

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

September 30, 2023

Element Fleet Management Corp.

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

| | As at September 30, 2023 | As at December 31, 2022 |
|---|--------------------------------|-------------------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash | 99,809 | 68,876 |
| Restricted funds (note 5) | 452,060 | 433,327 |
| Finance receivables (notes 3 and 15) | 9,561,738 | 8,069,386 |
| Equipment under operating leases (note 4) | 3,290,669 | 2,806,841 |
| Accounts receivable and other assets | 243,526 | 215,817 |
| Derivative financial instruments (note 15) | 111,866 | 131,943 |
| Property, equipment and leasehold improvements, net | 137,178 | 80,899 |
| Intangible assets, net | 852,918 | 864,611 |
| Deferred tax assets | 297,424 | 365,430 |
| Goodwill | 1,291,296 | 1,295,088 |
| | <u>16,338,484</u> | <u>14,332,218</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | 1,637,965 | 1,465,198 |
| Derivative financial instruments (notes 15) | 49,581 | 81,730 |
| Borrowings (note 5) | 10,373,479 | 8,807,859 |
| Convertible debenture (notes 6 and 15) | 167,983 | 163,933 |
| Deferred tax liabilities | 150,046 | 132,525 |
| | <u>12,379,054</u> | <u>10,651,245</u> |
| Shareholders' equity (note 7) | <u>3,959,430</u> | <u>3,680,973</u> |
| | <u>16,338,484</u> | <u>14,332,218</u> |

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Three-month period ended September 30, 2023 | Three-month period ended September 30, 2022 |
|--|--|--|
| | <u>\$</u> | <u>\$</u> |
| NET REVENUE | | |
| Interest income, net (note 9) | 190,733 | 127,511 |
| Rental revenue and other (note 9) | 281,057 | 199,359 |
| Depreciation of equipment under operating leases (notes 4 and 9) | (171,266) | (123,771) |
| | <u>300,524</u> | <u>203,099</u> |
| Interest expense | 159,967 | 78,240 |
| Net financing revenue | 140,557 | 124,859 |
| Fleet service revenue (note 9) | 188,694 | 162,049 |
| Direct costs of fixed rate service contracts (note 9) | (12,805) | (12,118) |
| Servicing income, net | 175,889 | 149,931 |
| Syndication revenue, net (note 9 and 16) | 17,326 | 15,998 |
| Net revenue | <u>333,772</u> | <u>290,788</u> |
| OPERATING EXPENSES | | |
| Salaries, wages and benefits | 92,193 | 80,708 |
| General and administrative expenses | 38,911 | 29,654 |
| Depreciation and amortization (note 14) | 17,832 | 15,020 |
| Amortization of convertible debenture discount (note 6) | 1,033 | 966 |
| Share-based compensation (note 8) | 7,335 | 12,885 |
| | <u>157,304</u> | <u>139,233</u> |
| OTHER EXPENSES | | |
| Amortization of intangible assets from acquisitions | 9,369 | 9,144 |
| Gain on investments | (247) | — |
| Income before income taxes from operations | 167,346 | 142,411 |
| Provision for income taxes (note 10) | 38,553 | 38,708 |
| Net income for the period | <u>128,793</u> | <u>103,703</u> |
| Basic earnings per share (note 11) | <u>\$ 0.32</u> | <u>\$ 0.25</u> |
| Diluted earnings per share (note 11) | <u>\$ 0.31</u> | <u>\$ 0.24</u> |

See accompanying notes

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

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

| | Nine-month period ended September 30, 2023 | Nine-month period ended September 30, 2022 |
|--|---|---|
| | \$ | \$ |
| NET REVENUE | | |
| Interest income, net (note 9) | 511,082 | 309,341 |
| Rental revenue and other (note 9) | 790,873 | 604,590 |
| Depreciation of equipment under operating leases (notes 4 and 9) | (472,104) | (371,056) |
| | 829,851 | 542,875 |
| Interest expense | 414,516 | 179,583 |
| Net financing revenue | 415,335 | 363,292 |
| Fleet service revenue (note 9) | 540,217 | 467,356 |
| Direct costs of fixed rate service contracts (note 9) | (38,322) | (35,546) |
| Servicing income, net | 501,895 | 431,810 |
| Syndication revenue, net (note 9 and 16) | 43,567 | 44,619 |
| Net revenue | 960,797 | 839,721 |
| OPERATING EXPENSES | | |
| Salaries, wages and benefits | 269,248 | 234,706 |
| General and administrative expenses | 112,244 | 86,395 |
| Depreciation and amortization (notes 14) | 50,833 | 44,411 |
| Amortization of convertible debenture discount (note 6) | 3,048 | 2,849 |
| Share-based compensation (note 8) | 32,489 | 24,259 |
| | 467,862 | 392,620 |
| OTHER EXPENSES | | |
| Amortization of intangible assets from acquisitions | 28,180 | 27,011 |
| (Gain)/Loss on investments | (217) | 2,764 |
| Income before income taxes from operations | 464,972 | 417,326 |
| Provision for income taxes (note 10) | 109,664 | 108,899 |
| Net income for the period | 355,308 | 308,427 |
| Basic earnings per share (note 11) | \$ 0.86 | \$ 0.72 |
| Diluted earnings per share (note 11) | \$ 0.84 | \$ 0.70 |

See accompanying notes

Element Fleet Management Corp.

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

| | Three-month period ended September 30, 2023 | Three-month period ended September 30, 2022 |
|--|--|--|
| | \$ | \$ |
| Net income for the period | 128,793 | 103,703 |
| OTHER COMPREHENSIVE (LOSS) INCOME | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Cash flow and foreign exchange hedges (loss) gain | (7,605) | 6,069 |
| Net unrealized foreign exchange (loss) gain | (23,821) | 152,393 |
| | (31,426) | 158,462 |
| Provision for income taxes | 754 | 1,603 |
| Total other comprehensive (loss) income | (32,180) | 156,859 |
| Comprehensive income for the period | 96,613 | 260,562 |

See accompanying notes

Element Fleet Management Corp.

