

Interim Condensed Consolidated Financial Statements

**Element Fleet Management Corp.**

September 30, 2022

**Element Fleet Management Corp.**

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

	As at September 30, 2022	As at December 31, 2021
	\$	\$
<b>ASSETS</b>		
Cash	55,121	45,271
Restricted funds (note 5)	428,537	400,930
Finance receivables (notes 3 and 15)	7,696,077	7,436,275
Equipment under operating leases (note 4)	2,548,909	2,297,182
Accounts receivable and other assets	204,866	204,873
Derivative financial instruments (note 15)	134,214	26,302
Property, equipment and leasehold improvements, net	84,725	93,872
Intangible assets, net	871,949	830,013
Deferred tax assets	370,810	417,708
Goodwill	1,307,872	1,220,986
	<u>13,703,080</u>	<u>12,973,412</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,396,328	1,206,550
Derivative financial instruments (note 15)	86,592	28,575
Borrowings (note 5)	8,343,474	8,038,963
Convertible debentures (notes 6 and 15)	162,725	159,072
Deferred tax liabilities	128,092	89,303
	<u>10,117,211</u>	<u>9,522,463</u>
<b>Shareholders' equity (note 7)</b>	<u>3,585,869</u>	<u>3,450,949</u>
	<u>13,703,080</u>	<u>12,973,412</u>

*See accompanying notes*

On behalf of the Board:



Director



Director

**Element Fleet Management Corp.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	<b>Three-month period ended September 30, 2022</b>	Three-month period ended September 30, 2021
	<u>\$</u>	<u>\$</u>
<b>NET REVENUE</b>		
Interest income, net (note 9)	127,511	91,119
Rental revenue and other (note 9)	199,359	175,044
Depreciation of equipment under operating leases (notes 4 and 9)	<u>(123,771)</u>	<u>(110,230)</u>
	203,099	155,933
Interest expense	<u>78,240</u>	<u>46,605</u>
Net financing revenue	124,859	109,328
Fleet service revenue (note 9)	162,049	133,042
Direct costs of fixed rate service contracts (note 9)	<u>(12,118)</u>	<u>(11,967)</u>
Servicing income, net	149,931	121,075
Syndication revenue, net (note 9)	15,998	13,937
Net revenue	<u>290,788</u>	<u>244,340</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	80,708	78,493
General and administrative expenses	29,654	24,355
Depreciation and amortization (note 14)	15,020	15,866
Amortization of convertible debenture discount (note 6)	966	903
Share-based compensation (note 8)	<u>12,885</u>	<u>5,086</u>
	139,233	124,703
<b>OTHER EXPENSES</b>		
Amortization of intangible assets from acquisitions	9,144	8,862
Loss/(gain) on investments	<u>—</u>	<u>(2,776)</u>
Income before income taxes from operations	142,411	113,551
Provision for income taxes	<u>38,708</u>	<u>28,610</u>
<b>Net income for the period</b>	<u>103,703</u>	<u>84,941</u>
Basic earnings per share (note 11)	<u>\$ 0.25</u>	<u>\$ 0.18</u>
Diluted earnings per share (note 11)	<u>\$ 0.24</u>	<u>\$ 0.18</u>

*See accompanying notes*

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

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

	<b>Nine-month period ended September 30, 2022</b>	Nine-month period ended September 30, 2021
	<b>\$</b>	<b>\$</b>
<b>NET REVENUE</b>		
Interest income, net (note 9)	<b>309,341</b>	288,330
Rental revenue and other (note 9)	<b>604,590</b>	521,469
Depreciation of equipment under operating leases (notes 4 and 9)	<b>(371,056)</b>	(331,775)
	<b>542,875</b>	478,024
Interest expense	<b>179,583</b>	148,324
Net financing revenue	<b>363,292</b>	329,700
Fleet service revenue (note 9)	<b>467,356</b>	381,531
Direct costs of fixed rate service contracts (note 9)	<b>(35,546)</b>	(32,782)
Servicing income, net	<b>431,810</b>	348,749
Syndication revenue, net (note 9)	<b>44,619</b>	49,891
Net revenue	<b>839,721</b>	728,340
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	<b>234,706</b>	224,772
General and administrative expenses	<b>86,395</b>	77,327
Depreciation and amortization (note 14)	<b>44,411</b>	36,802
Amortization of convertible debenture discount (note 6)	<b>2,849</b>	2,662
Share-based compensation (note 8)	<b>24,259</b>	17,837
	<b>392,620</b>	359,400
<b>OTHER EXPENSES</b>		
Amortization of intangible assets from acquisitions	<b>27,011</b>	26,442
Loss/(gain) on investments	<b>2,764</b>	(6,214)
Income before income taxes from operations	<b>417,326</b>	348,712
Provision for income taxes (note 10)	<b>108,899</b>	87,370
<b>Net income for the period</b>	<b>308,427</b>	261,342
Basic earnings per share (note 11)	<b>\$ 0.72</b>	\$ 0.55
Diluted earnings per share (note 11)	<b>\$ 0.70</b>	\$ 0.54

