Element Fleet Management Corp.

Management Discussion and Analysis

December 31, 2022

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the year ended December 31, 2022 and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2022 filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or percentages or ratios. References to "Q4 2022", "this quarter", or "the quarter" are to the quarter ended December 31, 2022 and references to "Q3 2022" and "Q4 2021" are to the quarters ended September 30, 2022 and December 31, 2021, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO MARCH 6, 2023. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, AND DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "WILL", "POTENTIAL", "PROPOSED" AND OTHER SIMILAR WORDS, OR STATEMENTS THAT CERTAIN EVENTS OR CONDITIONS "MAY" OR "WILL" OCCUR ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION. FORWARD-LOOKING STATEMENTS (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS AS AT AND FOR THE PERIODS ENDED ON CERTAIN DATES AND TO PRESENT INFORMATION ABOUT MANAGEMENT'S CURRENT EXPECTATIONS AND PLANS RELATING TO THE FUTURE AND THE READER IS CAUTIONED THAT SUCH STATEMENTS MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS OR INFORMATION. UNDUE RELIANCE SHOULD NOT BE PLACED ON THESE FORWARD-LOOKING STATEMENTS, AS THERE CAN BE NO ASSURANCE THAT THE PLANS, INTENTIONS OR EXPECTATIONS UPON WHICH THEY ARE BASED WILL OCCUR. BY ITS NATURE, FORWARD-LOOKING INFORMATION INVOLVES NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, THAT CONTRIBUTE TO THE POSSIBILITY THAT THE EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET FINANCING REVENUE YIELD ON AVERAGE NET EARNING ASSETS; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; EXPECTATIONS REGARDING SYNDICATION; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; THE IMPACT OF VEHICLE MANUFACTURERS' ABILITY TO DELIVER VEHICLES; ANY ONGOING IMPACT OF THE COVID-19 PANDEMIC ON INDUSTRY AND MARKET CONDITIONS; AND THE RESET RATES FOR THE COMPANY'S OUTSTANDING PREFERRED SHARES. ELEMENT BELIEVES THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.

FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO: THE IMPACT THAT MANUFACTURERS' PRODUCTION DELAYS WILL HAVE ON ELEMENT'S BUSINESS; ELEMENT'S REVENUES, EXPENSES, RUN-RATE AND OPERATIONS, FUTURE CASH FLOWS,

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

SOME OF THE RISKS AND OTHER FACTORS, SOME OF WHICH ARE BEYOND ELEMENT'S CONTROL, WHICH COULD CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS AND INFORMATION CONTAINED IN THIS MD&A, INCLUDE, BUT ARE NOT LIMITED TO, THOSE SET FORTH UNDER THE HEADING "RISK MANAGEMENT" HEREIN AND UNDER THE HEADING "RISK FACTORS" IN ELEMENT'S ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 2022. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.

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Company & Business Overview

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

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

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

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

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

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

We completed the transformation having effected hundreds of changes to the organization resulting in a more consistent, superior client experience; greater operational efficiency and scalability; a materially strengthened financial position and maturing capital structure; diversified funding sources (including approximately $2.1 billion of committed, undrawn liquidity at December 31, 2022); and meaningfully improved profitability.

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

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

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

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

- Advance a capital-light*er* business model by growing services revenue and strategically syndicating fleet assets, which enhances return on equity; and
- Given the expected double-digit annual free cash flow per share growth rate, predictably return excess equity to investors by way of growing common dividends and share buybacks.

Financial Highlights

Select Full-Year 2022 Results

Earnings per share	After-tax adjusted operating income per share[2]	Free cash flow per share[3]
$0.96	$1.10	$ 1.35

Net revenue growth	Pre-tax income margin[3]	Adjusted operating margin[2]
16.2 %	48.5 %	55.2 %

Average vehicles under management	Return on common equity[2]	Pre-tax return on common equity[3]
1,468,000	11.9 %	18.6 %

Income Summary

(in $000's for stated values, except per share amounts)		**For the year ended December 31, 2022**
Servicing income, net	**$**	**581,018**
Net financing revenue		**488,741**
Syndication revenue, net		**62,290**
Net revenue		**1,132,049**
Adjusted operating expenses[2]		***507,533***
Total operating expenses		**542,667**
Total other expenses		**39,829**
Pre-tax income		**549,553**
Earnings per share [basic]		**0.96**
Adjusted operating income before taxes[2]		***624,516***
After-tax adjusted operating income per share[2] [basic]	***$***	***1.10***

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

Financial Highlights

Select Q4 2022 Results

Earnings per share	After-tax adjusted operating income per share	Free cash flow per share
$ 0.24	$ 0.27	$ 0.30

Average vehicles under management	Pre-tax income margin	Adjusted operating margin
1,494,000	45.2 %	51.4 %

Income Summary

(in $000's for stated values, except per share amounts)		**For the three-month period ended December 31, 2022**
Servicing income, net	**$**	**149,208**
Net financing revenue		**125,449**
Syndication revenue, net		**17,671**
Net revenue		**292,328**
Adjusted operating expenses		***142,021***
Total operating expenses		**150,047**
Total other expenses		**10,054**
Pre-tax income		**132,227**
Earnings per share [basic]		**0.24**
Adjusted operating income before taxes		***150,307***
After-tax adjusted operating income per share [basic]	***$***	***0.27***

Achievements and Initiatives in the Period

Global Balanced Scorecard

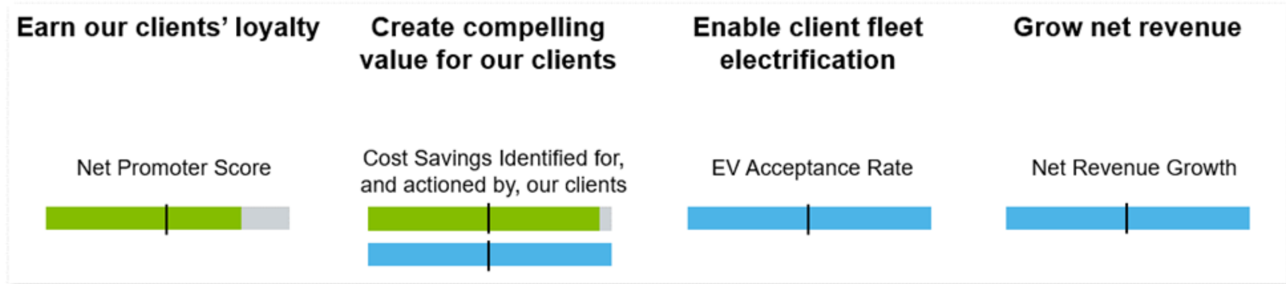
Element uses a balanced scorecard strategy and performance management system, which forges tight alignment and focus throughout the Company, resulting in the rapid advancement of our strategic objectives. The balanced scorecard frames the business in four dimensions, representing Element's chief stakeholders: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

Our 2022 Global Balanced Scorecard ("Global BSC") included one new strategic objective and three new metrics (as compared to our 2021 Global Balanced Scorecard) — all of which were supportive of our direction and overall ambitions:

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

For 2022, Element achieved or outperformed on all our Global BSC targets:

Our Clients



Earning our clients' loyalty

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

Our Global NPS climbed 5 points over the course of the year, finishing at an all-time high of 40 for 2022 as a whole. Our Q4 2022 Global NPS alone was 41, representing another strong quarter of positive client feedback. Full-year 2022 progress versus 2021 was clear and consistent across the organization, with record-high scores in U.S. + Canada and ANZ, while Mexico maintained its elite position with a NPS of over 50. Client feedback regarding the ease of doing business remains at an all-time high, demonstrating our continued ability to "make the complex simple for our clients".

Creating compelling value for our clients

Our global Strategic Consulting Services ("SCS") team provides significant value to clients by proactively identifying challenges and opportunities specific to each client's fleet and sharing responsive solutions and strategies directly with the client. For 2022, our SCS team identified over $1.4 billion of cost saving opportunities for clients, of which approximately $480 million in value were "actioned".

This year, we also leveraged our expertise and data to build models that allow us to identify cost saving opportunities for *prospective* clients, who may not know their current fleet spend amounts or key performance indicators. Capturing, consolidating, measuring, and reporting on fleet data can be a significant challenge for prospects. We developed a tool to automate the process of establishing a baseline for *prospective* clients to measure their fleet performance against, which – in turn – enables us to identify the greatest cost savings opportunities available to them.