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

| | Nine-month period ended September 30, 2023 | Nine-month period ended September 30, 2022 |
|--|---|---|
| | <u>\$</u> | <u>\$</u> |
| Net income for the period | <u>355,308</u> | <u>308,427</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Cash flow and foreign exchange hedges (loss) gain | (9,160) | 63,654 |
| Net unrealized foreign exchange gain | <u>170,125</u> | <u>198,650</u> |
| | 160,965 | 262,304 |
| Provision for income taxes | <u>1,293</u> | <u>17,479</u> |
| Total other comprehensive income | <u>159,672</u> | <u>244,825</u> |
| Comprehensive income for the period | <u>514,980</u> | <u>553,252</u> |

See accompanying notes

Element Fleet Management Corp.

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

| | Common share capital | Preferred share capital | Equity component of convertible debentures | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|----------------------|-------------------------|--|-----------------------------|---|----------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2022 | 2,868,078 | 365,113 | 13,799 | 129,290 | 304,693 | 3,680,973 |
| Comprehensive income for the period | — | — | — | 355,308 | 159,672 | 514,980 |
| Dividends - Preferred shares (note 7) | — | — | — | (17,839) | — | (17,839) |
| Dividends - Common shares (note 7) | — | — | — | (117,055) | — | (117,055) |
| Issuance of shares (notes 6 and 7) | 9 | — | (1) | — | — | 8 |
| Options exercised (notes 7 and 8) | 6,930 | — | — | (38,109) | — | (31,179) |
| Shares repurchased for cancellation (note 7) | (28,393) | — | — | (42,065) | — | (70,458) |
| Balance, September 30, 2023 | 2,846,624 | 365,113 | 13,798 | 269,530 | 464,365 | 3,959,430 |
| 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 for preferred shares (note 7) | — | (146,756) | — | (3,244) | — | (150,000) |
| Options exercised (notes 7 and 8) | 18,175 | — | — | (4,739) | — | 13,436 |
| Issuance of shares, net of share issue costs (note 7) | 173 | — | (18) | — | — | 155 |
| Shares repurchased for cancellation (note 7) | (92,301) | — | — | (75,113) | — | (167,414) |
| Balance, September 30, 2022 | 2,877,643 | 365,113 | 13,811 | 88,286 | 241,016 | 3,585,869 |

See accompanying notes

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands of Canadian dollars)

| | Nine-month period ended | |
|---|-------------------------|-----------------------|
| | September 30, 2023 | September 30, 2022 |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net income for the period | 355,308 | 308,427 |
| Items not affecting cash | | |
| Depreciation of property, equipment and leasehold improvements | 16,812 | 15,640 |
| Amortization of intangible assets, including from acquisitions | 62,201 | 55,782 |
| Amortization of deferred lease costs | 25,135 | 21,891 |
| Amortization of deferred financing costs | 13,178 | 11,390 |
| Depreciation of equipment under operating leases | 472,104 | 371,056 |
| Amortization of convertible debenture discount and deferred costs (note 6) | 4,058 | 3,808 |
| (Gain) loss on investments | (217) | 2,764 |
| Provision for credit losses | (325) | (199) |
| | <u>948,254</u> | <u>790,559</u> |
| Changes in non-cash operating assets and liabilities | | |
| Investment in finance receivables | (6,535,920) | (4,260,428) |
| Repayments of finance receivables | 2,775,451 | 2,300,556 |
| Investment in equipment under operating leases | (1,159,279) | (818,070) |
| Proceeds on disposal of equipment under operating leases | 263,088 | 219,857 |
| Syndications of finance receivables | 2,444,491 | 2,087,480 |
| Cash payments for interest portion of lease liability | (2,910) | (1,477) |
| Other non-cash operating assets and liabilities | 76,169 | 262,934 |
| Cash (used in) provided by operating activities | <u>(1,190,656)</u> | <u>581,411</u> |
| INVESTING ACTIVITIES | | |
| Investments | (721) | 938 |
| Purchase of property, equipment and leasehold improvements | (17,029) | (2,942) |
| Proceeds on disposals of property, equipment and leasehold improvements and intangible assets | 485 | 1,323 |
| Purchase of intangible assets, including computer software | (53,497) | (45,805) |
| Decrease in notes receivable | — | 384 |
| Cash used in investing activities | <u>(70,762)</u> | <u>(46,102)</u> |
| FINANCING ACTIVITIES | | |
| Cash payments for principal portion of lease liability | (4,582) | (7,275) |
| Increase in restricted funds | (19,984) | 3,008 |
| Increase in deferred financing costs | (20,411) | (2,448) |
| Issuance of share capital, net | (31,179) | 13,436 |
| Shares repurchased (note 7) | (69,819) | (171,036) |
| Issuance of term facilities (note 5) | — | 375,334 |
| Repayments of borrowings, net | 544,269 | (349,485) |
| Dividends paid (note 7) | (135,219) | (115,349) |
| Issuance of senior notes (note 5) | 996,810 | — |
| Redemption of preferred shares (note 7) | — | (150,000) |
| Cash provided by (used in) financing activities | <u>1,259,885</u> | <u>(403,815)</u> |
| Effects of foreign exchange rates on cash | <u>32,466</u> | <u>(121,644)</u> |
| Net increase in cash during the period | <u>30,933</u> | <u>9,850</u> |
| Cash, beginning of the period | <u>68,876</u> | <u>45,271</u> |
| Cash, end of the period | <u>99,809</u> | <u>55,121</u> |
| Supplemental cash flow information: | | |
| Cash taxes paid | 54,116 | 42,333 |
| Cash interest paid | 407,882 | 177,932 |

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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 \$16.3 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 services and financings for commercial vehicle and equipment fleets, reaching 56 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 with approximately 1.5 million fleet vehicles under management which include all leased vehicles, including syndicated leases and interim funding.