*See accompanying notes*

**Element Fleet Management Corp.**

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

	<b>Three-month period ended September 30, 2022</b>	Three-month period ended September 30, 2021
	<b>\$</b>	\$
<b>Net income for the period</b>	<b>103,703</b>	84,941
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	<b>6,069</b>	5,705
Net unrealized foreign exchange gain	<b>152,393</b>	20,159
	<b>158,462</b>	25,864
Provision for income taxes	<b>1,603</b>	1,404
<b>Total other comprehensive income</b>	<b>156,859</b>	24,460
<b>Comprehensive income for the period</b>	<b>260,562</b>	109,401

*See accompanying notes*

**Element Fleet Management Corp.**

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

	<b>Nine-month period ended September 30, 2022</b>	Nine-month period ended September 30, 2021
	<b>\$</b>	\$
<b>Net income for the period</b>	<b>308,427</b>	261,342
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	<b>63,654</b>	17,329
Net unrealized foreign exchange gain (loss)	<b>198,650</b>	(63,733)
	<b>262,304</b>	(46,404)
Provision for income taxes	<b>17,479</b>	4,464
<b>Total other comprehensive income (loss)</b>	<b>244,825</b>	(50,868)
<b>Comprehensive income for the period</b>	<b>553,252</b>	210,474

*See accompanying notes*

**Element Fleet Management Corp.**

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

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2021	2,951,596	511,869	13,829	—	(22,536)	(3,809)	3,450,949
Comprehensive income for the period	—	—	—	—	308,427	244,825	553,252
Dividends - Preferred shares (note 7)	—	—	—	—	(22,129)	—	(22,129)
Dividends - Common shares (note 7)	—	—	—	—	(92,380)	—	(92,380)
Redemption of preferred shares (note 7)	—	(146,756)	—	—	(3,244)	—	(150,000)
Issuance of shares (note 6)	173	—	(18)	—	—	—	155
Options exercised (notes 7 and 8)	18,175	—	—	—	(4,739)	—	13,436
Shares repurchased for cancellation (note 7)	(92,301)	—	—	—	(75,113)	—	(167,414)
Balance, September 30, 2022	<b>2,877,643</b>	<b>365,113</b>	<b>13,811</b>	—	<b>88,286</b>	<b>241,016</b>	<b>3,585,869</b>
Balance, December 31, 2020	3,180,379	511,869	59,603	51,788	(64,057)	44,535	3,784,117
Comprehensive income (loss) for the period	—	—	—	—	261,342	(50,868)	210,474
Dividends - Preferred shares (note 7)	—	—	—	—	(24,309)	—	(24,309)
Dividends - Common shares (note 7)	—	—	—	—	(82,526)	—	(82,526)
Options exercised (notes 7 and 8)	42,797	—	—	(14,160)	—	—	28,637
Shares repurchased for cancellation (note 7)	(218,506)	—	—	(37,860)	(160,029)	—	(416,395)
Employee stock option expense (note 8)	—	—	—	232	—	—	232
Balance, September 30, 2021	<b>3,004,670</b>	<b>511,869</b>	<b>59,603</b>	—	<b>(69,579)</b>	<b>(6,333)</b>	<b>3,500,230</b>