Our clients continue to move towards more sustainable fleet practices, many with aggressive corporate sustainability goals in place. The SCS team spent a significant amount of 2022 informing clients about the electric vehicle ("EV") landscape and providing guidance on approaches to transitioning from internal combustion engine ("ICE") -powered vehicles to EVs, while also addressing client concerns around range and charging infrastructure. Over the course of the year, the SCS team developed a program capable of performing client feasibility analyses (with respect to early EV rollouts and pilot programs) automatically, which was formally launched in Q4.

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

Enabling client fleet electrification

As previously noted, we continue to see growing client interest in and demand for EVs. Element is well-positioned to support our clients and lead our industry through the gradual electrification of automotive fleets and we outperformed our 2022 target for client EV acceptance rate.

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

In 2021, we built out the *Arc by Element* product and pre-launch initiatives, which included the expansion of core Element offerings (*eg*. maintenance, collision, titling & registration, tolls & violations, etc.) to accommodate EVs at scale (while maintaining or enhancing the caliber of our ICE vehicle service capabilities). *Arc by Element* also encompasses new services related to road mapping and planning, charging infrastructure, pilot and rollout support, incentive identification and capture, and turnkey solutions for home and public charging of EVs. In the first quarter of 2022, we launched the product and have been focused on scaling our offering with investments in talent, technology and process improvement as we deploy across our largest clients.

In the U.S. and Canada, we are continuing to support our growing portfolio of EV pilots, where we have nearly doubled our targets and tripled the number of chargers to be deployed across our EV fleet. In Q3 and Q4, we delivered over 100 EVs across multiple large client fleets (and installed the associated infrastructure), with further growth expected in 2023 as we continue to engage with executives at our largest clients to help them meet their sustainability objectives. One EV pilot success for a U.S. multinational information technology company led to the expansion of the client's electrification pilot scope into service vans, as well as a sedan pilot in Canada, with further plans to add additional vehicles. We also launched our EV Advisory Council where we work to define and tackle the biggest challenges facing EV adoption today and into the future. Council members include Verizon, National Grid, Schneider Electric, EO, Motorq and RMI.

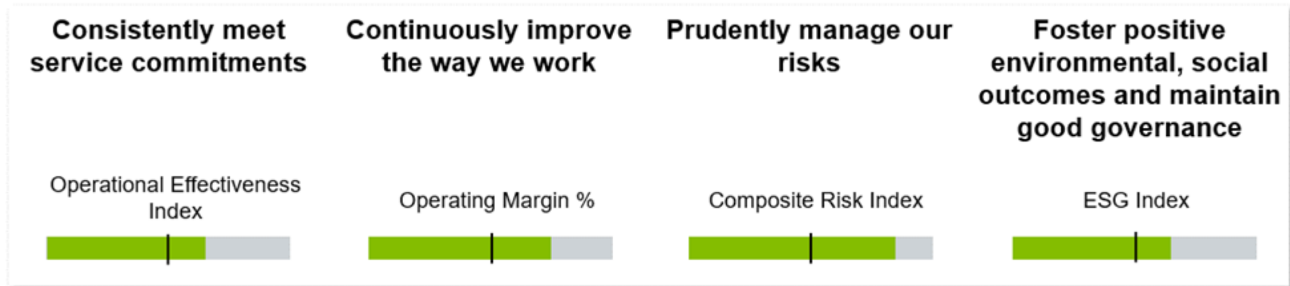
In New Zealand, our business continues to increase capability in the government fleet sector. In Q4, Custom Fleet ran our first local EV summit, where we hosted the New Zealand Minister of Transport among 100 other participants.

Earlier in the year in Australia, Custom Fleet hosted events in Sydney and Brisbane headlined by clients sharing their experience and insights on transitioning their fleet from ICE vehicles to EVs. The events were well received from a highly engaged audience. In Q4, Custom Fleet engaged in collaborative workshops with a major Australian retailer to baseline vehicle carbon emissions and assist with road-mapping Scope 1 emissions reductions, including EV trials for a last mile delivery fleet. Recent changes in the Australian Fringe Benefit Tax have driven significant levels of client interest in EV suitability and requests for EV transition consultancies. Custom fleet also implemented charging infrastructure for a major Australian bank and insurance company in the quarter following a successful EV consulting exercise.

In Mexico, sustainability objectives are the main driving force behind client fleet electrification initiatives. The success our Mexico team has had in fleet electrification for multiple large clients has established us as a trusted strategic partner, especially in the truck segments. Our EV uptake for the year was 33%, an increase of 9% year-over-year and our total EV units increased by 69% on the same year-over-year basis.

Earlier in the year, we ordered 120 electric trucks from BYD Motors Mexico (an EV OEM) on behalf of our client that is one of Mexico's top freight carriers. We finished off the year by delivering the first refrigerated fully electric delivery trucks to our client that is one of Mexico's largest dairy companies.

Our Business



Consistently meeting service commitments

Over the course of the last 33+ months of global pandemic conditions and, more recently, OEM vehicle production delays, our clients have gained a new level of appreciation for Element's consistent, superior service experience. Our investment in technology and our continuous improvement mindset have enabled us to deliver this client experience, and those same attributes are reflected in our Global BSC Operational Effectiveness Index score.

In Q4, our accident management service operators continued to evolve our multi-channel communications strategy with the driver community and vendor partners. With the goal of decreasing cycle times and manual touches by staff, we are seeing promising results. Through a combination of SMS text messaging and emails, our client's drivers are kept informed of repair progress, and have an alternative to communicating versus the traditional phone call. When utilizing SMS messaging, we are seeing a ~20% increase in drivers obtaining an estimate and scheduling repairs. This increases the outreach to drivers without employee intervention and increases our repair completion rates. With our communications to our suppliers, which have been traditionally by phone, we have shifted to increased technology usage allowing our vendors to provide key updates and vital documents without making a call or emailing. This allows our supply chain to spend more time on value-add activities such as repairing our vehicles and less time communicating with our team members.

Also in Q4, our managed maintenance platform delivered exceptional results, further solidifying its position as a key contributor to Element's scalability. With 94% of maintenance transactions processed electronically, we are successfully transitioning to a fully digital operating model, offering significant advantages to our clients and suppliers. During the fourth quarter, we introduced a suite of features to the platform, including auto-approval rules, Spanish language support, tire size specifications for forklifts, glass program indicators and notes, and adding new vehicle classes, further enhancing the platform's capabilities. Additionally, automating our warranty claims, billing, and reporting processes through the platform has streamlined our operations, improved accuracy, and freed up valuable resources for more strategic initiatives. Furthermore, our maintenance program continued to deliver a high level of driver satisfaction with a score of 96%. This achievement reflects our dedication to providing a seamless and efficient maintenance experience for our clients and our commitment to delivering value through operational excellence and innovative technology.

We have continued the expansion of the capabilities within our new digital communications platform, building on the journey to realizing a comprehensive view of driver-centric communications across the Element product offering and enabling proactive engagement with drivers through their channel of choice (web, app, phone, email, SMS and chat). This year we launched a 360-degree driver solution to increase our overall pre-registration rates, with an aim of helping both drivers and clients understand and manage prerequisites for license plate renewal - now sending proactive notifications via SMS and email, and handling inbound support via chatbot-based interactions to answer common registration renewal questions. Live agent chat support for drivers is available where further support is required, however early results indicate 80% of all interactions can be supported in an automated fashion. We continue to implement additional use cases to further improve our clients' overall service experience by increasing efficiency.

Continuously improving the way we work

The Continuous Improvement Group continues to expand project focus, training, and automation as we drive our commitment to a continuous improvement culture at Element. Our unwavering focus on “CI” in 2022 resulted in many improvements to our products, services, and processes through training and positive change across our business.

In 2022, the Continuous Improvement Group continued to make progress against three key priorities:

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

Our CI Skills and Mindset Program continues to develop Lean Six Sigma skills in the organization, with our 9th Yellow Belt Cohort having launched in the quarter. The program encourages and trains employees to identify innovative cost- and time-saving opportunities for clients as well as improve the overall client experience.

In Q4, we developed and implemented seven additional new automation solutions by leveraging Robotic Process Automation “bots” and other light-touch tools. Our total library of automations now contains 150 solutions accounting for over 2.1 million transactions processed and 74,848 hours saved for our employees through the end of 2022. These automation solutions decrease cycle times, provide increased accuracy leading to a superior employee and client experience, and make our business more scalable.