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, 2022, 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 6, 2023.

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, 2022, except as discussed below.

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

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

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 ceased to apply the amendments on June 30, 2023.

Effective December 31, 2021, the publication of LIBOR settings 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 terminated on June 30, 2023. Effective January 1, 2023, the Company migrated all floating rate leases tied to LIBOR to the Secured Overnight Financing Rate ("SOFR"). All derivatives tied to LIBOR were transitioned to SOFR effective June 30, 2023.

The following table shows the Company's exposure for financial asset and liabilities at September 30, 2023 and December 31, 2022 subject to IBOR reform that have yet to transition to SOFR.

| | As at September 30, 2023 | | |
|---------------------|--|---|---|
| | Non-derivative financial assets - carrying value | Non-derivative financial liabilities - carrying value | Derivative Notional/Principal amount ⁽¹⁾ |
| | \$ | \$ | \$ |
| USD LIBOR (1 month) | — | — | — |
| USD LIBOR (3 month) | — | — | — |
| | — | — | — |

| | As at December 31, 2022 | | |
|---------------------|--|---|---|
| | Non-derivative financial assets - carrying value | Non-derivative financial liabilities - carrying value | Derivative Notional/Principal amount ⁽¹⁾ |
| | \$ | \$ | \$ |
| USD LIBOR (1 month) | 1,154,829 | — | 3,687,647 |
| USD LIBOR (3 month) | 542,600 | — | — |
| | 1,697,429 | — | 3,687,647 |

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.

Income Taxes

On May 23, 2023, the International Accounting Standards Board issued narrow scope amendments to International Accounting Standard 12, Income Taxes, ("IAS 12"). The IAS 12 amendments give entities a temporary exception from accounting for the deferred tax impacts resulting from the jurisdictional implementation of Pillar Two model rules published by the Organization for Economic Co-operation and Development. The IAS 12 amendments also require affected entities to make certain disclosures about the exposure to Pillar Two rules. The Company applied the temporary exemption and will continue to monitor the Company's financial and disclosure requirements related to Pillar Two model rule.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

3. FINANCE RECEIVABLES

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

| | As at September 30, 2023 | | | |
|--|--------------------------|------------------------------|------------------|------------------|
| | US and Canada | Australia and New Zealand | Mexico | Total |
| | \$ | \$ | \$ | \$ |
| Minimum lease payments | 6,562,033 | 272,284 | 796,241 | 7,630,558 |
| Unguaranteed residual values | — | 74,458 | — | 74,458 |
| Gross investment | 6,562,033 | 346,742 | 796,241 | 7,705,016 |
| Unearned income | (935,445) | (48,725) | (118,114) | (1,102,284) |
| Net investment (Subsection A) | 5,626,588 | 298,017 | 678,127 | 6,602,732 |
| Net realizable value of impaired receivables | 3,389 | 1,230 | — | 4,619 |
| Unamortized deferred costs and subsidies | (73,499) | — | 1,368 | (72,131) |
| Prepaid lease payments and security deposits | (19,694) | — | (53,871) | (73,565) |
| Interim funding | 1,382,435 | — | 191,749 | 1,574,184 |
| Fleet management receivables | 730,140 | 47,881 | 43,147 | 821,168 |
| Other receivables | 340,145 | 93,813 | 185,857 | 619,815 |
| Continuing involvement asset | 94,296 | — | — | 94,296 |
| Allowance for credit losses (Subsection B) | (7,020) | (1,499) | (861) | (9,380) |
| Total finance receivables | 8,076,780 | 439,442 | 1,045,516 | 9,561,738 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

| | As at December 31, 2022 | | | |
|--|-------------------------|---------------------------|-----------|-----------|
| | US and Canada | Australia and New Zealand | Mexico | Total |
| | \$ | \$ | \$ | \$ |
| Minimum lease payments | 5,296,256 | 245,716 | 703,992 | 6,245,964 |
| Unguaranteed residual values | — | 67,915 | — | 67,915 |
| Gross investment | 5,296,256 | 313,631 | 703,992 | 6,313,879 |
| Unearned income | (585,459) | (38,982) | (102,022) | (726,463) |
| Net investment (Subsection A) | 4,710,797 | 274,649 | 601,970 | 5,587,416 |
| Net realizable value of impaired receivables | 2,432 | 4,173 | — | 6,605 |
| Unamortized deferred costs and subsidies | (38,294) | — | — | (38,294) |
| Prepaid lease payments and security deposits | (19,502) | — | (35,458) | (54,960) |
| Interim funding | 962,274 | — | 222,588 | 1,184,862 |
| Fleet management receivables | 729,701 | 49,302 | 23,806 | 802,809 |
| Other receivables | 329,370 | 89,352 | 118,422 | 537,144 |
| Continuing involvement asset | 54,173 | — | — | 54,173 |
| Allowance for credit losses (Subsection B) | (6,837) | (1,934) | (1,598) | (10,369) |
| Total finance receivables | 6,724,114 | 415,542 | 929,730 | 8,069,386 |

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

| | As at September 30, 2023 | | As at December 31, 2022 | |
|--|--------------------------|------------|-------------------------|------------|
| | Leases | Loans | Leases | Loans |
| Net investment | \$ 6,254,352 | \$ 348,380 | \$ 5,284,600 | \$ 302,816 |
| Weighted average fixed interest rate | 6.31 % | 10.32 % | 5.42 % | 9.35 % |
| Weighted average floating interest rate | 7.87 % | 7.99 % | 6.92 % | 6.84 % |
| Percentage of portfolio with fixed interest rate | 47.57 % | 99.99 % | 49.33 % | 99.98 % |

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 information available to the Company as at September 30, 2023.

