter-over-quarter, Q3 AOI was essentially flat (down $2.5 million or 1.5% in constant currency). Excluding the $25 million of non-recurring revenue across Q3 and Q2 2022, AOI decreased $9.5 million or 6.0% quarter-over-quarter, driven primarily by the net financing revenue decrease on the same comparative basis (for the reasons noted above), coupled with modest quarter-over-quarter adjusted operating expense growth (as noted above). Q3 operating margin contracted 71 basis points quarter-over-quarter to 56.9%, Q2 2022 having represented the high water mark as previously communicated.

# Summary of Quarterly Information

The following table sets out selected financial information as reported for each of the eight most recent quarters, the latest of which ended September 30, 2022. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

| (in $ 000's for stated values, except per share amounts and ratios) | **Q3 2022** | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|
| Net revenue | **290,788** | 288,133 | 260,800 | 245,482 | 244,340 | 235,402 | 248,598 | 247,099 |
| Adjusted operating income | **165,406** | 165,947 | 142,856 | 122,561 | 125,626 | 126,512 | 137,301 | 132,058 |
| After-tax adjusted operating income | **123,227** | 123,630 | 105,709 | 94,372 | 94,207 | 93,935 | 105,173 | 108,089 |
| Net income | **103,703** | 111,120 | 93,604 | 94,664 | 84,941 | 80,872 | 95,529 | 78,362 |
| Earnings per share, basic | **0.25** | 0.26 | 0.21 | 0.21 | 0.18 | 0.17 | 0.20 | 0.16 |
| Earnings per share, diluted | **0.24** | 0.25 | 0.21 | 0.21 | 0.18 | 0.17 | 0.20 | 0.16 |
| Adjusted operating income per share, basic | **0.40** | 0.40 | 0.34 | 0.28 | 0.28 | 0.28 | 0.29 | 0.28 |
| After-tax adjusted operating income per share, basic | **0.30** | 0.29 | 0.24 | 0.21 | 0.21 | 0.20 | 0.22 | 0.23 |
| After-tax pro forma diluted adjusted operating income per share | **0.29** | 0.28 | 0.24 | 0.21 | 0.20 | 0.20 | 0.22 | 0.22 |
| Total assets | **13,703,080** | 13,166,556 | 12,817,647 | 12,973,412 | 13,105,478 | 13,483,620 | 14,033,707 | 14,991,388 |
| Net earning assets | **8,287,013** | 7,983,040 | 7,947,152 | 8,203,159 | 8,687,716 | 8,890,566 | 9,426,863 | 10,465,983 |
| Total debt | **8,465,137** | 8,342,529 | 8,069,321 | 8,198,035 | 8,493,546 | 8,686,606 | 9,259,492 | 10,018,603 |
| Loan and lease originations | **1,445,838** | 1,913,032 | 1,432,360 | 1,194,746 | 1,314,234 | 1,198,102 | 1,286,506 | 1,386,792 |
| Allowance for credit losses | **10,143** | 9,760 | 10,256 | 10,246 | 8,613 | 11,397 | 13,676 | 17,718 |
| As a % of total finance receivables before allowance | **0.13** | 0.13 | 0.14 | 0.14 | 0.11 | 0.14 | 0.16 | 0.18 |
| Senior revolving credit facilities | **1,425,361** | 1,321,024 | 1,464,384 | 1,106,629 | 1,007,628 | 1,006,473 | 1,250,957 | 1,551,939 |
| Borrowings | **6,918,113** | 6,859,914 | 6,457,020 | 6,932,334 | 7,328,076 | 7,523,502 | 7,853,095 | 8,312,397 |
| Convertible debentures | **162,725** | 161,591 | 160,321 | 159,072 | 157,842 | 156,631 | 155,440 | 154,267 |

# Financial Position

The following table presents a summary of the Company's comparative financial positions, as at:

| (in $000's for stated values) | **September 30, 2022** | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| | **$** | $ | $ |
| **ASSETS** | | | |
| Cash | **55,121** | 70,581 | 45,271 |
| Restricted funds | **428,537** | 455,561 | 400,930 |
| Finance receivables | **7,696,077** | 7,384,175 | 7,436,275 |
| Equipment under operating leases | **2,548,909** | 2,431,788 | 2,297,182 |
| Accounts receivable and other current assets | **204,866** | 186,598 | 204,873 |
| Derivative financial instruments | **134,214** | 99,481 | 26,302 |
| Property, equipment and leasehold improvements | **84,725** | 85,157 | 93,872 |
| Intangible assets | **871,949** | 833,078 | 830,013 |
| Deferred tax assets | **370,810** | 383,708 | 417,708 |
| Goodwill | **1,307,872** | 1,236,429 | 1,220,986 |
| | **13,703,080** | 13,166,556 | 12,973,412 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | **1,396,328** | 1,223,626 | 1,206,550 |
| Derivative financial instruments | **86,592** | 69,282 | 28,575 |
| Borrowings | **8,343,474** | 8,180,938 | 8,038,963 |
| Convertible debentures | **162,725** | 161,591 | 159,072 |
| Deferred tax liabilities | **128,092** | 115,641 | 89,303 |
| | **10,117,211** | 9,751,078 | 9,522,463 |
| Shareholders' equity | **3,585,869** | 3,415,478 | 3,450,949 |
| | **13,703,080** | 13,166,556 | 12,973,412 |

Total assets and liabilities increased by $536.5 million and $366.1 million, respectively, from Q2 2022. Year-to-date, the increases in total assets and liabilities for Q3 2022 were primarily increases in earning assets and borrowings.

Approximately 53% of Element's assets are U.S. dollar-denominated. As a result, changes in the value of our reporting currency, the Canadian dollar ("CAD"), relative to the U.S. dollar, have an impact on our balance sheet. The U.S. dollar strengthened significantly against CAD quarter-over-quarter and year-to-date.

We also have assets and liabilities denominated in Mexican pesos and Australian and New Zealand dollars, although these are smaller tranches of our portfolio. As a result, material changes in the value of the CAD relative to the Mexican peso, Australian dollar, or New Zealand dollar can have an impact on our balance sheet. The peso strengthened against the CAD quarter-over-quarter as measured on a period-end-to-period-end basis.