In ANZ, we continuously focus on ensuring we are improving our internal processes. Notable 2022 examples include: (i) upgrading our Fleet Insights to use third-party telematics and other CX enhancements, saving 32 hours per month; and (ii) enhancing our Automation Termination capability, reducing manual processing by 20%.

In Mexico, for 2022 as a whole our continuous improvement strategy saved a total of 16,500 hours in productivity across 8 business areas.

Xcelerate Ordering

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

Prudently managing our risks

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

For 2022, we refreshed our risk universe based on the current environment and refined our risk metrics to focus on comprehensive indices, leading indicators, and changes in the business environment. We have also

introduced a cross-functional Enterprise Risk Council led by our Chief Financial Officer, which focuses on discussions around large and emerging risks and how they could impact our business — as well as the mitigating actions that we have in place or may need to enhance. The council is staffed cross-functionally with attendance by our senior executives and is driving the risk culture more deeply into the organization.

The ECRI exceeded target for full-year 2022 as reported on our Global BSC this quarter.

Fostering positive environmental and social outcomes and maintaining good governance

Our ESG strategy is based on four key pillars:

- Sustainability: Our core objective is to reduce greenhouse gas emissions, focusing on expanding our EV offerings and offering consulting services to help our clients optimize the fuel-efficiency of their fleets.
- Diversity, Equity & Inclusion ("DE&I"): We are committed to doing more – to being an organization wherein mutual respect and mutual trust are absolute and where each of us has an equal opportunity to thrive.
- Satisfaction & Safety: We have set meaningful targets for Satisfaction & Safety for our clients and employees. Our goals include fostering accident avoidance for client drivers, maintaining a best-in-class global employee engagement score and further increasing our Global NPS. (Please see "Earning our clients' loyalty" above for a discussion of our outperformance against target on our Global NPS.)
- Governance: We will continue to evolve our board composition and our ESG reporting to maintain the high standing we have become known and recognized for.

In Q4 2022, we inventoried our 2019 and 2021 greenhouse gas emissions to get a more complete and accurate picture of our environmental impact, conducted global materiality assessment interviews, attended Ceres Corporate Electric Vehicle Alliance inaugural in-person meeting, and maintained our silver rating with EcoVadis placing Element among the top 20% of companies assessed by EcoVadis.

In ANZ, Custom Fleet is striving to become an employer of choice for diverse talent. This strategy is underpinned by the continuous improvement of our Diversity, Equity, Belonging and Inclusion practices to align with the achievement of externally benchmarked certifications, being:

- The Reconciliation Action Plan (Aboriginal and Torres Strait Islander inclusion);
- The Australian Workplace Equality Index Certification (LGBTQI+ inclusion); and
- The Employer of Choice for Gender Equity Citation (Women's Gender Equality Agency).

These activities are advancing Element's ESG agenda and, in many cases, will help us track our ESG performance to build a robust baseline on which we can aim to improve in subsequent years. Our second annual ESG report — released in 2022 — details progress on our ESG strategy, goals and commitments first outlined in our inaugural report.

Supplier Diversity

We have a long and well-established track record of fostering supplier diversity, dating back to the early 1990s at Element's predecessor companies. Our ongoing supplier diversity initiatives are something Element is very proud of and are increasingly important to our clients. In Q2 2022, we published our Supplier Diversity Program overview, which is available on our website. The purpose of our Supplier Diversity Program is to provide opportunities for diverse suppliers that satisfy our procurement and contractual requirements; and support our clients in achieving their own supplier diversity spend goals.

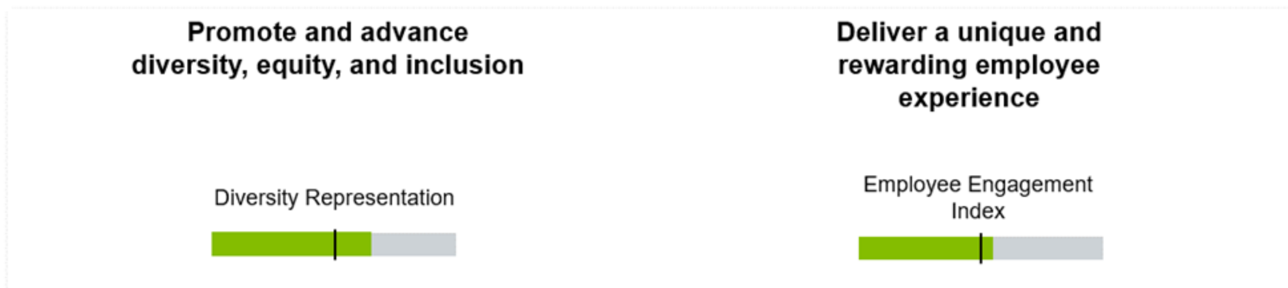
Notably in Q3 2022, Element took on a leadership role in the industry as our people leaders have presented on topics related to supplier diversity on industry-leading stages. We also shared our commitment to supplier diversity with our stakeholders which includes the 3 Cs of Element's stand-out supplier diversity program (Culture, Consultation and Change).

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

Element is a member of the National Minority Supplier Development Council (NMSDC), Disability:IN Minnesota, and the Women's Business Enterprise National Council (WBENC) in the U.S., as well as the Canadian Council for Aboriginal Business (CCAB) and the Canadian Aboriginal and Minority Supplier Council (CAMSC) -- for which we just sponsored the CAMSC Annual Business Awards. Notably in Q4, we participated in the CAMSC inaugural roundtable event focused on suppliers in the automotive and construction industries and sponsored the NMDSC 50th anniversary conference – further strengthening our diverse supplier relationships.

We closed out 2022 with great advancements toward building a sustainable future and supporting our clients in driving spend with diverse suppliers. We are proud to share that we launched our diverse supplier locator and diversity spend dashboard tools and our clients directed $1.75 billion of their spend towards diverse suppliers.

Our People



Once again, the strength of our engaged, committed Element team was made evident in 2022, delivering record results and strong momentum as we closed the year. Our people have never been more connected, collaborative, and confident about growth.

Fostering inclusion and supporting our communities

Our Diversity, Equity and Inclusion (DE&I) strategy continues to build awareness, education, and action to foster a more inclusive workplace. We are proud that women comprise 50% of our global workforce and Black, Indigenous and People of Color (BIPOC) make up 19% of our workforce in the U.S. and Canada. We exceeded our target on our global balanced scorecard DE&I index including surpassing our target on both women and BIPOC promotions and BIPOC external hires. And, in our 2022 Employee Engagement Survey we surpassed our DE&I index target by four points with a score of 84. In 2022, our Business Resource Groups[4] realized a 55% increase in membership and a 96% increase in attendees. As part of our BRG-led role preparedness series, we hosted a multi-session career experience including a session with our Board of Directors. We continued our efforts to support education and the environment in local communities, philanthropically as well as with volunteerism. Highlights include:

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

- Completed a $15 million pledge to contribute to building the Peter Gilgan Patient Care Tower at St. Michael's Hospital.

- Supported literacy in Canada with non-profit organization, Innovations for Learning, and through a successful annual book drive for Reading Partners, a national non-profit organization in the U.S.

- Through the United Negro College Fund (UNCF), supported five scholars in the U.S. for the 2022-2023 academic year.

Collaborating and connecting in new ways

Our fourth quarter saw a long-awaited return to in-person events. Element's inaugural Investor Day in November drew over 250 attendees including investors and analysts, to hear first-hand from our executive and senior leadership teams about the unique strengths of Element's business model and the success we've had to-date with our growth strategy. The day showcased the breadth and depth of Element's leadership team and their commitment to our three-pronged strategy. The event dovetailed into our annual Senior Leadership Forum, where our global team of leaders came together to align on our growth strategy and connect with each other on how we want to lead Element forward.

In May, we launched Element Engage, a new conversation series across our global offices where over 1,000 of our people connected with each other, and our leaders, and shared insights on their experiences at Element. The events gave us valuable, candid feedback on what was working well, such as our ongoing commitment to DE&I and where we could do better, with addressing workload as a priority. Throughout the balance of the year, we acted on this feedback by refreshing our meeting guidelines and shortening standard meeting times so our people can manage their time more effectively and consistently. In addition, we took steps to accelerate our hiring process with a focus on our client-facing teams, including increasing our employee referral program pay-outs.