*See accompanying notes*

**Element Fleet Management Corp.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, thousands of Canadian dollars)

	Nine-month period ended	
	September 30, 2022	September 30, 2021
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income for the period	308,427	261,342
Items not affecting cash		
Share-based compensation (note 8)	—	232
Depreciation of property, equipment and leasehold improvements	15,640	18,354
Amortization of intangible assets, including from acquisitions	55,782	44,890
Amortization of deferred lease costs	21,891	19,949
Amortization of deferred financing costs	11,390	17,113
Depreciation of equipment under operating leases (note 4)	371,056	331,775
Amortization of convertible debenture discount and deferred costs (note 6)	3,808	3,575
Loss/(gain) on investments	2,764	(6,214)
Provision for credit losses	(199)	(6,945)
	<u>790,559</u>	<u>684,071</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(4,260,428)	(2,932,761)
Repayments of finance receivables	2,300,556	2,770,856
Investment in equipment under operating leases	(818,070)	(712,120)
Proceeds on disposal of equipment under operating leases	219,857	214,973
Syndications of finance receivables	2,087,480	2,198,846
Cash payments for interest portion of lease liability	(1,477)	(1,722)
Other non-cash operating assets and liabilities	262,934	(162,047)
<b>Cash provided by operating activities</b>	<u>581,411</u>	<u>2,060,096</u>
<b>INVESTING ACTIVITIES</b>		
Investments	938	(270)
Purchase of property, equipment and leasehold improvements	(2,942)	(5,684)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	1,323	692
Purchase of intangible assets, including computer software	(45,805)	(55,964)
Decrease in notes receivable	384	102
<b>Cash used in investing activities</b>	<u>(46,102)</u>	<u>(61,124)</u>
<b>FINANCING ACTIVITIES</b>		
Cash payments for principal portion of lease liability	(7,275)	(6,423)
Decrease in restricted funds	3,008	41,082
Increase in deferred financing costs	(2,448)	(13,948)
Issuance of share capital, net	13,436	28,637
Shares repurchased (note 7)	(171,036)	(417,770)
Issuance of term facilities (note 5)	375,334	—
Repayments of borrowings, net	(349,485)	(2,053,472)
Dividends paid (note 7)	(115,349)	(108,622)
Issuance of senior notes (note 5)	—	628,750
Redemption of preferred shares (note 7)	(150,000)	—
<b>Cash used in financing activities</b>	<u>(403,815)</u>	<u>(1,901,766)</u>
<b>Effects of foreign exchange rates on cash</b>	<u>(121,644)</u>	<u>(2,224)</u>
<b>Net increase in cash during the period</b>	<u>9,850</u>	<u>94,982</u>
Cash, beginning of the period	<u>45,271</u>	<u>8,789</u>
<b>Cash, end of the period</b>	<u>55,121</u>	<u>103,771</u>
<b>Supplemental cash flow information:</b>		
Cash taxes paid	42,333	43,306
Cash interest paid	177,932	132,597

*See accompanying notes*



## **Element Fleet Management Corp.**

# **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2022

## **1. CORPORATE INFORMATION**

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

Element is a publicly traded fleet management company with \$13.7 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, reaching 53 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping thousands of clients optimize the performance and productivity of nearly 1.5 million fleet vehicles under management.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

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

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

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 8, 2022.

### **Accounting policies**

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

### **Syndication**

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

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2022

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

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

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

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

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

### **Interest Rate Benchmark Reform**

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

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

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

Effective December 31, 2021, the publication of LIBOR settings has ceased for the 1-week and 2-month US LIBOR setting. The overnight, one-month, three-month, six-month and 12-month US LIBOR settings is expected to be terminated on June 30, 2023. To manage the IBOR transition, the Company has established a cross functional initiative with dedicated work streams to evaluate and address the key areas of impact on the Company's leases, services, systems, documents, processes, models, funding and liquidity planning, risk management frameworks, and financial reporting with the intention of managing the impact through appropriate mitigating actions. The Company has made good progress on its transition, amending many of the leases with significant clients from US LIBOR to SOFR, and will continue to work on this transition with other clients, as well as the transition of its derivatives tied to LIBOR.

## Element Fleet Management Corp.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2022

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	Derivative Notional/Principal amount <sup>(1)</sup>
	\$	\$	\$
USD LIBOR (1 month)	1,281,822	—	2,370,309
USD LIBOR (3 month)	545,927	—	—
	<b>1,827,749</b>	<b>—</b>	<b>2,370,309</b>

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.

### 3. FINANCE RECEIVABLES

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

	As at September 30, 2022			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,465,561	235,846	648,833	6,350,240
Unguaranteed residual values	—	62,811	—	62,811
Gross investment	5,465,561	298,657	648,833	6,413,051
Unearned income	(548,553)	(35,361)	(91,033)	(674,947)
<b>Net investment</b>	<b>4,917,008</b>	<b>263,296</b>	<b>557,800</b>	<b>5,738,104</b>
Net realizable value of impaired receivables	2,511	189	—	2,700
Unamortized deferred costs and subsidies	(49,691)	—	—	(49,691)
Prepaid lease payments and security deposits	932	—	(30,836)	(29,904)
Interim funding	722,044	—	62,714	784,758
Fleet management receivables	655,912	44,253	26,164	726,329
Other receivables	300,649	84,288	107,925	492,862
Continuing involvement asset	41,062	—	—	41,062
Allowance for credit losses (Subsection B)	(6,914)	(1,338)	(1,891)	(10,143)
<b>Total finance receivables</b>	<b>6,583,513</b>	<b>390,688</b>	<b>721,876</b>	<b>7,696,077</b>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2022