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, 2023, 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

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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 vehicle prices have steadily declined starting in the second quarter of 2022 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, 2023. The Company expects the used vehicle market to moderate over the remainder of 2023 as inventory levels are generally balanced between supply and demand. 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 elevated used vehicle demand and prices.

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 and rising interest rates, 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. Despite unfavorable forward-looking macroeconomic expectations, the creditworthiness of our clients and the favorable evolution of our portfolio allowed Element to modestly reduce the Company's allowance for credit losses to \$9,380 as at September 30, 2023.

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

| Finance receivables | Performing | Impaired | Total |
|---|-------------------|-----------------|---------------|
| | \$ | \$ | \$ |
| Balance as at January 1, 2023 | 10,302 | 67 | 10,369 |
| Transfer to Performing | 1 | (1) | — |
| Transfer to Impaired | (9) | 9 | — |
| Lease originations | 11,389 | — | 11,389 |
| Changes in models and inputs, derecognition, and repayments | (12,429) | 715 | (11,714) |
| Total | 9,254 | 790 | 10,044 |
| Charge-offs, net of recoveries | — | (742) | (742) |
| Foreign exchange | 80 | (2) | 78 |
| Balance as at September 30, 2023 | 9,334 | 46 | 9,380 |

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

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| Finance receivables | Performing \$ | Impaired \$ | Total \$ |
|---|------------------|----------------|-------------|
| Balance as at January 1, 2022 | 10,218 | 28 | 10,246 |
| Transfer to Performing | 4 | (4) | — |
| Transfer to Impaired | (46) | 46 | — |
| Lease originations | 14,239 | — | 14,239 |
| Changes in models and inputs, derecognition, and repayments | (14,695) | 431 | (14,264) |
| Total | 9,720 | 501 | 10,221 |
| Charge-offs, net of recoveries | — | (431) | (431) |
| Foreign exchange | 582 | (3) | 579 |
| Balance as at December 31, 2022 | 10,302 | 67 | 10,369 |

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

| | Nine-month period ended | Year ended |
|---|------------------------------------|-------------------|
| Allowance for credit losses | September 30, 2023 | December 31, 2022 |
| | \$ | \$ |
| Allowance for credit losses, beginning of the period | 10,369 | 10,246 |
| Recovery of credit losses | (325) | (25) |
| Charge-offs, net of recoveries | (742) | (431) |
| Impact of foreign exchange rates | 78 | 579 |
| Allowance for credit losses, end of the period | 9,380 | 10,369 |
| Allowance as a percentage of total finance receivables before allowance | 0.10 % | 0.13% |

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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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, 2023 | | | |
|--|------------------|--------------|------------------|
| Finance receivables | Performing | Impaired | Total |
| | \$ | \$ | \$ |
| Internal risk rating grade ⁽¹⁾ | | | |
| Low | 4,141,618 | — | 4,141,618 |
| Medium | 2,335,772 | — | 2,335,772 |
| High | 125,342 | — | 125,342 |
| Fleet management receivables | 820,216 | 952 | 821,168 |
| Other finance receivables | 619,815 | — | 619,815 |
| Impaired | — | 4,619 | 4,619 |
| | 8,042,763 | 5,571 | 8,048,334 |
| Allowance for credit losses | (9,334) | (46) | (9,380) |
| Net carrying value | 8,033,429 | 5,525 | 8,038,954 |

1. Loan balances of \$13,481, \$334,898 and \$1 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

| As at December 31, 2022 | | | |
|--|------------------|--------------|------------------|
| Finance receivables | Performing | Impaired | Total |
| | \$ | \$ | \$ |
| Internal risk rating grade ⁽²⁾ | | | |
| Low | 3,375,906 | — | 3,375,906 |
| Medium | 2,064,243 | — | 2,064,243 |
| High | 147,267 | — | 147,267 |
| Fleet management receivables | 802,050 | 759 | 802,809 |
| Other finance receivables | 537,144 | — | 537,144 |
| Impaired | — | 6,605 | 6,605 |
| | 6,926,610 | 7,364 | 6,933,974 |
| Allowance for credit losses | (10,302) | (67) | (10,369) |
| Net carrying value | 6,916,308 | 7,297 | 6,923,605 |

2. Loan balances of \$15,670, \$287,142 and \$4 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2023 | As at December 31, 2022 |
|--------------------------|-----------------------------|----------------------------|
| | \$ | \$ |
| Cost | 4,781,082 | 4,078,247 |
| Accumulated depreciation | 1,490,413 | 1,271,406 |
| Net carrying amount | 3,290,669 | 2,806,841 |

5. BORROWINGS

The Company's outstanding borrowings were as follows:

| | As at September 30, 2023 | | | |
|---|--------------------------|--|---|---------------|
| | Balance outstanding | Weighted average interest rate ⁽¹⁾ | Pledged finance receivables and equipment under operating leases | Cash reserves |
| | \$ | % | \$ | \$ |
| Revolving term notes in amortization | 2,506,329 | 4.88 | 2,983,263 | 29,613 |
| Variable funding notes | 3,960,944 | 6.09 | 4,521,749 | 38,961 |
| Other | 46,859 | 4.71 | 45,676 | — |
| Vehicle management asset-backed debt | 6,514,132 | 5.63 | 7,550,688 | 68,574 |
| Revolving senior credit facilities | 1,246,341 | 8.75 | — | — |
| Senior notes | 2,227,731 | 4.27 | — | — |
| Term facilities | 341,765 | 6.58 | — | — |
| | 10,329,969 | 5.75 | 7,550,688 | 68,574 |
| Deferred financing costs | (26,394) | | | |
| Hedge accounting fair value adjustments | (24,392) | | | |
| Continuing involvement liability | 94,296 | | | |
| Total borrowings | 10,373,479 | | | |