Celebrating our people and our culture

Our Mexico team celebrated two "Great Place to Work" distinctions in 2022, earning "Great Place to Work" Certifications for "Best Places to Work in Mexico 2022" and "Best CEO's in Mexico".

In October, Client Experience (CX) Day celebrated our colleagues around the globe who deliver our trademark consistent, superior experience every day. To-date 90% of employees have completed our CX Academy Practitioner course, applying new skills and improving client collaboration and communication.

Earlier in the year, we marked Employee Appreciation Day (March), inviting our people to recognize their colleagues and ignite a strong and collaborative 2022. This event resulted in a remarkable 4,189 recognitions between employees and their teams.

A unique and rewarding employee experience

Our annual Employee Engagement Survey took place in October, revealing Element's ability to inspire consistently strong engagement among our people. Our overall Employee Engagement score of 82% (up 1% from last year) was delivered by an outstanding 90% global participation rate. This feedback illustrated our strengths as a company and provided a mandate on where to improve and take action in 2023.

2022 also marked a return to our offices for our people globally, with most teams in North America returning in September. We renewed our commitment to in-person collaboration at least two days a week while encouraging client visits on high-attendance days to showcase Element at its best.

Our commitment to learning continued in Q4 with the launch of skill-based role plans, learning hubs and academies with Learn@Element - key learning resources to support local onboarding, skill development, business topic learning, and career development.

Connecting pay to performance

Our Global BSC is the foundation for how we prioritize and resource work across our organization and enable our people to focus on what matters most to drive performance, growth, and the delivery of a consistent, superior client experience. In March, we launched BSC Pay-for-Performance roadshows that saw over 700 employees joining online sessions to better understand how the work they do aligns to the BSC and in turn their pay.

We also recognized our people for their commitment to our BSC and outstanding first-half performance against those objectives with an accelerated short-term incentive plan (STIP) payment for employees at the Director-level and below. Our people received half their annual incentive bonus in October, with the remaining half having been paid in February 2023. This decision underlined our well-founded confidence in our people who went on to sustain our great momentum and close the year strong.

Our Investors

Business outlook

Management and the Board completed their annual strategic review in Q4 2022, confirming the organization's commitment to our three strategic growth priorities and updating our three-year view of operating and financial performance.

Profitable organic net revenue growth atop a scalable operating platform

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

To better attain (and onboard) this growth, and as signaled last quarter, we have planned on slightly elevated levels of operating expenses in Q4 2022, and throughout 2023. That said, we continue to target year-over-year expansion of operating margins in this period (and anticipate elevated levels of expansion thereafter), such that revenue growth rates are expected be in excess of operating expense growth, creating superior growth in operating income.

A capital-lighter business model

In addition to the increased focus on services revenue growth noted above, we continue to see syndication as a key enabler of our capital-lighter business model and enhanced return on equity for the foreseeable future. Growing originations from increasing OEM production should provide a ready supply of lease assets to sell to

a broadening geographic base of syndication investors (already in Canada and, eventually, in Mexico). Accordingly, we expect syndication volume to step-up significantly in 2023 and again in 2024.

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

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

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

Full-year 2023 results guidance

We are confident in our ability to deliver the following results[5] for full-year 2023, with growing conviction in our ability to meet the high-end of certain of these ranges:

- Net revenue of $1.14 to $1.17 billion
- Operating margin of 54-55%
- Adjusted operating income of $615 to $645 million
- Adjusted EPS[6] of $1.12 to $1.17
- Free cash flow per share[6] of $1.45 to $1.50
- Originations of approximately $7.5 to $8.0 billion
- Syndication of approximately $3.0 to $4.0 billion[7]

Profitable organic net revenue growth atop a scalable operating platform

Element generated $158.2 million or 16.2% more net revenue in 2022 than 2021. As previously communicated, approximately $25 million is net revenue the Company does not expect to generate in future years. Excluding such non-recurring items, net revenue grew 13.7% "organically" in 2022.

"Organic" net revenue growth was led by services revenue, which grew 20.6% or $97.6 million year-over-year excluding non-recurring items. Such services revenue growth was driven by increased vehicles under management at Element, and share of wallet gains: increased client enrollment in Element services ("penetration"); increased client utilization of those services; and inflationary tailwinds.

Net financing revenue ("NFR") also contributed to full-year 2022 organic revenue growth: NFR grew 9.8% or $42.8 million in 2022 excluding non-recurring items. "Organic" NFR growth was driven by strong gains-on-sale of vehicles, particularly in ANZ and increased NFR 'yield' on net earning assets, which largely reflects the growth of Element's business in Mexico.

Element's 2022 net revenue growth was demonstrably profitable -- pre-tax income and AOI growth both outpaced net revenue growth for the year -- highlighting the scalability of the Company's market-leading operating platform. Element's 2022 pre-tax income margin expanded 150 basis points year-over-year to

[5] Based on a CAD:USD exchange rate of 1.29:1
[6] Both adjusted EPS and free cash flow per share growth will be aided by common share buybacks under Element's NCIB, the upshot of which is a projected weighted average outstanding common share count of 385-395 million for 2023.
[7] Full-year 2023 syndication volume guidance has been lowered to reflect Element's decision to – in the short-term – hold on book some of the leases the Company had planned to syndicate. Given the volatile interest rate environment, Management thought it best to inventory these assets in the short-term, re-evaluating syndication options as corporate spreads return to more historical norms.

48.5%, and adjusted operating margin expanded 260 basis points year-over-year from 52.6% to 55.2%, or 160 basis points to 54.2% "organic" operating margin for 2022.

A capital-lighter business model

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

The second plank of Element's capital-lighter business model is "syndication" -- the sale of fleet assets to financial buyers with a lower cost of capital on terms that are economically superior to holding the assets on balance sheet.

Element syndicated $745.4 million of assets in the fourth quarter, generating $17.7 million of net revenue; and $2.8 billion of assets in 2022, generating $62.3 million of net revenue.

The Company's advance of its capital-lighter business model continues to enhance ROE: year-over-year at December 31, 2022, return on common equity improved 150 basis points to 11.9% and pre-tax return on common equity improved 320 basis points to 18.6%.

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

Element generated $0.30 of free cash flow per share in the quarter -- 1 cent more than in Q4 2021. The Company's free cash flow per share for full-year 2022 was $1.35 -- a 30 cents per share or 28.6% improvement over 2021.

Per share growth is aided by Element’s return of capital to common shareholders through buybacks pursuant to the Company’s NCIBs. Element returned $192.9 million cash to common shareholders through buybacks of 13.9 million common shares in 2022.

Combined with its common dividend payouts, Element returned $316.7 million cash to common shareholders in 2022 -- and $466.7 million to all shareholders, including the Company's $150 million Series I preferred share redemption in Q2 2022.

As stated last quarter, Element plans to maintain an annual common dividend representing between 25% and 35% of the Company's last twelve months' free cash flow per share, which the Company expects to grow (as guided). Element also continues to plan to redeem its outstanding preferred share series -- at the time (and in lieu) of rate reset -- thereby further optimizing the Company's balance sheet and maturing its capital structure.

Effect of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where 13%, 5%, 11% and 64%, respectively, of our last 12 months' net revenue was generated. Element has established local currency funding structures in each of these countries. We also institute certain designated hedges that further mitigate the effects of FX exposure. Notwithstanding, our assets, liabilities, and foreign operating results do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar. We do not hedge pure currency translation risk.