The net impact of currency variations predominantly flows through to Shareholders' Equity as Other Comprehensive Income.

# Portfolio Details

## Total finance receivables

The following table breaks down the Company's total finance receivables, which were $260 million higher at September 30, 2022 than at December 31, 2021, driven by originations and partially offset by syndication activity in the period.

| (in $000's for stated values, except ratios) | **September 30, 2022** | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| | **$** | $ | $ |
| Net investment in finance receivables | **5,738,104** | 5,551,252 | 5,905,977 |
| Impaired receivables - at net realizable value | **2,700** | 2,758 | 2,765 |
| | **5,740,804** | 5,554,010 | 5,908,742 |
| Unamortized origination costs and subsidies | **(49,691)** | (51,123) | (40,729) |
| Net finance receivables | **5,691,113** | 5,502,887 | 5,868,013 |
| Prepaid lease payments and Security deposits | **(29,904)** | (53,775) | (60,979) |
| Interim funding | **784,758** | 744,541 | 650,155 |
| Fleet management service receivables | **726,329** | 709,246 | 609,450 |
| Other | **492,862** | 470,871 | 379,882 |
| Continuing involvement asset | **41,062** | 20,165 | — |
| | **7,706,220** | 7,393,935 | 7,446,521 |
| Allowance for credit losses | **10,143** | 9,760 | 10,246 |
| Total finance receivables | **7,696,077** | 7,384,175 | 7,436,275 |

## Allowance for credit losses and charge-offs, net of recoveries

Credit losses and provisions as at and for the nine-month period ended September 30, 2022, six-month period ended June 30, 2022 and the year-ended December 31, 2021 are as follows.

| | **Nine-month period ended** | Six-months period ended | Twelve-months period ended |
|---|---|---|---|
| | **September 30, 2022** | June 30, 2022 | December 31, 2021 |
| (in $000's for stated values, except ratios) | **$** | $ | $ |
| Allowance for credit losses, beginning of period | **10,246** | 10,246 | 17,718 |
| Provision for credit losses | **(199)** | (432) | (5,535) |
| Charge-offs, net of recoveries | **(404)** | (117) | (1,639) |
| Impact of foreign exchange rates | **500** | 63 | (298) |
| Allowance for credit losses, end of period | **10,143** | 9,760 | 10,246 |
| Charge-offs, net of recoveries, as a % of total finance receivables | **0.01 %** | — % | 0.03 % |
| Allowance for credit losses, as a % of total finance receivables before allowance | **0.13 %** | 0.13 % | 0.14 % |

Element's policy is to assess the probability of default and loss-given-default for all its clients, both at lease inception and throughout the term of the lease. Element makes these assessments by performing risk reviews of specific clients on a periodic basis, reviewing the client's financial condition and ability to service the debt, as well as monitoring the value of the underlying security.

We reviewed inputs to our expected credit loss model throughout the quarter. We also consider forward-looking macroeconomic information in light of a potential recession due to the inflationary environment, rising interest rates, supply chain disruptions and global COVID-19 pandemic, such as overall default rates and the impact that potential upward or downward trends in GDP would have on our lease and loan portfolio. As COVID-19 concerns wane, inflation, interest rate and recessionary concerns are coming to the forefront. Considering these potential impacts opposite the favourable evolution of our portfolio and the resilience of our client base resulted in a modest $0.2 million release of our provision for credit losses in the quarter.

Based on the foregoing, our allowance for credit losses declined $0.1 million compared to December 31, 2021.

## Impaired receivables

Total impaired receivables were $2.7 million at September 30, 2022, which is a $0.1 million decrease from June 30, 2022 and near the lowest level in the last five years. A client with less than $4 million of exposure entered and exited bankruptcy in Q3 2022, with all Element leases affirmed.

Classifying receivables as impaired

Accounts over 120 days past due are considered impaired and are fully provisioned net of any anticipated recoveries and recorded at their net realizable value. Accounts that are contractually delinquent less than 120 days may nonetheless be assessed as impaired. Individual impairment is assessed by examining contractual delinquency and the client’s financial condition, such as the identification of an approaching bankruptcy or the client being in the process of legal or collateral repossession proceedings with a debtor. Impairments of this nature are provisioned by applying probability-weighted assumptions consistent with industry standards and our experience with respect to the probability of an identified account resulting in a client default. We believe the impaired receivables figure in the table above appropriately reflects the net realizable value of the finance receivables before any allowance for credit losses.

## Portfolio Distribution by Geography

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

| (in $000’s for stated values) | **September 30, 2022** | | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **4,900,084** | **59.5** | 4,765,436 | 60.1 | 5,212,719 | 63.8 |
| Australia and New Zealand | **1,502,827** | **18.3** | 1,498,055 | 18.9 | 1,570,941 | 19.2 |
| Mexico | **1,837,111** | **22.2** | 1,671,184 | 21.0 | 1,381,535 | 17.0 |
| Total | **8,240,022** | **100.0** | 7,934,675 | 100.0 | 8,165,195 | 100.0 |
| Allocated as: | | | | | | |
| Net finance receivables | **5,691,113** | **69.1** | 5,502,887 | 69.4 | 5,868,013 | 71.9 |
| Equipment under operating leases, net | **2,548,909** | **30.9** | 2,431,788 | 30.6 | 2,297,182 | 28.1 |
| Total | **8,240,022** | **100.0** | 7,934,675 | 100.0 | 8,165,195 | 100.0 |

The table below sets forth the geographical distribution of the Company's assets under management, as at:

| (in $000’s for stated values) | **September 30, 2022** | | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **12,074,757** | **78.3** | 11,651,773 | 78.3 | 11,205,186 | 78.1 |
| Australia and New Zealand | **1,520,711** | **9.9** | 1,497,986 | 10.1 | 1,570,657 | 11.0 |
| Mexico | **1,816,526** | **11.8** | 1,722,412 | 11.6 | 1,563,178 | 10.9 |
| Assets under management | **15,411,994** | **100.0** | 14,872,171 | 100.0 | 14,339,021 | 100.0 |

The geographical distribution of earning assets and assets under management shown in the tables above reflect in part the disproportionate impact of OEM production delays on our business in the U.S. and Canada. When OEM production volumes normalize, the U.S. and Canada should enjoy a similarly disproportionate improvement in assets under management (which may also benefit earning assets, depending on syndication volumes) and related contributions to our global results.