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

| | As at December 31, 2022 | | | |
|---|-------------------------|---|--|---------------|
| | Balance outstanding | Weighted average interest rate ⁽¹⁾ | Pledged finance receivables and equipment under operating leases | Cash reserves |
| | \$ | % | \$ | \$ |
| Revolving term notes in amortization | 1,115,459 | 1.50 | 1,353,553 | 18,448 |
| Variable funding notes | 4,120,361 | 5.04 | 4,737,687 | 29,379 |
| Other | 83,639 | 4.08 | 82,483 | — |
| Vehicle management asset-backed debt | 5,319,459 | 4.29 | 6,173,723 | 47,827 |
| Revolving senior credit facilities | 1,893,323 | 6.61 | — | — |
| Senior notes | 1,219,032 | 2.60 | — | — |
| Term facilities | 387,034 | 5.30 | — | — |
| | 8,818,848 | 4.60 | 6,173,723 | 47,827 |
| Deferred financing costs | (19,227) | | | |
| Hedge accounting fair value adjustments | (45,935) | | | |
| Continuing involvement liability | 54,173 | | | |
| Total borrowings | 8,807,859 | | | |

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, 2023.

Vehicle management asset-backed debt

As at September 30, 2023, the Company had available capacity in variable funding notes of \$1,496,350 (December 31, 2022 – \$1,462,068) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

As at September 30, 2023, the Company had available capacity under the revolving senior credit facilities of \$2,297,777 (December 31, 2022 - \$612,465).

Senior notes

As at September 30, 2023, the Company had \$2,227,731 (US \$1,650,000) in outstanding senior unsecured notes (December 31, 2022 - \$1,219,032 (US \$900,000)).

On June 26, 2023, the Company issued \$994,455 (US \$750,000) in aggregate principal amount of 6.271% senior unsecured notes due June 26, 2026. The notes were issued at par. Interest is paid semi-annually in arrears on June 26 and December 26, commencing on December 26, 2023. The proceeds received at the time of closing were used for working capital and general corporate purposes.

Term facilities

As at September 30, 2023, the Company had \$341,765 in outstanding term facilities (December 31, 2022 - \$387,034).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Restricted funds

As at September 30, 2023, restricted funds include (i) cash reserves of \$68,574 (December 31, 2022 - \$47,827), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$383,486 (December 31, 2022 - \$385,500), which represents repayments received on 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, 2022 - nil) provided to counter-parties as collateral against derivative liabilities.

6. CONVERTIBLE DEBENTURE

Convertible debentures consist of:

| As at September 30, 2023 | | | | | | | |
|--------------------------|---------------------|---|------------------------------|------------|----------------|----------|--------------------|
| Issue Date | Final maturity date | Conversion price per share ⁽¹⁾ | Interest rate ⁽²⁾ | Face value | Deferred costs | Discount | Net carrying value |
| | | \$ | % | \$ | \$ | \$ | \$ |
| April 5, 2019 | June 30, 2024 | 11.77 | 4.250 | 172,224 | (1,045) | (3,196) | 167,983 |

| As at December 31, 2022 | | | | | | | |
|-------------------------|---------------------|----------------------------|------------------------------|------------|----------------|----------|--------------------|
| Issue Date | Final maturity date | Conversion price per share | Interest rate ⁽²⁾ | Face value | Deferred costs | Discount | Net carrying value |
| | | \$ | % | \$ | \$ | \$ | \$ |
| April 5, 2019 | June 30, 2024 | 11.91 | 4.250 | 172,232 | (2,055) | (6,244) | 163,933 |

1. The conversion price was adjusted on June 30, 2023, the ex-dividend date for dividends to be paid on July 14, 2023, to \$11.77391 for the April 5, 2019 issuance.

2. Stated interest rate on principal face value.

Conversions

During January 2023, holders of the April 2019 Convertible Debentures ("2019 Debentures") redeemed \$8 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 nil and 671 common shares.

During December 2022, holders of the 2019 Debentures redeemed \$106 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 \$2 and 8,899 common shares.

During September 2022, holders of the 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

7. SHARE CAPITAL

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

| | Common shares | |
|------------------------------------|----------------------|------------------|
| | Shares | Amount |
| | # | \$ |
| Balance, December 31, 2021 | 405,077,227 | 2,951,596 |
| Convertible debenture | 22,502 | 287 |
| Share repurchase | (13,906,200) | (103,267) |
| Exercise of options | 1,301,758 | 19,462 |
| Balance, December 31, 2022 | 392,495,287 | 2,868,078 |
| Convertible debenture | 671 | 9 |
| Share repurchase | (3,804,149) | (28,393) |
| Exercise of options | 526,491 | 6,930 |
| Balance, September 30, 2023 | 389,218,300 | 2,846,624 |

Share repurchase

On November 11, 2022, the TSX approved the Company's notice of intention to renew its Normal Course Issuer Bid ("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, 2022 and ending on the earlier of November 14, 2023 or the completion of purchases under the NCIB, up to 39,228,719 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, 2023, 748,276 and 3,804,149, respectively, common shares have been repurchased for cancellation for \$15,027 and \$70,458, respectively, including commission, at a volume weighted average price of \$20.08 and \$18.52, respectively, per common share. 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. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the interim condensed consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

Common share dividends

For the three- and nine-month periods ended September 30, 2023, the Company declared \$38,927 and \$117,055, respectively, in common share dividends or \$0.10 and \$0.30, respectively, per common share (September 30, 2022 - \$30,598 and \$92,380, respectively, or \$0.0775 and \$0.233, respectively, per common share).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

As at September 30, 2023, the accrued common share dividends were \$38,927 (December 31, 2022 – \$39,252).

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.