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

	For the three-months ended					For the year-ended		
(in $000's for stated values)	**December 31, 2022**	Change from Q3 2022	September 30, 2022	Change from Q4 2021	December 31, 2021	**December 31, 2022**	Change from 2021	December 31, 2021
	$	%	$	%	$	**$**	%	$
Servicing income, net, constant currency	**149,208**	(3.5)%	154,582	13.9 %	131,009	**581,018**	19.9 %	484,496
Fx impact	**—**		(4,651)		(7,293)	**—**		(12,031)
Servicing income, net, as reported	**149,208**	(0.5)%	149,931	20.6 %	123,716	**581,018**	23.0 %	472,465
Net financing revenue, constant currency	**125,449**	(3.6)%	130,158	10.1 %	113,937	**488,741**	10.2 %	443,434
Fx impact	**—**		(5,299)		(6,692)	**—**		(6,489)
Net financing revenue, as reported	**125,449**	0.5 %	124,859	17.0 %	107,245	**488,741**	11.9 %	436,945
Syndication revenue, constant currency	**17,671**	6.8 %	16,541	13.7 %	15,546	**62,290**	(6.6)%	66,657
Fx impact	**—**		(543)		(1,025)	**—**		(2,245)
Syndication revenue, as reported	**17,671**	10.5 %	15,998	21.7 %	14,521	**62,290**	(3.3)%	64,412
Net revenue, constant currency	**292,328**	(3.0)%	301,281	12.2 %	260,492	**1,132,049**	13.8 %	994,587
Fx impact	**—**		(10,493)		(15,010)	**—**		(20,765)
Net revenue, as reported	**292,328**	0.5 %	290,788	19.1 %	245,482	**1,132,049**	16.2 %	973,822
Salaries, wages and benefits, constant currency	**88,180**	6.0 %	83,225	1.9 %	86,497	**322,886**	3.0 %	313,446
Fx impact	**—**		(2,517)		(4,385)	**—**		(6,562)
Salaries, wages and benefits, as reported	**88,180**	9.3 %	80,708	7.4 %	82,112	**322,886**	5.2 %	306,884
General and administrative expenses, constant currency	**38,453**	25.8 %	30,572	34.5 %	28,594	**124,848**	16.9 %	106,796
Fx impact	**—**		(918)		(1,520)	**—**		(2,395)
General and administrative expenses, as reported	**38,453**	29.7 %	29,654	42.0 %	27,074	**124,848**	19.6 %	104,401
Depreciation and amortization, constant currency	**15,388**	(0.7)%	15,502	5.7 %	14,554	**59,799**	15.6 %	51,740
Fx impact	**—**		(482)		(819)	**—**		(1,203)
Depreciation and amortization, as reported	**15,388**	2.5 %	15,020	12.0 %	13,735	**59,799**	18.3 %	50,537
Adjusted operating expenses, constant currency	**142,021**	9.8 %	129,299	9.5 %	129,645	**507,533**	7.5 %	471,982
Fx impact	**—**		(3,917)		(6,724)	**—**		(10,160)
Adjusted operating expenses, as reported	**142,021**	13.3 %	125,382	15.5 %	122,921	**507,533**	9.9 %	461,822
Adjusted operating income, constant currency	**150,307**	(12.6)%	171,982	14.9 %	130,847	**624,516**	19.5 %	522,605
Fx impact	**—**		(6,576)		(8,286)	**—**		(10,605)
Adjusted operating income, as reported	**150,307**	(9.1)%	165,406	22.6 %	122,561	**624,516**	22.0 %	512,000
Provision for taxes applicable to adjusted operating income, constant currency	**37,607**	(14.2)%	43,855	14.9 %	32,725	**159,250**	23.5 %	128,993
Fx impact	**—**		(1,676)		(4,536)	**—**		(4,680)
Provision for taxes applicable to adjusted operating income, as reported	**37,607**	(10.8)%	42,179	33.4 %	28,189	**159,250**	28.1 %	124,313
After-tax adjusted operating income, constant currency	**112,700**	(12.0)%	128,127	14.9 %	98,122	**465,266**	18.2 %	393,612
Fx impact	**—**		(4,900)		(3,750)	**—**		(5,925)
After-tax adjusted operating income, as reported	**112,700**	(8.5)%	123,227	19.4 %	94,372	**465,266**	20.0 %	387,687

Annual Results of Operations

(in $000's for stated values, except per share amounts)	For the year ended December 31, 2022 $	December 31, 2021 $
Net revenue		
Net interest income and rental revenue	**761,576**	629,814
Interest expense	**272,835**	192,869
Net financing revenue	**488,741**	436,945
Servicing income, net	**581,018**	472,465
Syndication revenue, net	**62,290**	64,412
Net revenue	**1,132,049**	973,822
Operating expenses		
Salaries, wages and benefits	**322,886**	306,884
General and administration expenses	**124,848**	104,401
Depreciation and amortization	**59,799**	50,537
Amortization of convertible debenture discount	**3,831**	3,580
Share-based compensation	**31,303**	24,120
Operating expenses	**542,667**	489,522
Other expenses		
Amortization of intangible assets from acquisition	**36,477**	35,313
Loss/(Gain) on investments	**3,352**	(8,689)
Other expenses	**39,829**	26,624
Income before taxes	**549,553**	457,676
Provision for income taxes	**139,910**	101,670
Net income for the year	**409,643**	356,006
Weighted average number of shares outstanding [basic]	**396,907**	423,070
Earnings per share [basic]	**0.96**	0.76
Dividends declared, per share	**0.332500**	0.272500
Preferred Shares, Series A	**1.733252**	1.733252
Preferred Shares, Series C	**1.552520**	1.552520
Preferred Shares, Series E	**1.475752**	1.475752
Preferred Shares, Series I	**0.718750**	1.437500

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

Operating expenses

Operating expenses for the year ended December 31, 2022 were $542.7 million, up 10.9% or $53.1 million over 2021 ("year-over-year").

Pre-tax income margin

Pre-tax income margin for the year ended December 31, 2022 was 48.5%, a 150 basis points increase year-over-year.

Net income

Net income for the year ended December 31, 2022 was $409.6 million, a $53.6 million increase from 2021. The year-over-year improvement was driven by net revenue growth (as discussed further below) and partially offset by increases in operating expenses (also as discussed further below) and other expenses as well as an increase in provision for income taxes given the growth in income before taxes. Net income for 2022 amounted to $0.96 on a per share basis, which is $0.20 higher than earnings per share for 2021.

Adjusted Operating Results as reported

(in $000's for stated values, except per share amounts)	For the year ended December 31, 2022 $	 December 31, 2021 $
Servicing income, net	**581,018**	472,465
Net financing revenue	**488,741**	436,945
Syndication revenue, net	**62,290**	64,412
Net revenue	**1,132,049**	973,822
Salaries, wages and benefits	**322,886**	306,884
General and administrative expenses	**124,848**	104,401
Depreciation and amortization	**59,799**	50,537
Adjusted operating expenses	**507,533**	461,822
Adjusted operating income	**624,516**	512,000
Provision for taxes applicable to adjusted operating income	**159,250**	124,313
Cumulative preferred share dividends	**28,074**	32,412
After-tax adjusted operating income attributable to common shareholders[8]	**437,192**	355,275
Weighted average number of shares outstanding [basic]	**396,907**	423,070
After-tax adjusted operating income per share [basic]	**1.10**	0.84

Adjusted Operating Results in constant currency[9]

(in $000's for stated values, except per share amounts)	For the year ended December 31, 2022 $	 December 31, 2021 $
Servicing income, net	**581,018**	484,496
Net financing revenue	**488,741**	443,434
Syndication revenue, net	**62,290**	66,657
Net revenue	**1,132,049**	994,587
Salaries, wages and benefits	**322,886**	313,446
General and administrative expenses	**124,848**	106,796
Depreciation and amortization	**59,799**	51,740
Adjusted operating expenses	**507,533**	471,982
Adjusted operating income	**624,516**	522,605
Provision for taxes applicable to adjusted operating income	**159,250**	128,993
Cumulative preferred share dividends	**28,074**	32,412
After-tax adjusted operating income attributable to common shareholders	**437,192**	361,200
Weighted average number of shares outstanding [basic]	**396,907**	423,070
After-tax adjusted operating income per share [basic]	**1.10**	0.85

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

Net revenue

Net revenue as reported grew 16.2% or $158.2 million year-over-year to $1,132.0 million for 2022. Approximately $25 million of this were net revenues that we do not expect to generate in future years (as previously stated, there were $8 million of such revenues in the second quarter, $17 million in the third quarter, and none in the first and fourth quarters). Excluding these non-recurring items, "organic" net revenue grew 13.7% over 2021.

Net revenue growth was primarily driven by services revenue growth of 23.0% or $108.6 million year-over-year, which benefitted from increased VUM and share-of-wallet penetration, as well as vehicle utilization improvements year-over-year, and some cost inflation (which benefits our "cost-plus" business model). 2022

[8] Please refer to the Descriptions of Non-GAAP Measures section for a description of this non-GAAP measure.
[9] Please refer to the Effect of Foreign Currency Exchange Rate Changes section for reconciliations of certain non-GAAP "constant currency" measures to their counterpart IFRS measures as reported.

services revenue grew 20.6% or $97.6 million "organically" (*ie*. excluding the benefit of non-recurring services revenue items).