# Liquidity

Element's primary sources of liquidity are daily operating cash flows from services, financing/leasing and syndication, and committed credit and debt facilities. Our primary uses of cash are the funding of service receivables, finance receivables and operating leases, and working capital.

## Cash Flow

Daily cash flow / liquidity

Our global cash management office assesses and proactively manages Element's liquidity position by ensuring we have controls over all sources and uses of cash flow. The cash management office also conducts ongoing comprehensive stress-tests to identify early indications of any risks to our cash flow and forward funding capacity. Throughout 2021 and to date, the results of those tests have confirmed the stability and sustainability of our cash flow and forward funding capacity.

Learnings from the global cash management office’s work have informed several strategic right-sizings of our funding facilities, beginning in Q4 2020. In aggregate, we have reduced the scale of our committed, undrawn liquidity by approximately $3.6 billion since the end of Q3 2020, which has driven meaningful funding cost savings without compromising our ability to serve clients.

Notwithstanding our dependable operating cash flows and $2.2 billion of committed, undrawn capital at September 30, 2022, we continue our efforts to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Free cash flow

We present Management's view of Element’s free cash flow in our Supplementary Information document available on the Company's website.

The below table illustrates the reconciliation of free cash flow to cash flow from operations:

| | For the three-month periods ended | | | For the nine-month period ended | |
|---|---|---|---|---|---|
| (in $000's for stated values) | **September 30, 2022** | June 30, 2022 | September 30, 2021 | **September 30, 2022** | September 30, 2021 |
| | **$** | $ | $ | **$** | $ |
| Free Cash Flow | **151,801** | 147,720 | 111,308 | **414,804** | 322,706 |
| Amortization of equipment under operating leases | **123,771** | 124,735 | 110,230 | **371,056** | 331,775 |
| Investment in finance receivables | **(1,217,200)** | (1,736,275) | (752,348) | **(4,213,901)** | (2,900,571) |
| Repayments of finance receivables | **650,620** | 782,460 | 893,649 | **2,300,556** | 2,770,856 |
| Investment in equipment under operating leases | **(278,407)** | (252,152) | (275,843) | **(818,070)** | (712,120) |
| Disposals of equipment under operating leases | **87,953** | 59,799 | 78,579 | **219,857** | 214,973 |
| Proceeds from syndication financings | **613,460** | 802,204 | 534,576 | **2,087,480** | 2,198,846 |
| Sustaining capital investments | **8,644** | 14,524 | 13,184 | **37,310** | 34,471 |
| Preferred share dividends | **5,923** | 8,103 | 8,103 | **22,129** | 24,309 |
| Other | **107,472** | 126,494 | (148,341) | **160,190** | (225,149) |
| Cash Flow from Operations | **254,037** | 77,612 | 573,097 | **581,411** | 2,060,096 |

### Statement of cash flows

Cash provided by operating activities for the nine-month period ended September 30, 2022 - as presented in our unaudited interim condensed consolidated financial statements - was $581.4 million, a decrease of $1,478.7 million from the $2,060.1 million provided by operating activities for the nine-month period ended September 30, 2021. The decrease year-over-year was primarily the result of higher investments in finance leases resulting from increased origination volumes compared to prior year.

Cash used in investing activities for the nine-month period ended September 30, 2022 was $46.1 million compared to cash used in investing activities of $61.1 million for the nine-month period ended September 30, 2021. The primary driver of the change year-over-year is a decrease in the purchase of intangible assets, including computer software, compared to the prior year.

Cash used in financing activities for the nine-month period ended September 30, 2022 was $403.8 million, compared to $1,901.8 million used in financing activities for the nine-month period ended September 30, 2021. The year-over-year decrease is primarily due to a decrease in the repayment of borrowings, offset by issuance of senior notes in 2021.

## Credit and debt facilities

Maintaining ready access to diversified sources of cost-efficient capital is a strategic imperative for Element.

We had $2.2 billion of contractually committed, undrawn liquidity across our revolving unsecured ($1.1 billion) and vehicle management asset-backed ($1.0 billion) facilities at September 30, 2022. Commitments under these facilities are provided by syndicates of leading Canadian, U.S. and international banks.

These sources of financing were as follows:

| **As at** | **September 30, 2022** | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | **$** | **%** | **$** | **$** |
| | **Facility size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | **2,532,761** | ***43.7*** | **1,107,400** | **1,425,361** |
| **Senior notes** | **1,232,154** | **—** | **—** | **1,232,154** |
| **Term facilities** | **389,586** | **—** | **—** | **389,586** |
| Vehicle management asset-backed debt facilities | | | | |
| Revolving term notes in amortization | **1,371,442** | **—** | **—** | **1,371,442** |
| Variable funding notes | **4,903,465** | ***21.3*** | **1,046,525** | **3,856,940** |
| Other | **92,033** | **—** | **—** | **92,033** |
| **Total vehicle management asset-backed debt** | **6,366,940** | ***16.4*** | **1,046,525** | **5,320,415** |
| **Total cash** | | | **55,121** | |
| **Total capital available for continuing operations** | | | **2,209,046** | |

| **As at** | June 30, 2022 | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | **$** | **%** | **$** | **$** |
| | **Facility size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | 2,382,097 | *44.5* | 1,061,073 | 1,321,024 |
| **Senior notes** | 1,158,858 | — | — | 1,158,858 |
| Vehicle management asset-backed debt facilities | | | | |
| Revolving term notes in amortization | 1,548,210 | — | — | 1,548,210 |
| Variable funding notes | 4,679,924 | *20.8* | 973,415 | 3,706,509 |
| Other | 106,421 | — | — | 106,421 |
| **Total vehicle management asset-backed debt** | 6,334,555 | *15.4* | 973,415 | 5,361,140 |
| **Total cash** | | | 70,581 | |
| **Total capital available for continuing operations** | | | 2,105,069 | |

| As at | December 31, 2021 | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | $ | % | $ | $ |
| | **Facility size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | 2,349,532 | *52.9* | 1,242,903 | 1,106,629 |
| **Senior notes** | 1,143,015 | — | — | 1,143,015 |
| Vehicle management asset-backed debt facilities | | | | |
| Revolving term notes in amortization | 2,154,974 | — | — | 2,154,974 |
| Variable funding notes | 4,679,271 | *22.9* | 1,073,472 | 3,605,799 |
| Other | 61,693 | — | — | 61,693 |
| **Total vehicle management asset-backed debt** | 6,895,938 | *15.6* | 1,073,472 | 5,822,466 |
| **Total cash** | | | 45,271 | |
| **Total capital available for continuing operations** | | | 2,361,646 | |

During Q2 2022, the Company issued $150.0 million and $225.3 million (USD $175.0 million) term facilities. Both are set to expire within one year.