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

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

	As at September 30, 2022		As at December 31, 2021	
	Leases	Loans	Leases	Loans
Net investment	\$ 5,478,358	\$ 259,746	\$ 5,724,951	\$ 181,026
Weighted average fixed interest rate	5.19 %	9.36 %	4.74 %	8.39 %
Weighted average floating interest rate	5.63 %	5.39 %	2.74 %	3.32 %
Percentage of portfolio with fixed interest rate	46.84 %	99.86 %	41.05 %	99.97 %

#### B) Allowance for credit losses

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

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2022

The Company's lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Although used prices have steadily declined throughout the summer months attributable to a shift in consumer confidence, along with rising interest rates leading to lower levels of vehicle affordability, prices remain high from a historical basis leading to continued low loss given default ("LGD") levels as at September 30, 2022. The Company expects the used vehicle market to remain resilient through 2022 and into early 2023 due to continuing supply/demand imbalance. Under a recessionary scenario, we expect to continue seeing an increasing number of drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles) consequently pressuring the supply in the used car market which would contribute to propping up used vehicle demand and prices. The microchip shortage remains a vehicle manufacturing industry challenge which continues to impact most OEMs as they are being forced to either slow down or suspend new vehicle production. This impacts new vehicle deliveries, and some of the consumer demand has shifted towards the used vehicle market, further increasing demand and price for used vehicles.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information, pointing to an increasing possibility of an economic recession given the inflationary environment, rising rates, and continued normalization from COVID-19, namely the impact that potential upward or downward trends in Gross Domestic Product ("GDP") and default rates might have on the Company's lease and loan portfolio. The Company has also evaluated multiple scenarios related to this environment, including how it is expected to affect markets and as it pertains to specific industries or customers most susceptible to be impacted by recession and the continuing pandemic situation. Despite unfavorable forward-looking macroeconomic expectations, the resilience of our clients and the favorable evolution of our portfolio allowed Element to maintain the Company's allowance for credit losses at \$10,143 as at September 30, 2022.

**Element Fleet Management Corp.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

<b>Finance receivables</b>	<b>Performing</b>	<b>Impaired</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance as at January 1, 2022	10,218	28	10,246
Transfer to Performing	4	(4)	—
Transfer to Impaired	(3)	3	—
Lease originations	9,850	—	9,850
Changes in models and inputs, derecognition, and repayments	(10,453)	404	(10,049)
<b>Total</b>	<b>9,616</b>	<b>431</b>	<b>10,047</b>
Charge-offs, net of recoveries	—	(404)	(404)
Foreign exchange	500	—	500
<b>Balance as at September 30, 2022</b>	<b>10,116</b>	<b>27</b>	<b>10,143</b>

  

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

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

<b>Allowance for credit losses</b>	<b>Nine-month period ended</b>	Year ended
	<b>September 30, 2022</b>	December 31, 2021
	<b>\$</b>	<b>\$</b>
<b>Allowance for credit losses, beginning of the period</b>	<b>10,246</b>	17,718
Recovery of credit losses	(199)	(5,535)
Charge-offs, net of recoveries	(404)	(1,639)
Impact of foreign exchange rates	500	(298)
<b>Allowance for credit losses, end of the period</b>	<b>10,143</b>	10,246
Allowance as a percentage of total finance receivables before allowance	<b>0.13 %</b>	0.14%

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### C) Credit risk exposure

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

As at September 30, 2022			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
<b>Internal risk rating grade <sup>(1)</sup></b>			
Low	3,765,604	—	3,765,604
Medium	1,819,366	—	1,819,366
High	153,134	—	153,134
Fleet management receivables	726,050	279	726,329
Other finance receivables	492,862	—	492,862
Impaired	—	2,700	2,700
	<b>6,957,016</b>	<b>2,979</b>	<b>6,959,995</b>
Allowance for credit losses	<b>(10,116)</b>	<b>(27)</b>	<b>(10,143)</b>
Net carrying value	<b>6,946,900</b>	<b>2,952</b>	<b>6,949,852</b>