2022 net financing revenue grew 11.9% or $51.8 million year-over-year (9.8% or $42.8 million "organically") driven primarily by gains on sale ("GOS") in ANZ, and net earning asset growth in Mexico.

2022 syndication revenue declined $2.1 million year-over-year.

Orders, Backlog and Originations

Orders

Originations are necessarily preceded by vehicle orders, which are legally binding commitments by our clients to lease or purchase vehicles from Element upon production by the relevant OEM.

We received $7 billion of vehicle orders globally in 2022 - the single largest year of orders in Element's history (excluding Armada orders from both 2022 and historically).

Order Backlog

Robust client demand for vehicles opposite various degrees of OEM production delay has resulted in record vehicle order backlogs in each of our operating geographies.

Our global order backlog on December 31, 2022 stood at $3.0 billion; an $0.1 billion increase from September 30, 2022.

The $3.0 billion order backlog represents approximately $2.0 billion of orders in excess of our average year-end order backlog (on a constant currency basis). These $2.0 billion in excess orders represent approximately

- $45 to $55 million in deferred net revenue,
- $40 to $50 million in deferred adjusted operating income, and
- $55 to $65 million in deferred free cash flow.

Originations

Automotive OEM production delays continued to constrain origination volumes throughout 2022 – albeit to a lesser extent than in 2021.

We originated $6.6 billion of assets in 2022, which is a $1.6 billion or 32.8% increase year-over-year. This growth was predominantly driven by a U.S. and Canadian origination volume increase of $1.4 billion or 38.0% in 2022 (driven by OEM production increases), with growth of $250.4 million or 33.4% in Mexico also contributing year-over-year. (ANZ originations volume was essentially flat year-over-year.)

We expect vehicle deliveries to continue to improve throughout 2023, generating an expected $7.5 to $8.0 billion in Originations in 2023.

The table below sets out the geographic distribution of Element's originations for 2022 and 2021:

(in $000's for stated values)	**December 31, 2022**		December 31, 2021	
	$	**%**	$	%
United States and Canada	**5,120,803**	**77.20 %**	3,711,557	74.33 %
Mexico	**999,639**	**15.07 %**	749,203	15.00 %
Australia and New Zealand	**512,662**	**7.73 %**	532,828	10.67 %
Total	**6,633,104**	**100.00 %**	4,993,588	100.00 %

The geographic distribution of Element's originations in 2021 are not materially different on a constant currency basis.

Net financing revenue

Net financing revenue of $488.7 million in 2022 represents an 11.9% or $51.8 million increase year-over-year.

This strong performance was driven by:

- gains on the sale of used vehicles ("GOS") in ANZ - and, to a lesser extent, Mexico - where we continue to benefit from the supply-constrained secondary markets;
- onboarding early commercial wins in the U.S. and Canada;
- NEA growth in Mexico; and
- non-recurring net financing revenue of approximately $9 million (as previously disclosed).

All the foregoing represents resilient *net financing revenue* performance, given that average net earning assets[10] declined 11.4% globally over the course of 2022 (as a result of (i) syndication activity and (ii) postponed and delayed originations).

Net financing revenue yield on average net earning assets

	For the year ended	
(in $000's for stated values)	**December 31, 2022**	December 31, 2021
Average net earning assets	**$ 8,133,661**	$ 9,178,109
Net interest income and rental revenue	**9.36 %**	6.86 %
Interest expense	**3.35 %**	2.10 %
Net financing revenue yield on average net earning assets[10]	**6.01 %**	4.76 %
Average debt outstanding	**$ 8,251,833**	$ 8,315,566
Average cost of debt (Interest expense / average debt)	**3.31 %**	2.32 %
Average 1-Month LIBOR rates	**1.92 %**	0.10 %

Servicing income, net

We earned $581.0 million of services revenue in 2022, an increase of 23.0% or $108.6 million over 2021 ($97.6 million or 20.6% "organically"). Organic services revenue growth was driven by share of wallet gains via increased penetration, increased utilization of maintenance services, and inflationary increases. Continued strength in accident, fuel, and telematics revenue as well as our businesses in ANZ and Mexico also contributed to the organic growth.

Syndication revenue, net

We syndicated $2.8 billion of assets in 2022 – an increase of $144.5 million or 5.4% year-over-year -- and generated $62.3 million of syndication revenue, net; a $2.1 million decrease year-over-year. The lower "syndication revenue 'yield'" on assets syndicated this year is attributable to the volatile interest rate environment; still-relatively constrained origination volumes (affording us fewer newly-activated leases from which to select assets for syndication); and the absence of any syndication of Armada assets in 2022 (which historically commanded relatively strong yields).

Adjusted operating expenses

Adjusted operating expenses of $507.5 million in 2022 were $45.7 million or 9.9% higher year-over-year, driven by:

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

- higher salaries, wages and benefit expenses – by $16.0 million -- due to merit increases to salaries, and higher short-term incentive accruals (driven by superior performance on balanced scorecard metrics) in 2022 than 2021;
- higher depreciation and amortization expense – by $9.3 million – reflecting depreciation on our current technology stack as we continue to invest in the scalability of our operating platform; as well as
- higher general and administrative expenses – by $20.4 million – reflecting higher software costs, an increase in professional fees, and more travel than in 2021 as we returned to historical levels of activity and invested in our commercial capabilities.

Adjusted operating income and margin

Adjusted operating income ("AOI") for 2022 was $624.5 million: 22.0% or $112.5 million higher than 2021, amounting to $1.10 for 2022 on a per share basis, which is a 26 cent increase over last year.

Operating margin for 2022 was 55.2%, a 260 basis point improvement over 2021 of 52.6%, or 160 basis point improvement to an "organic" operating margin of 54.2%.

Quarterly Results of Operations

(in $000's for stated values, except per share amounts)	For the three-month periods ended		
	December 31, 2022	September 30, 2022	December 31, 2021
	$	$	$
Net revenue			
Net interest income and rental revenue	**218,701**	203,099	151,790
Interest expense	**93,252**	78,240	44,545
Net financing revenue	**125,449**	124,859	107,245
Servicing income, net	**149,208**	149,931	123,716
Syndication revenue, net	**17,671**	15,998	14,521
Net revenue	**292,328**	290,788	245,482
Operating expenses			
Salaries, wages and benefits	**88,180**	80,708	82,112
General and administrative expenses	**38,453**	29,654	27,074
Depreciation and amortization	**15,388**	15,020	13,735
Amortization of convertible debenture discount	**982**	966	918
Share-based compensation	**7,044**	12,885	6,283
Operating expenses	**150,047**	139,233	130,122
Other expenses			
Amortization of intangible assets from acquisition	**9,466**	9,144	8,871
Loss/(Gain) on investments	**588**	—	(2,475)
Other expenses	**10,054**	9,144	6,396
Income before taxes	**132,227**	142,411	108,964
Provision for income taxes	**31,011**	38,708	14,300
Net income for the period	**101,216**	103,703	94,664
Weighted average number of shares outstanding [basic]	**392,811**	395,117	409,175
Earnings per share [basic]	**0.24**	0.25	0.21
Dividends declared, per share			
Common share	**0.100000**	0.077500	0.077500
Preferred Shares, Series A	**0.433313**	0.433313	0.433313
Preferred Shares, Series C	**0.388130**	0.388130	0.388130
Preferred Shares, Series E	**0.368938**	0.368938	0.368938
Preferred Shares, Series I	**—**	—	0.359375

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

Operating expenses

Operating expenses for the quarter were $150.0 million, up 7.8% or $10.8 million from Q3 2022 ("quarter-over-quarter") and 15.3% or $19.9 million over Q4 2021.

Pre-tax income margin

Pre-tax income margin for the quarter was 45.2%, expanding 380 basis points quarter-over-quarter and 80 basis points year-over-year.

Net income

Element earned net income of $101.2 million for the quarter, a decrease of $2.5 million or 2.4% from Q3 2022 but an increase of $6.6 million or 6.9% over Q4 2021.

Q4 2022 net income per share was $0.24; $0.01 per share lower than prior quarter but $0.03 per share higher than Q4 2021.