On March 23, 2021, Element issued U.S. $750 million of term notes, at an initial weighted average interest rate of 0.51%, under our Chesapeake Funding II LLC vehicle management asset-backed debt facility. The proceeds received at the time of closing were used to pay down variable funding notes outstanding.

On April 6, 2021, Element completed its issuance of U.S. $500 million, 1.60% senior unsecured investment-grade notes due April 6, 2024. The proceeds received at the time of closing were used for working capital and general corporate purposes.

These issuances align with our strategic priorities to continue to strengthen Element's investment-grade balance sheet and diversify our access to cost-efficient capital.

In Q4 2021, Element (i) further right-sized certain of our senior credit facilities with a reduction of U.S. $500 million, (ii) successfully extended our maturity dates and (iii) enhanced financing terms on same. These actions will reduce our cost of funds (or "interest expense" as reported) over time, thereby further optimizing our net financing revenue and advancing our strategic growth priorities.

We believe the $2.2 billion of liquidity available to the Company as at September 30, 2022, coupled with our durable operating cash flow and syndication activities, is sufficient to fund Element's business throughout 2022, as well as to pay dividends at current rates to all preferred and common shareholders.

# Capital Resources

## Capitalization

Element’s funding activities are well diversified by facility, geography, currency, investor and lender and include both secured and unsecured sources.

The Company’s capitalization is calculated as follows:

| **As at** | **September 30, 2022** | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| *(in $000’s)* | **$** | $ | $ |
| Cash | **55,121** | 70,581 | 45,271 |
| Unsecured debt | | | |
| Senior credit facilities | **1,425,361** | 1,321,024 | 1,106,629 |
| 4.250% Convertible Debentures due 2024 | **162,725** | 161,591 | 159,072 |
| 3.850% Senior Notes due 2025 | **547,624** | 515,048 | 508,007 |
| 1.600% Senior Notes due 2024 | **684,530** | 643,810 | 635,008 |
| Term facilities | **389,586** | 375,334 | — |
| Vehicle Management Asset-Backed Debt | | | |
| Revolving term notes in amortization | **1,371,442** | 1,548,210 | 2,154,974 |
| Variable funding notes | **3,856,940** | 3,706,509 | 3,605,799 |
| Other | **92,033** | 106,421 | 61,693 |
| Deferred financing costs | **(18,472)** | (20,172) | (27,023) |
| Continuing involvement liability | **41,062** | 20,165 | — |
| Hedge accounting fair value adjustments | **(46,632)** | (35,411) | (6,124) |
| **Total debt** | **8,506,199** | 8,342,529 | 8,198,035 |
| Shareholders' equity | | | |
| Common share capital | **2,877,643** | 2,897,314 | 2,951,596 |
| Preferred share capital | **365,113** | 365,113 | 511,869 |
| Other | **343,113** | 153,051 | (12,516) |
| **Total Shareholders’ Equity** | **3,585,869** | 3,415,478 | 3,450,949 |
| **Total Capitalization** | **12,092,068** | 11,758,007 | 11,648,984 |

Growing profitability, free cash flow and syndication all contribute to the de-leveraging of Element’s balance sheet. With our redemption of $150.0 million of Series I preferred shares in full on June 30, 2022, we have cumulatively eliminated or replaced well over $1 billion of high-cost hybrid instruments from Element’s capital structure since April 2019, simplifying and strengthening the Company’s investment-grade balance sheet.

On March 23, 2021, Element issued U.S. $750 million of term notes, at an initial weighted average interest rate of 0.51%, under our Chesapeake Funding II LLC vehicle management asset-backed debt facility. The proceeds received at the time of closing were used to pay down variable funding notes outstanding.

On April 6, 2021, Element completed its issuance of U.S. $500 million, 1.60% senior unsecured investment-grade notes due April 6, 2024. The proceeds received at the time of closing were used for working capital and general corporate purposes.

## Normal Course Issuer Bids

On November 4, 2020, the TSX approved Element's notice of intention to commence a normal course issuer bid (the “2020 NCIB”). The 2020 NCIB allowed 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 and the completion of purchases under the 2020 NCIB, up to 43,929,594 common shares of Element, subject to the normal terms and limitations of such bids. As of November 10, 2021, under the 2020 NCIB, 34,420,833 common shares had been repurchased for cancellation for an aggregate amount of approximately $474.5 million at a volume weighted average price of $13.78 per common share.

On November 10, 2021, the TSX approved Element's notice of intention to renew its normal course issuer bid (the "2021 NCIB"). The 2021 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 and the completion of purchases under the 2021 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. As of September 30, 2022, under the 2021 NCIB, 17,792,900 common shares had been repurchased for cancellation for an aggregate amount of approximately $236.0 million at a volume weighted average price of $13.27 per common share.

Element 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.

In furtherance of the Company’s return of capital plan, Element intends to renew its Normal Course Issuer Bid (the “2022 NCIB”) for its common shares. If accepted by the TSX, Element would be permitted under the 2022 NCIB to purchase for cancellation, through the facilities of the TSX or such other permitted means, up to 10% of the public float (calculated in accordance with TSX rules) of Element’s issued and outstanding common shares during the 12 months following such TSX acceptance at prevailing market prices (or as otherwise permitted). The actual number of Element’s common shares, if any, that may be purchased under the 2022 NCIB, and the timing of any such purchases, will be determined by the Company, subject to applicable terms and limitations of the NCIB (including any automatic share purchase plan adopted in connection therewith). There cannot be any assurance as to how many common shares, if any, will ultimately be purchased pursuant to the 2022 NCIB. If the 2022 NCIB renewal is accepted by the TSX, any subsequent renewals of the 2022 NCIB will be in the discretion of the Company and subject to further TSX approval.