1. Loan balances of \$157,290, \$102,444 and \$12 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

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

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

## Element Fleet Management Corp.

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

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

## 4. EQUIPMENT UNDER OPERATING LEASES

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

	As at September 30, 2022	As at December 31, 2021
	\$	\$
Cost	3,724,673	3,271,322
Accumulated depreciation	1,175,764	974,140
Net carrying amount	2,548,909	2,297,182

## 5. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at September 30, 2022			
	Balance outstanding	Weighted average interest rate <sup>(1)</sup>	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	1,371,442	1.51	1,561,991	19,709
Variable funding notes	3,856,940	3.75	4,381,082	27,331
Other	92,033	3.67	90,737	—
Vehicle management asset-backed debt	5,320,415	3.18	6,033,810	47,040
Revolving senior credit facilities	1,425,361	5.92	—	—
Senior notes	1,232,154	2.60	—	—
Term facilities	389,586	4.15	—	—
	8,367,516	3.61	6,033,810	47,040
Deferred financing costs	(18,472)			
Hedge accounting fair value adjustments	(46,632)			
Continuing involvement liability	41,062			
<b>Total borrowings</b>	<b>8,343,474</b>			



## Element Fleet Management Corp.

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

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

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

### Vehicle management asset-backed debt

As at September 30, 2022, the Company had available capacity in variable funding notes of \$1,046,525 (December 31, 2021 – \$1,073,472) under its vehicle management asset-backed debt facilities.

### Revolving senior credit facilities

As at September 30, 2022, the Company had access to \$1,107,400 (December 31, 2021 - \$1,242,903) of available financing under the revolving senior credit facilities.

### Senior notes

As at September 30, 2022, the Company had \$1,232,154 (US \$900,000) in outstanding senior unsecured notes (December 31, 2021 - \$1,143,015 (US \$900,000)).

### Term facilities

During the second quarter of 2022, the Company issued \$150,000 and \$225,334 (USD \$175,000) term facilities. Both are set to expire within one year. As at September 30, 2022, the Company had \$389,586 in outstanding term facilities (December 31, 2021 - nil).

### Restricted funds

As at September 30, 2022, restricted funds include (i) cash reserves of \$47,040 (December 31, 2021 - \$48,025), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$381,497 (December 31, 2021 - \$347,148), which represents repayments received on

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

**6. CONVERTIBLE DEBENTURES**

Convertible debentures consist of:

As at September 30, 2022							
Issue Date	Final maturity date	Conversion price per share <sup>(1)</sup>	Interest rate <sup>(2)</sup>	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	11.91	4.250	172,338	(2,383)	(7,230)	162,725

  

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

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

On September 16, 2022, holders of the April 2019 Convertible Debentures ("2019 Debentures") redeemed \$162 at a conversion price equal to \$11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per \$1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of \$1 and 13,603 common shares.

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**7. SHARE CAPITAL**

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

	<b>Common shares</b>	
	<b>Shares #</b>	<b>Amount \$</b>
Balance, December 31, 2020	440,275,293	3,180,379
Share repurchase	(39,002,033)	(284,081)
Exercise of options	3,803,967	55,298
<b>Balance, December 31, 2021</b>	<b>405,077,227</b>	<b>2,951,596</b>
Convertible debenture	<b>13,603</b>	<b>173</b>
Share repurchase	<b>(12,449,600)</b>	<b>(92,301)</b>
Exercise of options	<b>1,232,809</b>	<b>18,175</b>
<b>Balance, September 30, 2022</b>	<b>393,874,039</b>	<b>2,877,643</b>

**Share repurchase**

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

For the three- and nine-month periods ended September 30, 2022, 4,158,500 and 12,449,600, respectively, common shares have been repurchased for cancellation for \$61,725 and \$167,414, respectively, including commission, at a volume weighted average price of \$14.84 and \$13.45, respectively, per common share. For the three- and nine-month periods ended September 30, 2021, 8,725,688 and 30,085,733, respectively, common shares have been repurchased for cancellation for \$122,464 and \$416,395, respectively, including commission, at a volume weighted average price of \$14.03 and \$13.84, respectively, per common share. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

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### **Common share dividends**

For the three- and nine-month periods ended September 30, 2022, the Company declared \$30,598 and \$92,380, respectively, in common share dividends or \$0.0775 and \$0.233 per common share (September 30, 2021 - \$26,846 and \$82,526, respectively, or \$0.065 and \$0.195, respectively, per common share).

As at September 30, 2022, the accrued common share dividends were \$30,598 (December 31, 2021 – \$31,415).