Adjusted Operating Results as reported

(in $000's for stated values, except per share amounts)	For the three-month periods ended		
	December 31, 2022	September 30, 2022	December 31, 2021
	$	$	$
Servicing income, net	**149,208**	149,931	123,716
Net financing revenue	**125,449**	124,859	107,245
Syndication revenue, net	**17,671**	15,998	14,521
Net revenue	**292,328**	290,788	245,482
Salaries, wages and benefits	**88,180**	80,708	82,112
General and administrative expenses	**38,453**	29,654	27,074
Depreciation and amortization	**15,388**	15,020	13,735
Adjusted operating expenses	**142,021**	125,382	122,921
Adjusted operating income	**150,307**	165,406	122,561
Provision for taxes applicable to adjusted operating income	**37,607**	42,179	28,189
Cumulative preferred share dividends	**5,946**	5,923	8,103
After-tax adjusted operating income attributable to common shareholders	**106,754**	117,304	86,269
Weighted average number of shares outstanding [basic]	**392,811**	395,117	409,175
After-tax adjusted operating income per share [basic]	**0.27**	0.30	0.21

Adjusted Operating Results in constant currency[11]

(in $000's for stated values)	For the three-month periods ended		
	December 31, 2022	September 30, 2022	December 31, 2021
	$	$	$
Servicing income, net	**149,208**	154,582	131,009
Net financing revenue	**125,449**	130,158	113,937
Syndication revenue, net	**17,671**	16,541	15,546
Net revenue	**292,328**	301,281	260,492
Salaries, wages and benefits	**88,180**	83,225	86,497
General and administrative expenses	**38,453**	30,572	28,594
Depreciation and amortization	**15,388**	15,502	14,554
Adjusted operating expenses	**142,021**	129,299	129,645
Adjusted operating income	**150,307**	171,982	130,847
Provision for taxes applicable to adjusted operating income	**37,607**	43,855	32,725
Cumulative preferred share dividends	**5,946**	5,923	8,103
After-tax adjusted operating income attributable to common shareholders	**106,754**	122,204	90,019
Weighted average number of shares outstanding [basic]	**392,811**	395,117	409,175
After-tax adjusted operating income per share [basic]	**0.27**	0.31	0.22

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

Net revenue

Q4 net revenue grew $46.8 million or 19.1% year-over-year and was essentially flat (growing $1.5 million or 0.5%) quarter-over-quarter *as reported*. However, Q3 2022 net revenue was bolstered by approximately $17 million of non-recurring items, while Q4 2022 included no such items, meaning quarter-over-quarter "organic" net revenue growth was substantial at $18.5 million or 6.8%, driven primarily by "organic" net financing revenue growth of $9.6 million or 8.3% and secondarily by "organic" syndication revenue growth of $4.2 million or 30.9% on the same quarter-over-quarter basis.

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

Q4 year-over-year net revenue growth was driven primarily by services revenue growth, secondarily by net financing revenue growth, and aided by syndication revenue growth.

For the reasons noted below (see "Servicing income, net", "Net financing revenue" and "Syndication revenue"), Q4

- services revenue grew $25.5 million or 20.6% year-over-year,
- net financing revenue grew $18.2 million or 17.0% year-over-year, and
- syndication revenue grew $3.2 million year-over-year.

Orders and Originations

Orders

Originations are necessarily preceded by vehicle orders, which are legally binding commitments by our clients to lease or purchase vehicles from Element upon production by the relevant OEM. Our clients placed $2.0 billion of orders with OEMs in Q4 2022, which we view as evidencing strength in both demand and supply: on the demand side, client orders remained strong through the quarter, reflecting clients' needs to replace aging vehicles; and on the supply side, the OEMs' ability to accept these orders lends further credence to our positive outlook on 2023 production volume capabilities.

Originations

Fourth quarter global originations of $1.8 billion were $647.1 million or 54.2% higher year-over-year, and $396.0 million or 27.4% higher quarter-over-quarter, primarily due to OEM production capacity improvements in the U.S. / Canada and Mexico.

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

(in $000's for stated values)	**December 31, 2022**		September 30, 2022		December 31, 2021	
	$	**%**	$	%	$	%
United States and Canada	**1,400,883**	**76.05**	1,085,311	75.06	826,750	69.20
Mexico	**306,626**	**16.65**	224,111	15.50	227,555	19.05
Australia and New Zealand	**134,365**	**7.30**	136,416	9.44	140,441	11.75
Total	**1,841,874**	**100.00**	1,445,838	100.00	1,194,746	100.00

The geographic distribution of Element's originations in Q3 2022 and Q4 2021 are not materially different on a constant currency basis.

Year-over-year global originations growth was driven by U.S. and Canadian volume, up $574.1 million or 69.4% in Q4 on account of (a) robust client demand, (b) the ongoing gradual return of OEM productive capacity and (c) inflation. Q4 originations in Mexico grew $79.1 million or 34.7% year-over year, while originations stepped down modestly in ANZ on the same basis.

Quarter-over-quarter, U.S. and Canadian originations increased $315.6 million or 29.1% in Q4 for the reasons noted above. Mexico increased $82.5 million or 36.8% on the same comparative basis, while Q4 originations stepped down modestly by $2.1 million or 1.5% in ANZ.

Net financing revenue

Q4 net financing revenue grew $18.2 million or 17.0% year-over-year ($11.5 million or 10.1% in constant currency), driven by GOS in ANZ and Mexico, and improvements in "yield" on our net earning assets (NEA). Among other things, yield improvements are driven by savings on the cost of funds and shifts in the geographic mix of NEA (towards ANZ and Mexico). Net financing revenue grew year-over-year, despite the

material decrease in NEA on the same comparative basis due to syndication volumes and below average originations over the period.

As noted above and last quarter, Q3 net revenue benefitted from Element actions being taken in 2022 that are not expected to generate similar levels of net revenue (and resulting operating income and cash flow) next year or in subsequent years. The value of this benefit to net financing revenue in the prior quarter (Q3) was approximately $9 million. Notwithstanding the absence of any such benefit in this (the fourth) quarter, net financing revenue grew $0.6 million or 0.5% quarter-over-quarter - ie. $9.6 million or 8.3% on an "organic" basis.

Net financing revenue yield on average net earning assets

	For the three-month periods ended		
(in $000's for stated values)	**December 31, 2022**	September 30, 2022	December 31, 2021
Average net earning assets	**$ 8,283,008**	$ 8,069,879	$ 8,474,002
Net interest income and rental revenue	**10.56 %**	10.07 %	7.16 %
Interest expense	**4.50 %**	3.88 %	2.10 %
Net financing revenue yield on average net earning assets	**6.06 %**	6.19 %	5.06 %
Average debt outstanding	**$ 8,511,085**	$ 8,196,262	$ 7,354,234
Average cost of debt (Interest expense / average debt)	**4.38 %**	3.82 %	2.42 %
Average 1-Month LIBOR rates	**3.92 %**	1.00 %	0.09 %

Servicing income, net

Fourth quarter services revenue grew $25.5 million or 20.6% year-over-year ($18.2 million or 13.9% in constant currency), driven by

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

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

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

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

Quarter-over-quarter, services revenue was essentially flat as reported, but grew $4.8 million or 3.3% on an "organic" basis.

Syndication revenue, net

We syndicated $745 million of assets in the fourth quarter -- $241 million more than Q4 last year and $146 million more than last quarter -- and generated $17.7 million of syndication revenue or a 2.4% "yield" on assets syndicated. Syndication yield compressed year-over-year and quarter-over-quarter as interest rates

rose resulting in a tightening of credit pricing as our syndication buyers dealt with higher costs of capital. Our syndication volume scaled as Originations grew, as we look to hold our tangible leverage at current levels.

Adjusted operating expenses

Q4 2022 adjusted operating expenses of $142.0 million were $19.1 million or 15.5% higher than in Q4 last year, driven by modest G&A growth as we return to traveling for client and prospect meetings in person and resume normal pre-pandemic levels of activity, and higher IT spend as we continue to modernize our systems to further scalability. Q4 salaries, wages and benefit expenses grew year-over-year, driven by merit-based salary increases in 2022, and higher short-term incentive plan accruals given the business's outstanding performance as measured by our balanced scorecard metrics (which performance drives "STIP" payout factors).