## Leverage

We view both financial and tangible leverage as indicators of the strength of Element's financial position. At September 30, 2022, our financial leverage ratio was 2.36:1 and tangible leverage ratio was 6.02:1.

The Company's financial and tangible leverage is calculated as follows:

| **As at** | | **September 30, 2022** | December 31, 2021 |
|---|---|---|---|
| *(in $000’s, except ratios)* | | **$** | $ |
| Borrowings | | **8,343,474** | 8,038,963 |
| Convertible debentures | | **162,725** | 159,072 |
| Less: Continuing involvement liability | | **(41,062)** | — |
| Total debt | **(a)** | **8,465,137** | **8,198,035** |
| Total shareholders' equity | **(b)** | **3,585,869** | 3,450,949 |
| | | **12,051,006** | 11,648,984 |
| Goodwill and intangible assets | **(c)** | **2,179,821** | 2,050,999 |
| Financial leverage | **(a)/(b)** | **2.36** | 2.38 |
| Tangible leverage | **(a)/[(b)-(c)]** | **6.02** | 5.86 |

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

## Credit ratings

Our ability to access financing on a cost-efficient basis is largely dependent on maintaining strong investment-grade credit ratings. Credit ratings and outlooks assigned by rating agencies reflect their views and methodologies. The credit ratings are subject to change based on several factors, including but not limited to our financial strength, competitive position, liquidity and other factors not entirely within our control.

**Credit Ratings[1] as at September 30, 2022**

| Rating agency | Issuer rating | Outlook |
|---|---|---|
| DBRS, Inc. | BBB (high) | Stable |
| Fitch Ratings | BBB+ | Stable |
| Kroll Bond Rating Agency | A- | Stable |
| S&P Global Ratings | BBB | Stable |

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation in as much as they do not comment on market price or suitability for a particular investor. Ratings are determined by the rating agencies based on criteria established from time to time by them and are subject to revision or withdrawal at any time by the rating organization.

In September 2022, Fitch Ratings affirmed its stable outlook and BBB+ investment-grade rating of Element, and in October 2021 credit rating agencies DBRS, Inc., Kroll Bond Rating Agency and Standard & Poor's affirmed their stable outlook and investment-grade ratings for Element: BBB (high), A- and BBB, respectively.

# Risk Management

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk. The Company's primary risks have not changed materially from those described in the "Risk Management" section of the Company's 2021 Annual MD&A.

While our universe of known risks has remained largely unchanged, our ability to identify and assess risks has improved significantly through Transformation. Further, the organization's ability to effectively manage these risks has grown through increased awareness and monitoring, as evidenced by our strong ECRI performance.

Based on our progress in managing risk, we have matured our views related to tangible leverage risk. In 2019, optimized tangible leverage of 5.5x-6.0x reflected higher spreads for debt funding and cost of equity premiums associated with elevated operating risks. Today, with a meaningfully strengthened operating platform and de-risked balance sheet, optimized tangible leverage has shifted marginally higher. Accordingly, we will be managing FX-normalized tangible leverage of 6.0x-6.75x, with a target of 6.5x, ensuring we are well within rating agency thresholds for negative ratings pressure.

# Economic Conditions and Outlook

## Economic Conditions

### *Inflation*

As hypothesized, inflation is proving to be additive to Element's profitable revenue growth. Net financing revenue benefits from rising vehicle prices, as does syndication revenue when we choose to transact on those leases. Services revenue benefits from inflation as the cost of maintaining, repairing and fueling vehicles result in higher fee bases.

More importantly, rising vehicle operating costs drive greater demand for our services, because clients (and prospective clients) want to control and optimize the total cost to own and operate their fleets.

While inflation could have a broader negative macroeconomic impact that adversely affects our clients and markets generally, in the near- to intermediate-term inflation is proving beneficial to Element overall.

### *Recession*

The ~1.5 million vehicles we manage are essential to the operations of our blue-chip client base. This dynamic ensures continuity of service consumption and demand for replacement vehicles. We are confident that Element's value proposition – materially reducing our clients' total cost of fleet operations and eliminating related administrative burden – remains highly relevant in a recessionary environment. In fact, the pressure to manage operating costs and realize efficiencies during periods of economic stress make Element's value proposition even more compelling.

We view the impacts of the pandemic on our 2020 business as akin to a severe economic downturn. Despite COVID-19 lockdowns and "shelter in place" edicts throughout that year, Element's business model generated resilient net revenue, operating income and cash flow while we accelerated the organization's transformation program and initiated the pivot to our current, successful focus on organic revenue growth.

Our "credit first, collateral second" philosophy protects our investors from any material escalation of credit losses. We focus on maintaining a high-credit-quality client base, which is also diversified: no single industry accounts for more than 5% of our vehicles under management today.

Our cross-collateralized leases are typically one of the first contracts affirmed in bankruptcy, given the mission-critical nature of the leased assets to our clients' ability to generate revenue.

Cross-collateralization is only one dimension of our active and efficient collateral gap management efforts, which have proven effective in the exceedingly rare cases of client liquidations.

### *Rising interest rates*

Element's business model is largely agnostic to interest rate movements. We match-fund our leases on interest rate type (fixed vs. floating) and duration, and originate at deliberate interest margins/spreads that are preserved for the life of the asset on our balance sheet. A declining interest rate environment is equally benign for our business.

## Pandemic-Related Conditions

As expected, automotive OEM production volumes are gradually improving and we believe they will continue to do so. However, volumes remain low by historical standards, and we expect that to remain the case through the balance of 2022 and the first half of 2023.

This will result in the continued deferral of a portion of our growing revenues, operating income and cash flow, as would-be originations remain in our global order backlog awaiting new vehicles.

With expectations of OEM production capacity improved in 2023, we anticipate our excess order backlogs will begin to recede in the second half of next year.