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at September 30, 2023 consist of the following:

| Series | Issue date | Interest rate % | Gross \$ | After tax transaction costs \$ | Net proceeds \$ | Shares # |
|---------------|--------------------------|----------------------------|---------------------|---|----------------------------|---------------------|
| A | December 17, 2013 | 6.93¹ | 115,000 | 4,625 | 110,375 | 4,600,000 |
| C | March 7, 2014 | 6.21² | 128,160 | 3,416 | 124,744 | 5,126,400 |
| E | June 18, 2014 | 5.903³ | 133,048 | 3,054 | 129,994 | 5,321,900 |

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

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

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

Series I Preferred Shares Redemption

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

Preferred share dividends

For the three- and nine-month periods ended September 30, 2023, the Company declared \$5,946 and \$17,839, respectively, in preferred share dividends (September 30, 2022 – \$5,923 and \$22,129, respectively).

As at September 30, 2023, the accrued preferred share dividends were \$65 (December 31, 2022 – \$65).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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, |
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| (b) Deferred share units | 335 | 1,060 | 1,649 | 1,859 |
| (c) Performance share units | 4,086 | 9,173 | 19,470 | 15,766 |
| (d) Restricted share units | 2,914 | 2,652 | 11,370 | 6,634 |
| | 7,335 | 12,885 | 32,489 | 24,259 |

(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, 2021 | 5,524,785 | 8.45 |
| Forfeited | (1,667) | 12.65 |
| Expired | (411,412) | 12.49 |
| Exercised ⁽¹⁾ | (1,301,758) | 10.94 |
| Outstanding, December 31, 2022 | 3,809,948 | 7.17 |
| Expired | (120,447) | 13.02 |
| Exercised ⁽¹⁾ | (3,026,491) | 6.51 |
| Outstanding, September 30, 2023 | 663,010 | 9.10 |

1. Weighted average share price of options exercised during the nine-month period ended September 30, 2023 was \$20.19 (year ended December 31, 2022 – \$14.92).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

| | Deferred share units | Performance share units | Restricted share units |
|--|---------------------------------|------------------------------------|-----------------------------------|
| | # | # | # |
| Outstanding, December 31, 2021 | 771,453 | 2,119,340 | 1,531,924 |
| Granted | 136,526 | 1,863,612 | 928,360 |
| Forfeited | — | (95,050) | (162,909) |
| Redeemed | (119,797) | (2,135,422) | (521,461) |
| Outstanding, December 31, 2022 | 788,182 | 1,752,480 | 1,775,914 |
| Granted | 82,987 | 1,112,818 | 739,208 |
| Forfeited | — | — | (54,898) |
| Redeemed | (70,810) | (976,528) | (649,301) |
| Outstanding, September 30, 2023 | 800,359 | 1,888,770 | 1,810,923 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

9. REVENUE

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

| | Three-month period ended | | Nine-month period ended | |
|--|--------------------------|---------------|-------------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Major service lines | | | | |
| Interest income, net | 190,733 | 127,511 | 511,082 | 309,341 |
| Rental revenue | 249,383 | 175,349 | 687,686 | 521,145 |
| Gain on sale of equipment under operating leases | 31,674 | 24,010 | 103,187 | 83,445 |
| Depreciation of equipment under operating leases | (171,266) | (123,771) | (472,104) | (371,056) |
| Financing revenue before interest expense | 300,524 | 203,099 | 829,851 | 542,875 |
| Service revenue, net | 142,972 | 122,889 | 412,230 | 358,022 |
| Vehicle sales and end of contract fees | 32,917 | 27,042 | 89,665 | 73,788 |
| Servicing income, net | 175,889 | 149,931 | 501,895 | 431,810 |
| Syndication revenue, net | 17,326 | 15,998 | 43,567 | 44,619 |
| Net revenue before interest expense | 493,739 | 369,028 | 1,375,313 | 1,019,304 |
| Primary geographical markets | | | | |
| US and Canada | 332,014 | 255,305 | 919,479 | 685,312 |
| Australia and New Zealand | 68,073 | 61,042 | 208,528 | 187,123 |
| Mexico | 93,652 | 52,681 | 247,306 | 146,869 |
| Net revenue before interest expense | 493,739 | 369,028 | 1,375,313 | 1,019,304 |
| Timing of revenue recognition | | | | |
| Revenue earned at a point in time | 156,675 | 134,220 | 459,059 | 398,060 |
| Revenue earned over time | 337,064 | 234,808 | 916,254 | 621,244 |
| Net revenue before interest expense | 493,739 | 369,028 | 1,375,313 | 1,019,304 |

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

A) Contract balances

| | As at September 30, 2023 | As at December 31, 2022 |
|-----------------|-------------------------------------|------------------------------------|
| | \$ | \$ |
| Contract assets | 17,814 | 21,574 |

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, 2023, the Company has recorded \$3,030 and \$9,156, respectively, of amortization on its service contract assets (September 30, 2022 - \$2,471 and \$6,726, 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 23.02% and 23.58% for the three- and nine-month periods ended September 30, 2023, respectively (three- and nine-month periods ended September 30, 2022 - 27.18% and 26.09%, respectively). The effective tax rate is lower than prior years reflecting year-over-year variances in pre-tax income and other tax related adjustments.