### **Increase in common share dividend**

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

### **Preferred shares**

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

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

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

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

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

### **Series I Preferred Shares Redemption**

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

### **Preferred share dividends**

For the three- and nine-month periods ended September 30, 2022, the Company declared \$5,923 and \$22,129, respectively, in preferred share dividends (September 30, 2021 – \$8,103 and \$24,309, respectively).

As at September 30, 2022, the accrued preferred share dividends were \$65 (December 31, 2021 – \$89).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2022	2021	2022	2021
	\$	\$	\$	\$
(a) Stock options	—	10	—	232
(b) Deferred share units	1,060	318	1,859	969
(c) Performance share units	9,173	2,881	15,766	8,725
(d) Restricted share units	2,652	1,877	6,634	7,911
	<b>12,885</b>	<b>5,086</b>	<b>24,259</b>	<b>17,837</b>

#### (a) Stock options

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

	Number of options	Weighted average exercise price
	#	\$
Outstanding, December 31, 2020	11,022,659	10.01
Forfeited	(20,434)	10.21
Expired	(928,221)	12.79
Exercised <sup>(1)</sup>	(4,549,219)	10.79
<b>Outstanding, December 31, 2021</b>	<b>5,524,785</b>	<b>8.45</b>
Forfeited	(1,667)	12.65
Expired	(386,108)	12.53
Exercised <sup>(1)</sup>	(1,232,809)	10.90
<b>Outstanding, September 30, 2022</b>	<b>3,904,201</b>	<b>7.27</b>

1. Weighted average share price of options exercised during the nine-month period ended September 30, 2022 was \$14.69 (year ended December 31, 2021 – \$13.67).

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

	<b>Deferred share units</b>	<b>Performance share units</b>	<b>Restricted share units</b>
	#	#	#
Outstanding, December 31, 2020	633,971	1,881,250	1,510,207
Granted	137,482	807,642	904,146
Forfeited	—	—	(105,908)
Redeemed	—	(569,552)	(776,521)
<b>Outstanding, December 31, 2021</b>	<b>771,453</b>	<b>2,119,340</b>	<b>1,531,924</b>
Granted	109,598	1,855,698	920,056
Forfeited	—	(95,050)	(145,911)
Redeemed	(119,797)	(2,135,422)	(480,381)
<b>Outstanding, September 30, 2022</b>	<b>761,254</b>	<b>1,744,566</b>	<b>1,825,688</b>

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**9. REVENUE**

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

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2022</b>	September 30, 2021	<b>September 30, 2022</b>	September 30, 2021
	\$	\$	\$	\$
<b>Major service lines</b>				
Interest income, net	127,511	91,119	309,341	288,330
Rental revenue	175,349	155,302	521,145	461,633
Gain on sale of equipment under operating leases	24,010	19,742	83,445	59,836
Depreciation of equipment under operating leases	(123,771)	(110,230)	(371,056)	(331,775)
Financing revenue before interest expense	203,099	155,933	542,875	478,024
Service revenue, net	122,889	99,713	358,022	279,494
Vehicle sales and end of contract fees	27,042	21,362	73,788	69,255
Servicing income, net	149,931	121,075	431,810	348,749
Syndication revenue, net	15,998	13,937	44,619	49,891
Net revenue before interest expense	<b>369,028</b>	290,945	<b>1,019,304</b>	876,664
<b>Primary geographical markets</b>				
US and Canada	255,305	197,515	685,312	595,595
Australia and New Zealand	61,042	53,574	187,123	167,988
Mexico	52,681	39,856	146,869	113,081
Net revenue before interest expense	<b>369,028</b>	290,945	<b>1,019,304</b>	876,664
<b>Timing of revenue recognition</b>				
Revenue earned at a point in time	134,220	112,876	398,060	316,661
Revenue earned over time	234,808	178,069	621,244	560,003
Net revenue before interest expense	<b>369,028</b>	290,945	<b>1,019,304</b>	876,664

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

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**A) Contract balances**

	<b>As at September 30, 2022</b>	<b>As at December 31, 2021</b>
	<b>\$</b>	<b>\$</b>
Contract assets	<b>13,537</b>	12,619

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. For the three- and nine-month periods ended September 30, 2022, the Company has recorded \$2,471 and \$6,726, respectively, of amortization on its service contract assets (September 30, 2021 - \$2,101 and \$7,015, respectively).

**B) Performance obligations**

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

**10. INCOME TAXES**

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

The effective income tax rate was 27.18% and 26.09% for the three- and nine-month periods ended September 30, 2022, respectively (three- and nine-month periods ended September 30, 2021 - 25.20% and 25.05%, respectively). The effective tax rate is higher than prior years reflecting year-over-year variances in pre-tax income and other tax related adjustments.