On the services side of our business, revenue is growing significantly and our clients' consumption levels have surpassed pre-pandemic levels for a combination of reasons:

A. The conversion of share of wallet (penetration) wins into active services being provided to vehicles under Element's management;

B. Increased client use (utilization) of vehicle maintenance, accident recovery and other services, largely for the following reasons:

  - As a result of unprecedented OEM production delays, our clients' fleet vehicles have never been as old (on average) as they currently are;

  - As fleets age, regular and preventive maintenance becomes increasingly important in order to avoid vehicle downtime due to substantial (and costly) repairs being required.

    - Given the essential nature of fleet vehicles to our clients' businesses, vehicle downtime is far more financially damaging than any additional vehicle maintenance costs.

  - Older vehicles also tend to require more expensive maintenance procedures, such as drivetrain repair or replacement; and

C. Fuel, parts and labour cost inflation across our service-supplier network.

<u>Outlook</u>

Management and the Board recently completed their annual strategic review, confirming the organization's commitment to our three strategic growth priorities, and updating our three-year view of operating and financial performance.

*Profitable revenue growth atop a scalable operating platform*

Having assessed our reinvigorated Commercial function and their ability to both grow vehicles under management (“VUM") and increase share-of-wallet (through higher penetration, utilization, and pricing), we believe Element can reliably deliver **6% to 8% annual organic net revenue growth in normal market conditions**; materially better than our prior 4% to 6% annual organic net revenue growth benchmark. Our confidence is grounded in the progress made to date and the market prospects we envision.

To better attain (and onboard) this growth, we plan on slightly elevated levels of operating expenses over the next five quarters, beginning this (fourth) quarter (of 2022, and running through 2023). That said, we continue to target annual expansion in operating margins over this period (and elevated levels of expansion thereafter), such that revenue growth rates are expected be in excess of operating expense growth, creating superior growth in operating income.

*A capital-lighter business model*

In addition to the increased focus on Services growth noted above, we continue to see Syndication as a key enabler to advance our capital-lighter business model and enhance return on equity for the foreseeable future. Growing originations (and thus lease activations) from increasing OEM production should provide a ready supply of lease assets to sell to a broadening geographic base of Syndication investors (already in Canada and, eventually, in Mexico). Accordingly, we expect syndication volume to step-up significantly in 2023 and we plan to sustain that level of activity thereafter.

*Growing free cash flow per share and the return of capital to shareholders*

Strong growth in operating income combined with our capital-lighter business model has produced outsized growth in free cash flow per share for Element. We expect that to continue. And we plan to allocate this excess capital as follows:

- Eliminate the last of the high-cost legacy financing instruments (convertible debentures and preferred shares);
- Grow the common dividend consistent with the growth in free cash flow per share; and
- Repurchase common shares under Normal Course Issuer Bids ("NCIB"s).

*Full-year 2023 results guidance*

We provided full-year 2022 results guidance last quarter, both including and excluding $25 million of net revenue (and resulting operating income and cash flow) from actions being taken this year that are not expected to generate similar levels of net revenue next year or in subsequent years. The guidance excluding such revenue is 2022 "organic" results guidance. At $25 million, these revenues were significant, which warranted their call-out. However, we do not forecast or expect any such revenues in 2023.

| We expect to deliver the following results for full-year 2023[1] | Implied year-over-year growth[2] |
|---|---|
| • Net revenue of $1.14 to $1.17 billion | 6-9% |
| • Operating margin of 54-55% | 100 bps |
| • Adjusted operating income of $615 to $645 million | 7-12% |
| • Adjusted EPS of $1.12 to $1.17 | 9-14% |
| • Free cash flow per share of $1.45 to $1.50 | 16-20% |

1. Based on a CAD:USD exchange rate of 1.29:1

2. Year-over-year growth rates are implied based on our expectation of full-year 2022 “organic” performance that is at or near the top-end of our 2022 “organic” results guidance ranges.

Both adjusted EPS and FCF per share growth will be aided by common share buybacks under Element's NCIB, the upshot of which is a projected weighted average outstanding common share count of 385-395 million for 2023.

We expect originations of approximately $7.5 to $8.0 billion in 2023 (implying approximately 25-35% year-over-year volume growth) and we plan to syndicate in the range of $4.0 to $4.5 billion of lease assets in 2023, consistent with the growth in originations.

Further details are available in our Supplementary Information document for the third quarter, available on the Company's website.

*Electric vehicles*

We believe the complexity and risk of gradually transitioning mission-critical automotive fleets from ICE-powered vehicles to EVs will increase demand for outsourced fleet management services and expertise, and this belief is bearing itself out. As the fleet solutions market leader everywhere we operate, Element is strategically well-positioned to support our clients and lead our industry through the gradual electrification of automotive fleets over the next decade.

We recently announced *Arc by Element* – our comprehensive, integrated end-to-end EV offering. Building on our success in all the markets we serve, we are excited to bring this full service EV offering to our clients under a single banner, ensuring consistency for our global clients and developing our offering to be seamless across our geographies.

# Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are made with reference to the unaudited interim condensed consolidated financial statements and the accompanying notes for the three- and nine-month periods ended September 30, 2022. A summary of the Company's significant accounting policies is presented in note 2 to the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2021. The unaudited interim condensed consolidated financial statements and the accompanying notes for the three- and nine-month periods ended September 30, 2022 have been prepared in conformity with accounting polices disclosed in the consolidated financial statements and the accompanying notes for the year ended December 31, 2021, except as discussed below.

Some of the Company's accounting policies, as required by IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2021 MD&A.

### 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 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.

# Related Party Transactions

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

# Recently Adopted Accounting Standards

### 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.

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.

The following table shows the Company's exposure at September 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 | Notional/Principal amount[1] |
|---|---|---|---|
| | $ | $ | $ |
| USD LIBOR (1 month) | **1,281,822** | **—** | **2,370,309** |
| USD LIBOR (3 month) | **545,927** | **—** | **—** |
| | **1,827,749** | **—** | **2,370,309** |

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-TIIE-Banxico ("MXIBTIIE").

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.

# Future Accounting Changes

All applicable accounting standards effective for periods beginning on or after January 1, 2022 have been adopted by the Company.