11. EARNINGS PER SHARE

Basic earnings per share is as follows:

| | Three-month period ended | | Nine-month period ended | |
|---|---------------------------------|-----------------------|--------------------------------|-----------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Net income attributable to shareholders | \$ 128,793 | \$ 103,703 | \$ 355,308 | \$ 308,427 |
| Cumulative dividends on preferred shares | (5,946) | (5,923) | (17,839) | (22,129) |
| Net income available to common shareholders | \$ 122,847 | \$ 97,780 | \$ 337,469 | \$ 286,298 |
| Weighted average number of common shares outstanding – basic (number) | 389,511,424 | 395,116,726 | 390,695,744 | 398,287,479 |
| Basic earnings per share | \$ 0.32 | \$ 0.25 | \$ 0.86 | \$ 0.72 |

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

Diluted earnings per share is as follows:

| | Three-month period ended | | Nine-month period ended | |
|--|--------------------------|-----------------------|-------------------------|-----------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Net income available to common shareholders adjusted for the effects of dilution | \$ 124,498 | \$ 99,387 | \$ 342,413 | \$ 291,100 |
| Weighted average number of common shares outstanding – basic (number) | 389,511,424 | 395,116,726 | 390,695,744 | 398,287,479 |
| Convertible debentures (number) | 14,627,599 | 14,471,960 | 14,627,599 | 14,471,960 |
| Dilutive stock options (number) | 369,725 | 2,080,729 | 353,580 | 1,823,218 |
| Weighted average number of common shares outstanding – diluted (number) | 404,508,748 | 411,669,415 | 405,676,923 | 414,582,657 |
| Diluted earnings per share | \$ 0.31 | \$ 0.24 | \$ 0.84 | \$ 0.70 |

Instruments outstanding as at September 30, 2023 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 and nil stock options for the three- and nine-month periods ended September 30, 2023, respectively (September 30, 2022 - nil and nil 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, 2023 | December 31, 2022 |
|---|-------------------------------|------------------------------|
| | \$ | \$ |
| Cash | 99,809 | 68,876 |
| Unsecured debt | | |
| Revolving senior credit facilities | 1,246,341 | 1,893,323 |
| 4.250% Convertible Debentures due 2024 | 167,983 | 163,933 |
| 1.600% Senior Notes due 2024 | 675,070 | 677,240 |
| 3.850% Senior Notes due 2025 | 540,056 | 541,792 |
| 6.271% Senior Notes due 2026 | 1,012,605 | — |
| Term facilities | 341,765 | 387,034 |
| Vehicle Management Asset-Backed Debt | | |
| Revolving term notes in amortization | 2,506,329 | 1,115,459 |
| Variable funding notes | 3,960,944 | 4,120,361 |
| Other | 46,859 | 83,639 |
| Deferred financing costs | (26,394) | (19,227) |
| Continuing involvement liability | 94,296 | 54,173 |
| Hedge accounting fair value adjustments | (24,392) | (45,935) |
| Total debt | 10,541,462 | 8,971,792 |
| Shareholders' equity | | |
| Common share capital | 2,846,624 | 2,868,078 |
| Preferred share capital | 365,113 | 365,113 |
| Other | 747,693 | 447,782 |
| Total Shareholders' Equity | 3,959,430 | 3,680,973 |
| Total Capitalization | 14,500,892 | 12,652,765 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2023

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, 2023 | | | | As at December 31, 2022 | | | |
|--|--------------------------|---------------------------------|------------------|-------------------|-------------------------|---------------------------------|------------------|-------------------|
| | US and Canada | Australia and New Zealand | Mexico | Total | US and Canada | Australia and New Zealand | Mexico | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Select assets | | | | | | | | |
| Finance receivables | 8,076,780 | 439,442 | 1,045,516 | 9,561,738 | 6,724,114 | 415,542 | 929,730 | 8,069,386 |
| Equipment under operating leases | 27,313 | 1,303,900 | 1,959,456 | 3,290,669 | 35,329 | 1,318,913 | 1,452,599 | 2,806,841 |
| Goodwill and intangible assets | 2,098,913 | 31,266 | 14,035 | 2,144,214 | 2,118,822 | 30,307 | 10,570 | 2,159,699 |
| Property, equipment and leasehold improvements | 102,787 | 20,401 | 13,990 | 137,178 | 57,341 | 10,391 | 13,167 | 80,899 |
| | 10,305,793 | 1,795,009 | 3,032,997 | 15,133,799 | 8,935,606 | 1,775,153 | 2,406,066 | 13,116,825 |

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 \$1,527 as at September 30, 2023 (December 31, 2022 - \$2,135).

Element Fleet Management Corp.

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September 30, 2023

| | | As at September 30, 2023 | As at December 31, 2022 |
|---------------------|---|--------------------------------|----------------------------|
| | | \$ | \$ |
| Assets | Classification | | |
| Right-of-use assets | Buildings, net of accumulated depreciation ⁽¹⁾ | 101,771 | 55,748 |
| Liabilities | Classification | | |
| Lease liabilities | Accounts payable and accrued liabilities | 112,365 | 64,272 |

1. As at September 30, 2023, right-of-use assets are recorded net of accumulated amortization of \$59,337 (December 31, 2022 - \$54,324).

| | | Three-month period ended | | Nine-month period ended | |
|-------------------------------|-------------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|
| | | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| | | \$ | \$ | \$ | \$ |
| Lease cost | Classification | | | | |
| Amortization of leased assets | Depreciation and amortization | 3,562 | 2,857 | 10,147 | 8,482 |
| Interest on lease liabilities | Interest expense | 1,134 | 480 | 2,910 | 1,477 |
| Net lease cost | | 4,696 | 3,337 | 13,057 | 9,959 |

| Maturity of lease liabilities | As at September 30, 2023 |
|-------------------------------|--------------------------|
| | \$ |
| 2023 | 2,109 |
| 2024 | 7,072 |
| 2025 | 6,998 |
| 2026 | 7,084 |
| 2027 | 7,582 |
| Thereafter | 81,520 |

| | As at September 30, 2023 | As at December 31, 2022 |
|---|-----------------------------|----------------------------|
| Lease Term and Discount Rate | | |
| Weighted-average remaining lease term (years) | 14.5 | 11.7 |
| Weighted-average discount rate | 3.82 % | 2.91 % |

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Valuation methods and assumptions