**11. EARNINGS PER SHARE**

Basic earnings per share is as follows:

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2022</b>	<b>September 30, 2021</b>	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Net income attributable to shareholders	<b>\$ 103,703</b>	\$ 84,941	<b>\$ 308,427</b>	\$ 261,342
Cumulative dividends on preferred shares	<b>(5,923)</b>	(8,103)	<b>(22,129)</b>	(24,309)
Net income available to common shareholders	<b>\$ 97,780</b>	\$ 76,838	<b>\$ 286,298</b>	\$ 237,033
Weighted average number of common shares outstanding – basic (number)	<b>395,116,726</b>	416,353,081	<b>398,287,479</b>	427,752,829
Basic earnings per share	<b>\$ 0.25</b>	\$ 0.18	<b>\$ 0.72</b>	\$ 0.55



## Element Fleet Management Corp.

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Diluted earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income available to common shareholders adjusted for the effects of dilution	\$ 99,387	\$ 78,444	\$ 291,100	\$ 241,863
Weighted average number of common shares outstanding – basic (number)	395,116,726	416,353,081	398,287,479	427,752,829
Convertible debentures (number)	14,471,960	14,315,353	14,471,960	14,315,353
Dilutive stock options and warrants (number)	2,080,729	2,564,280	1,823,218	2,495,828
Weighted average number of common shares outstanding – diluted (number)	411,669,415	433,232,714	414,582,657	444,564,010
Diluted earnings per share	\$ 0.24	\$ 0.18	\$ 0.70	\$ 0.54

Instruments outstanding as at September 30, 2022 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, included nil stock options for the three- and nine-month periods ended September 30, 2022 (September 30, 2021 - 701,143 and 701,143 stock options, respectively).

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### 12. CAPITALIZATION

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

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

As at	September 30, 2022	December 31, 2021
	\$	\$
Cash	55,121	45,271
Unsecured debt		
Revolving senior credit facilities	1,425,361	1,106,629
4.250% Convertible Debentures due 2024	162,725	159,072
3.850% Senior Notes due 2025	547,624	508,007
1.600% Senior Notes due 2024	684,530	635,008
Term facilities	389,586	—
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	1,371,442	2,154,974
Variable funding notes	3,856,940	3,605,799
Other	92,033	61,693
Deferred financing costs	(18,472)	(27,023)
Continuing involvement liability	41,062	—
Hedge accounting fair value adjustments	(46,632)	(6,124)
<b>Total debt</b>	<b>8,506,199</b>	<b>8,198,035</b>
Shareholders' equity		
Common share capital	2,877,643	2,951,596
Preferred share capital	365,113	511,869
Other	343,113	(12,516)
<b>Total Shareholders' Equity</b>	<b>3,585,869</b>	<b>3,450,949</b>
<b>Total Capitalization</b>	<b>12,092,068</b>	<b>11,648,984</b>

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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### **13. GEOGRAPHIC INFORMATION**

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

Selected geographic assets are as follows:

	As at September 30, 2022				As at December 31, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Select assets</b>								
Finance receivables	6,583,513	390,688	721,876	7,696,077	6,381,682	391,366	663,227	7,436,275
Equipment under operating leases	30,255	1,239,343	1,279,311	2,548,909	30,697	1,295,034	971,451	2,297,182
Goodwill and intangible assets	2,141,878	29,127	8,816	2,179,821	2,013,326	30,412	7,261	2,050,999
Property, equipment and leasehold improvements	60,886	10,480	13,359	84,725	68,273	13,255	12,344	93,872
	<b>8,816,532</b>	<b>1,669,638</b>	<b>2,023,362</b>	<b>12,509,532</b>	<b>8,493,978</b>	<b>1,730,067</b>	<b>1,654,283</b>	<b>11,878,328</b>

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

### **14. LEASES**

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

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

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

Management evaluates all facilities to ensure the Company's footprint continues to support business activities, employees and client needs. In support of this and to align with the Company's growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year ended December 31, 2020. The remaining lease liability for the closed facilities is \$2,202 as at September 30, 2022 (December 31, 2021 - \$2,772).