# Internal Control over Disclosure and Financial Reporting

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

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

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

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

# IFRS to Non-GAAP Reconciliations

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

| | | As at and for the three-month periods ended | | | As at and for the nine-month periods ended | |
|---|---|---|---|---|---|---|
| (in $000's for stated values) | | **September 30, 2022** | June 30, 2022 | September 30, 2021 | **September 30, 2022** | September 30, 2021 |
| **Reported and adjusted income measures** | | | | | | |
| Net income | A | **103,703** | 111,120 | 84,941 | **308,427** | 261,342 |
| Adjustments: | | | | | | |
| Amortization of debenture discount | | **966** | 950 | 903 | **2,849** | 2,662 |
| Share-based compensation | | **12,885** | 5,211 | 5,086 | **24,259** | 17,837 |
| Amortization of intangible assets from acquisitions | | **9,144** | 8,958 | 8,862 | **27,011** | 26,442 |
| Provision for income taxes | | **38,708** | 38,386 | 28,610 | **108,899** | 87,370 |
| Loss/(gain) on investments | | **—** | 1,322 | (2,776) | **2,764** | (6,214) |
| **Before-tax adjusted operating income** | B | **165,406** | 165,947 | 125,626 | **474,209** | 389,439 |
| Provision for taxes applicable to adjusted operating income | C | **42,179** | 42,317 | 31,419 | **121,643** | 96,124 |
| **After-tax adjusted operating income** | D=B-C | **123,227** | 123,630 | 94,207 | **352,566** | 293,315 |
| Cumulative preferred share dividends during the period | Y | **5,923** | 8,103 | 8,103 | **22,129** | 24,309 |
| **After-tax adjusted operating income attributable to common shareholders** | D1= D-Y | **117,304** | 115,527 | 86,104 | **330,437** | 269,006 |
| Provision for income taxes | | **38,708** | 38,386 | 28,610 | **108,899** | 87,370 |
| Adjustments: | | | | | | |
| Pre-tax income | | **6,304** | 5,120 | 3,133 | **15,953** | 10,566 |
| Foreign tax rate differential and other | | **(2,833)** | (1,189) | (324) | **(3,209)** | (1,812) |
| **Provision for taxes applicable to adjusted operating income** | | **42,179** | 42,317 | 31,419 | **121,643** | 96,124 |
| **Selected statement of financial position amounts** | | | | | | |
| Total Finance receivables, before allowance for credit losses | E | **7,706,220** | 7,393,935 | 7,689,589 | **7,706,220** | 7,689,589 |
| Allowance for credit losses | F | **10,143** | 9,760 | 8,613 | **10,143** | 8,613 |
| Net investment in finance receivable | G | **5,738,104** | 5,551,252 | 6,462,846 | **5,738,104** | 6,462,846 |
| Equipment under operating leases | H | **2,548,909** | 2,431,788 | 2,224,870 | **2,548,909** | 2,224,870 |
| Net earning assets | I=G+H | **8,287,013** | 7,983,040 | 8,687,716 | **8,287,013** | 8,687,716 |
| Average net earning assets | J | **8,069,879** | 8,110,310 | 8,928,182 | **8,083,879** | 9,412,812 |
| Goodwill and intangible assets | K | **2,179,821** | 2,069,507 | 2,044,452 | **2,179,821** | 2,044,452 |
| Average goodwill and intangible assets | L | **2,108,455** | 2,057,124 | 2,030,151 | **2,070,212** | 2,015,741 |
| Borrowings | M | **8,343,474** | 8,180,938 | 8,335,704 | **8,343,474** | 8,335,704 |
| Unsecured convertible debentures | N | **162,725** | 161,591 | 157,842 | **162,725** | 157,842 |
| Less: continuing involvement liability | O | **(41,062)** | (20,165) | — | **(41,062)** | — |
| Total debt | P=M+N-O | **8,465,137** | 8,322,364 | 8,493,546 | **8,465,137** | 8,493,546 |
| Average debt | Q | **8,196,262** | 7,951,617 | 7,937,478 | **8,165,416** | 8,636,010 |
| Total shareholders' equity | R | **3,585,869** | 3,415,478 | 3,500,230 | **3,585,869** | 3,500,230 |
| Preferred shares | S | **365,113** | 365,113 | 511,869 | **365,113** | 511,869 |
| Common shareholders' equity | T=R-S | **3,220,756** | 3,050,365 | 2,988,361 | **3,220,756** | 2,988,361 |
| Average common shareholders' equity | U | **3,114,995** | 3,036,843 | 3,007,549 | **3,029,142** | 3,103,473 |
| Average total shareholders' equity | V | **3,480,108** | 3,499,793 | 3,519,417 | **3,475,786** | 3,615,342 |

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

| | | As at and for the three-month periods ended | | | As at and for the nine-month periods ended | |
|---|---|---|---|---|---|---|
| (in $000's for stated values, except ratios and per share amounts) | | **September 30, 2022** | June 30, 2022 | September 30, 2021 | **September 30, 2022** | September 30, 2021 |
| **Key annualized operating ratios** | | | | | | |
| **Leverage ratios** | | | | | | |
| Financial leverage ratio | P/R | **2.36** | 2.44 | 2.43 | **2.36** | 2.43 |
| Tangible leverage ratio | P/(R-K) | **6.02** | 6.18 | 5.83 | **6.02** | 5.83 |
| Average financial leverage ratio | Q/V | **2.36** | 2.27 | 2.26 | **2.35** | 2.39 |
| Average tangible leverage ratio | Q/(V-L) | **5.98** | 5.51 | 5.33 | **5.81** | 5.40 |
| **Other key operating ratios** | | | | | | |
| Allowance for credit losses as a % of total finance receivables before allowance | F/E | **0.13 %** | 0.13 % | 0.11 % | **0.13 %** | 0.11 % |
| Adjusted operating income on average net earning assets | B/J | **8.20 %** | 8.18 % | 5.63 % | **5.87 %** | 5.52 % |
| After-tax adjusted operating income on average tangible total equity of Element | D/(V-L) | **35.94 %** | 34.28 % | 25.30 % | **33.44 %** | 24.45 % |
| **Per share information** | | | | | | |
| Number of shares outstanding | W | **393,874** | 397,412 | 412,880 | **393,874** | 412,880 |
| Weighted average number of shares outstanding [basic] | X | **395,117** | 398,242 | 416,353 | **398,287** | 427,753 |
| Pro forma diluted average number of shares outstanding | Y | **411,669** | 414,438 | 433,233 | **414,583** | 444,564 |
| Cumulative preferred share dividends during the period | Z | **5,923** | 8,103 | 8,103 | **22,129** | 24,309 |
| Other effects of dilution on an adjusted operating income basis | AA | **$ 1,607** | $ 1,604 | $ 1,606 | **$ 4,802** | $ 4,829 |
| Net income per share [basic] | (A-Z)/X | **$ 0.25** | $ 0.26 | $ 0.18 | **$ 0.72** | $ 0.55 |
| Net income per share [diluted] | | **$ 0.24** | $ 0.25 | $ 0.18 | **$ 0.70** | $ 0.54 |
| **After-tax adjusted operating income per share [basic]** | (D1)/X | **$ 0.30** | $ 0.29 | $ 0.21 | **$ 0.83** | $ 0.63 |
| **After-tax pro forma diluted adjusted operating income per share** | (D1+AA)/Y | **$ 0.29** | $ 0.28 | $ 0.20 | **$ 0.81** | $ 0.62 |