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

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

Convertible debentures

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

Derivatives

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

Investments

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

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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, 2023 | | | | Total |
|--|---------------------------|--------------------------------|-------------------------------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | | |
| | Quoted market price | Observable market inputs | Non- observable market inputs | | |
| Carrying value | \$ | \$ | \$ | \$ | \$ |
| Financial assets | | | | | |
| Assets not carried at fair value | | | | | |
| Cash | 99,809 | 99,809 | — | — | 99,809 |
| Finance lease receivables ¹ | 9,119,062 | — | — | 9,119,062 | 9,119,062 |
| Finance loans receivables | 348,380 | — | — | 348,380 | 348,380 |
| Accounts receivable and other assets | 234,357 | — | — | 234,357 | 234,357 |
| Assets held at fair value | | | | | |
| Derivative financial assets | | | | | |
| Foreign exchange contracts | 507 | — | 507 | — | 507 |
| Interest rate swaps | 85,794 | — | 85,794 | — | 85,794 |
| Equity swaps | 25,565 | — | 25,565 | — | 25,565 |
| Investments classified as FVTPL | 9,169 | — | — | 9,169 | 9,169 |
| Total financial assets | 9,922,643 | 99,809 | 111,866 | 9,710,968 | 9,922,643 |
| Financial liabilities | | | | | |
| Liabilities not carried at fair value | | | | | |
| Accounts payable and accrued liabilities | 1,637,965 | — | — | 1,637,965 | 1,637,965 |
| Borrowings on finance receivables ¹ | 10,279,183 | — | — | 10,279,183 | 10,279,183 |
| Convertible debentures | 167,983 | — | 169,900 | — | 169,900 |
| Liabilities held at fair value | | | | | |
| Derivative financial liabilities | | | | | |
| Interest rate swaps | 49,581 | — | 49,581 | — | 49,581 |
| Total financial liabilities | 12,134,712 | — | 219,481 | 11,917,148 | 12,136,629 |

1. As at September 30, 2023, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$94,296.

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September 30, 2023

| | As at December 31, 2022 | | | | Total |
|--|-------------------------|---------------------------|--------------------------------|-------------------------------------|-------------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | |
| | | Quoted market price | Observable market inputs | Non- observable market inputs | |
| \$ | \$ | \$ | \$ | \$ | |
| Financial assets | | | | | |
| Assets not carried at fair value | | | | | |
| Cash | 68,876 | 68,876 | — | — | 68,876 |
| Finance lease receivables | 7,712,397 | — | — | 7,712,397 | 7,712,397 |
| Finance loans receivables | 302,816 | — | — | 302,816 | 302,816 |
| Accounts receivable and other assets | 206,267 | — | — | 206,267 | 206,267 |
| Assets held at fair value | | | | | |
| Derivative financial assets | | | | | |
| Interest rate swaps | 109,833 | — | 109,833 | — | 109,833 |
| Interest rate caps | 170 | — | 170 | — | 170 |
| Equity Swaps | 21,940 | — | 21,940 | — | 21,940 |
| Investments classified as FVTPL | 9,550 | — | — | 9,550 | 9,550 |
| Total financial assets | 8,431,849 | 68,876 | 131,943 | 8,231,030 | 8,431,849 |
| Financial liabilities | | | | | |
| Liabilities not carried at fair value | | | | | |
| Accounts payable and accrued liabilities | 1,465,198 | — | — | 1,465,198 | 1,465,198 |
| Borrowings on finance receivables | 8,753,686 | — | — | 8,753,686 | 8,753,686 |
| Convertible debentures | 163,933 | — | 168,432 | — | 168,432 |
| Liabilities held at fair value | | | | | |
| Derivative financial liabilities | | | | | |
| Interest rate swaps | 81,730 | — | 81,730 | — | 81,730 |
| Total financial liabilities | 10,464,547 | — | 250,162 | 10,218,884 | 10,469,046 |

1. As at December 31, 2022, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$54,173.

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16. SYNDICATIONS

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

| | | As at September 30, 2023 | As at December 31, 2022 |
|---------------------------------|--|---|----------------------------|
| | Classification | \$ | \$ |
| Allowance for early termination | Accounts payable and accrued liabilities | 3,741 | 7,518 |
| Deferred servicing fee | Finance receivables | 206 | 323 |

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

| | | As at September 30, 2023 | As at December 31, 2022 |
|---|--|---|----------------------------|
| | Classification | \$ | \$ |
| Continuing involvement in syndicated assets | Finance receivables | 94,296 | 54,173 |
| Liabilities associated with continuing involvement in syndicated assets | Secured borrowings | 94,296 | 54,173 |
| Allowance for early termination | Accounts payable and accrued liabilities | 14,884 | 9,181 |
| Net book value of assets related to deals remaining in continuing involvement | N/A | 3,265,191 | 2,339,900 |

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

| | | Three-month period ended | | Nine-month period ended | |
|-------------------------------------|--------------------------|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | Classification | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| | | \$ | \$ | \$ | \$ |
| Syndication revenue, net | Syndication revenue, net | 17,326 | 15,998 | 43,567 | 44,619 |
| Net book value of assets syndicated | n/a | 1,020,242 | 599,161 | 2,398,437 | 2,050,981 |

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17. SUBSEQUENT EVENTS

Share Repurchase

On November 6, 2023, 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 6, 2023, the Board approved an increase in the quarterly common share dividend from \$0.10 to \$0.12 per share.

Preferred Share redemption

On November 6, 2023, the Board approved the redemption of its Series A preferred shares on December 31, 2023.

Strategic Initiatives

Centralization of U.S. and Canadian leasing operations

On November 6, 2023, the Company announced a plan to centralize its U.S. and Canadian leasing operations under a single Element executive located in a new office in Dublin, Ireland in 2024, consolidating leasing functions that are currently spread across U.S. and Canadian operations and locations.

Establishing a strategic sourcing presence in Asia

On November 6, 2023, the Company announced the establishment of a strategic sourcing and relationship management presence in Asia by opening a new office in Singapore in early 2024.

Neither announcement is expected to have a material impact on the financial statements during 2023 and additional disclosure will be provided as the initiatives are implemented.