## Element Fleet Management Corp.

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<b>Assets</b>	<b>Classification</b>	<b>As at September 30, 2022</b>	<b>As at December 31, 2021</b>
		<b>\$</b>	<b>\$</b>
Right-of-use assets	Buildings, net of accumulated depreciation <sup>(1)</sup>	<b>58,487</b>	64,188
		<b>67,204</b>	73,059

1. As at September 30, 2022, right-of-use assets are recorded net of accumulated amortization of \$52,135 (December 31, 2021 - \$41,761).

<b>Lease cost</b>	<b>Classification</b>	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
		<b>September 30, 2022</b>	September 30, 2021	<b>September 30, 2022</b>	September 30, 2021
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Amortization of leased assets	Depreciation and amortization	<b>2,857</b>	2,817	<b>8,482</b>	8,640
Interest on lease liabilities	Interest expense	<b>480</b>	560	<b>1,477</b>	1,722
Net lease cost		<b>3,337</b>	3,377	<b>9,959</b>	10,362

<b>Maturity of lease liabilities</b>	<b>As at September 30, 2022</b>
	<b>\$</b>
2022	<b>3,041</b>
2023	<b>10,941</b>
2024	<b>6,214</b>
2025	<b>4,564</b>
2026	<b>4,387</b>
Thereafter	<b>38,057</b>

<b>Lease Term and Discount Rate</b>	<b>As at September 30, 2022</b>	<b>As at December 31, 2021</b>
Weighted-average remaining lease term (years)	<b>11.7</b>	11.5
Weighted-average discount rate	<b>2.91 %</b>	2.94 %

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

### **Valuation methods and assumptions**

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

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

#### **Convertible debentures**

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

#### **Derivatives**

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

#### **Investments**

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

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Accounts receivable, accounts payable, and accrued liabilities

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

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

	As at September 30, 2022				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non-observable market inputs	
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Assets not carried at fair value					
Cash	55,121	55,121	—	—	55,121
Finance lease receivables <sup>1</sup>	7,395,269	—	—	7,395,269	7,395,269
Finance loans receivables	259,746	—	—	259,746	259,746
Accounts receivable and other assets	194,783	—	—	194,783	194,783
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	79,809	—	79,809	—	79,809
Interest rate caps	187	—	187	—	187
Equity swaps	54,218	—	54,218	—	54,218
Investments classified as FVTPL	10,083	—	—	10,083	10,083
<b>Total financial assets</b>	<b>8,049,216</b>	<b>55,121</b>	<b>134,214</b>	<b>7,859,881</b>	<b>8,049,216</b>
<b>Financial liabilities</b>					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,396,328	—	—	1,396,328	1,396,328
Borrowings on finance receivables <sup>1</sup>	8,302,412	—	—	8,302,412	8,302,412
Convertible debentures	162,725	—	168,195	—	168,195
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	86,592	—	86,592	—	86,592
<b>Total financial liabilities</b>	<b>9,948,057</b>	<b>—</b>	<b>254,787</b>	<b>9,698,740</b>	<b>9,953,527</b>

1. As at September 30, 2022, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$41,062.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 16. SYNDICATIONS

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

		<b>As at September 30, 2022</b>	As at December 31, 2021
	<b>Classification</b>	<b>\$</b>	<b>\$</b>
Allowance for early termination	Accounts payable and accrued liabilities	<b>11,829</b>	21,497
Deferred servicing fee	Finance receivables	<b>373</b>	512

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

		<b>As at September 30, 2022</b>	As at December 31, 2021
	<b>Classification</b>	<b>\$</b>	<b>\$</b>
Continuing involvement in syndicated assets	Finance receivables	<b>41,062</b>	—
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	<b>41,062</b>	—
Allowance for early termination	Accounts payable and accrued liabilities	<b>6,829</b>	—
Net book value of assets related to deals remaining in continuing involvement	N/A	<b>1,883,869</b>	—

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

		<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>Classification</b>	<b>September 30, 2022</b>	September 30, 2021	<b>September 30, 2022</b>	September 30, 2021
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Syndication revenue, net	Syndication revenue, net	<b>15,998</b>	13,937	<b>44,619</b>	49,891
Net book value of assets syndicated	n/a	<b>599,161</b>	521,306	<b>2,050,981</b>	2,147,622

#### 17. COMPARATIVE FIGURES

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



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**18. SUBSEQUENT EVENTS**

**Share Repurchase**

On November 8, 2022, the Board approved the extension of its normal course issuer bid to repurchase EFN common shares over the next 12 months subject to TSX approval and the terms and limitations applicable to such bid.

**Increase in Common Share Dividend**

On November 8, 2022, the Board approved an increase in the quarterly common share dividend from \$0.0775 to \$0.10 per share.