The following table provides a reconciliation of the after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended September 30, 2022:

| (in $000's for stated values, except per share amounts) | **Amount $** | **Weighted average number of shares outstanding applicable** | **Amount per share $** |
|---|---|---|---|
| Adjusted operating income before taxes | **165,406** | | **0.42** |
| Less: | | | |
| Income taxes related to adjusted operating income | **(42,179)** | | **(0.11)** |
| Preferred share dividends | **(5,923)** | | **(0.01)** |
| After-tax adjusted operating income attributable to common shareholders | **117,304** | **395,116,726** | **0.30** |
| Dilution items: | | | |
| Employee stock option plan | **—** | **2,080,729** | **—** |
| Convertible debentures (after-tax net interest expense) | **1,607** | **14,471,960** | **(0.01)** |
| After-tax pro forma diluted adjusted operating income | **118,911** | **411,669,415** | **0.29** |

# Glossary of Terms

**Assets under management**

Assets under management are the sum of net earning assets, interim funding, and the value of assets syndicated by Element net of depreciation at the end of the period.

**Average financial leverage or average financial leverage ratio**

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

**Average net earning assets**

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

**Free cash flow per share**

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

**"Organic" results**

"Organic" results are exclusive to 2022 and are calculated based on a net revenue total for the relevant period that excludes net revenue in said period from Element actions taken in 2022 that are not expected to generate similar levels of net revenue in any other year. For the full year 2022, net revenue benefitted by approximately $25 million from actions taken by Element that are not expected to generate similar levels of net revenue in any other year; approximately $8 million in Q2 2022 and approximately $17 million in Q3 2022 (and $0 in either of Q1 or Q4 2022).

**Pre-tax income margin**

Pre-tax income margin is income before taxes divided by net revenue.

**Pre-tax return on common equity**

Pre-tax return on common equity ("pROcE") is the sum of before-tax adjusted operating income, minus preferred share dividends, for each of the current and three preceding quarters; divided by average total equity for the current quarter and same quarter prior year, minus current quarter preferred share capital.

# Descriptions of Non-GAAP Measures

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and the accounting policies we adopted in accordance with IFRS. These unaudited interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at September 30, 2022 and December 31, 2021, the results of operations, comprehensive income and cash flows for the three- and nine-month periods-ended September 30, 2022 and September 30, 2021.

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

**Adjusted operating expenses**

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

**Adjusted operating income on average net earning assets**

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

**Adjusted operating income or Before-tax adjusted operating income**

Adjusted operating income reflects net income or loss for the period adjusted for the amortization of debenture discount, share-based compensation, amortization of intangible assets from acquisitions, provision for or recovery of income taxes, and loss or income on investments.

**Adjusted operating margin**

Adjusted operating margin is the adjusted operating income before taxes for the period divided by the net revenue for the period.

**After-tax adjusted operating income**

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

**After-tax adjusted operating income attributable to common shareholders**

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

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

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

**After-tax pro forma diluted adjusted operating income per share**

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

**After-tax adjusted operating income per share**

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

**Allowance for credit losses as a percentage of total finance receivables**

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

**Average common shareholders' equity**

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

**Average cost of borrowing or average cost of debt**

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

**Average debt outstanding**

Average debt outstanding is calculated as the sum of monthly average borrowings outstanding under all of the Company’s borrowings facilities, excluding the continuing involvement liability, and the convertible debentures outstanding throughout the period.

**Average goodwill and intangible assets**

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

**Average shareholders' equity**

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

**Average tangible leverage ratio**

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

**Common shareholders' equity**

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

**Finance assets or total finance assets**

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

**Financial leverage or financial leverage ratio**

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

**Net earning assets**

Net earning assets are the sum of the total net investment in finance receivables and total carrying value of the equipment under operating leases at the end of the period.

**Net financing revenue yield on average net earning assets**

Net financing revenue yield on average net earning assets is calculated as (net interest and rental revenue) divided by (average net earning assets outstanding throughout the period), multiplied by four (i.e. annualized).

**Net interest and rental revenue**

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

**Other effects of dilution adjusted operating income basis**

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

**Pro forma diluted average number of shares outstanding**

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

**Return on common equity**

Return on common equity is calculated as the sum of net income, minus preferred share dividends, for each of the current and three preceding quarters; divided by average total equity for the current quarter and same quarter prior year, minus current quarter preferred share capital.

**Tangible leverage ratio**

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

### Tangible leverage ratio excluding non-recourse warehouse credit facility

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

# Updated Share Information

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

As at November 8, 2022, the Company had 392,678,473 Common Shares issued and outstanding. In addition, 3,901,467 options were issued and outstanding under the Company's stock option plan as at November 8, 2022. These convertible securities are convertible into, or exercisable for Common Shares of the Company of which 3,904,201 are exercisable at September 30, 2022 for proceeds to the Company upon exercise of $28.4 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,471,960 Common Shares.

As at November 8, 2022, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C and 5,321,900 Preferred Shares, Series E issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on November 8, 2022.