Quarter-over-quarter adjusted operating expenses increased by $16.6 million or 13.3%, led by compensation and G&A cost growth. We signaled last quarter that Q4 (and 2023) adjusted operating expenses would be at the high end of the range implied by our guidance as we re-invested some of the non-recurring revenue generated in 2022 into our commercial capabilities to support our elevated 6% to 8% long-term organic annual net revenue target growth range.

Adjusted operating income ("AOI") and margins

Element generated $150.3 million of AOI in the quarter, which is $27.7 million or 22.6% year-over-year growth and equivalent to $0.27 on a per share basis.

AOI growth was driven by organic net revenue growth -- led by services revenue growth, with net financing revenue growth in support -- and comparatively modest adjusted operating expense growth.

Operating margin for the quarter was 51.4%, which is 149 basis points of expansion year-over-year.

Quarter-over-quarter, Q4 AOI was down 9.1% or $15.1 million; however, excluding the $17 million of non-recurring revenue earned in Q3, AOI increased $1.9 million or 1.3% quarter-over-quarter in Q4.

Summary of Quarterly Information

The following table sets out selected financial information as reported for each of the eight most recent quarters, the latest of which ended December 31, 2022. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

(in $ 000's for stated values, except per share amounts and ratios)	**Q4 2022**	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net revenue	**292,328**	290,788	288,133	260,800	245,482	244,340	235,402	248,598
Adjusted operating income	**150,307**	165,406	165,947	142,856	122,561	125,626	126,512	137,301
After-tax adjusted operating income	**112,700**	123,227	123,630	105,709	94,372	94,207	93,935	105,173
Net income	**101,216**	103,703	111,120	93,604	94,664	84,941	80,872	95,529
Earnings per share, basic	**0.24**	0.25	0.26	0.21	0.21	0.18	0.17	0.20
Earnings per share, diluted	**0.24**	0.24	0.25	0.21	0.21	0.18	0.17	0.20
Adjusted operating income per share, basic	**0.37**	0.40	0.40	0.34	0.28	0.28	0.28	0.29
After-tax adjusted operating income per share, basic	**0.27**	0.30	0.29	0.24	0.21	0.21	0.20	0.22
After-tax pro forma diluted adjusted operating income per share	**0.26**	0.29	0.28	0.24	0.21	0.20	0.20	0.22
Total assets	**14,332,218**	13,703,080	13,166,556	12,817,647	12,973,412	13,105,478	13,483,620	14,033,707
Net earning assets	**8,394,257**	8,287,013	7,983,040	7,947,152	8,203,159	8,687,716	8,890,566	9,426,863
Total debt	**8,917,619**	8,465,137	8,342,529	8,069,321	8,198,035	8,493,546	8,686,606	9,259,492
Loan and lease originations	**1,841,874**	1,445,838	1,913,032	1,432,360	1,194,746	1,314,234	1,198,102	1,286,506
Allowance for credit losses	**10,369**	10,143	9,760	10,256	10,246	8,613	11,397	13,676
As a % of total finance receivables before allowance	**0.13**	0.13	0.13	0.14	0.14	0.11	0.14	0.16
Senior revolving credit facilities	**1,893,323**	1,425,361	1,321,024	1,464,384	1,106,629	1,007,628	1,006,473	1,250,957
Borrowings	**6,914,536**	6,918,113	6,859,914	6,457,020	6,932,334	7,328,076	7,523,502	7,853,095
Convertible debentures	**163,933**	162,725	161,591	160,321	159,072	157,842	156,631	155,440

Selected Annual Financial Information

(in $000's for stated values, except per share amounts)	**December 31, 2022**	December 31, 2021	December 31, 2020
	As at and for the years ended		
	$	$	$
Net revenue	**1,132,049**	973,822	963,093
Net income	**409,643**	356,006	287,092
Total assets	**14,332,218**	12,973,412	14,991,388
Total debt	**8,971,792**	8,198,035	10,018,603
After tax adjusted operating income(1)	**465,266**	387,687	413,905
Earnings per share			
Basic	**0.96**	0.76	0.56
Diluted	**0.94**	0.75	0.56
After tax adjusted operating income per share(1)			
Basic	**1.10**	0.84	0.85
Pro forma Diluted	**1.07**	0.82	0.84
Dividends declared, per share			
Common share	**0.332500**	0.272500	0.200000
Preferred Shares, Series A	**1.733252**	1.733252	1.733252
Preferred Shares, Series C	**1.552520**	1.552520	1.552520
Preferred Shares, Series E	**1.475752**	1.475752	1.475752
Preferred Shares, Series G	**—**	—	1.218750
Preferred Shares, Series I	**0.718750**	1.437500	1.437500

(1) For additional information, see "Description of Non-IFRS Measures" section.

Financial Position

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

(in $000's for stated values)	**December 31, 2022**	September 30, 2022	December 31, 2021
	$	$	$
ASSETS			
Cash	**68,876**	55,121	45,271
Restricted funds	**433,327**	428,537	400,930
Finance receivables	**8,069,386**	7,696,077	7,436,275
Equipment under operating leases	**2,806,841**	2,548,909	2,297,182
Accounts receivable and other current assets	**215,817**	204,866	204,873
Derivative financial instruments	**131,943**	134,214	26,302
Property, equipment and leasehold improvements	**80,899**	84,725	93,872
Intangible assets	**864,611**	871,949	830,013
Deferred tax assets	**365,430**	370,810	417,708
Goodwill	**1,295,088**	1,307,872	1,220,986
	14,332,218	13,703,080	12,973,412
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**1,465,198**	1,396,328	1,206,550
Derivative financial instruments	**81,730**	86,592	28,575
Borrowings	**8,807,859**	8,343,474	8,038,963
Convertible debentures	**163,933**	162,725	159,072
Deferred tax liabilities	**132,525**	128,092	89,303
	10,651,245	10,117,211	9,522,463
Shareholders' equity	**3,680,973**	3,585,869	3,450,949
	14,332,218	13,703,080	12,973,412

Total assets and liabilities increased by $629.1 million and $534.0 million, respectively, from September 30, 2022; and $1,358.8 million and $1,128.8 million, respectively, from December 31, 2021.

The year-over-year increases in total assets and liabilities were primarily increases in finance receivables, equipment under operating leases, and borrowings.

Approximately 52% of Element's assets are U.S. dollar-denominated. As a result, changes in the value of our reporting currency, the Canadian dollar ("CAD"), relative to the U.S. dollar, have an impact on our balance sheet. The U.S. dollar strengthened significantly against CAD quarter-over-quarter, and even more so at December 31, 2022 compared to December 31, 2021.

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

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

Portfolio Details

Total finance receivables

The following table breaks down the Company's total finance receivables, which were $633.1 million higher at December 31, 2022 than at December 31, 2021, driven by strengthened U.S. dollar and originations.

(in $000's for stated values, except ratios)	**December 31, 2022**	September 30, 2022	December 31, 2021
	$	$	$
Net investment in finance receivables	**5,587,416**	5,738,104	5,905,977
Impaired receivables - at net realizable value	**6,605**	2,700	2,765
	5,594,021	5,740,804	5,908,742
Unamortized origination costs and subsidies	**(38,294)**	(49,691)	(40,729)
Net finance receivables	**5,555,727**	5,691,113	5,868,013
Prepaid lease payments and Security deposits	**(54,960)**	(29,904)	(60,979)
Interim funding	**1,184,862**	784,758	650,155
Fleet management service receivables	**802,809**	726,329	609,450
Other	**537,144**	492,862	379,882
Continuing involvement asset	**54,173**	41,062	—
	8,079,755	7,706,220	7,446,521
Allowance for credit losses	**10,369**	10,143	10,246
Total finance receivables	**8,069,386**	7,696,077	7,436,275

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

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

	Year ended	Nine months ended	Year ended
	December 31, 2022	September 30, 2022	December 31, 2021
(in $000's for stated values, except ratios)	**$**	$	$
Allowance for credit losses, beginning of period	**10,246**	10,246	17,718
Provision for credit losses	**(25)**	(199)	(5,535)
Charge-offs, net of recoveries	**(431)**	(404)	(1,639)
Impact of foreign exchange rates	**579**	500	(298)
Allowance for credit losses, end of period	**10,369**	10,143	10,246
Charge-offs, net of recoveries, as a % of total finance receivables	**0.01 %**	0.01 %	0.03 %
Allowance for credit losses, as a % of total finance receivables before allowance	**0.13 %**	0.13 %	0.14 %

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

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

Our allowance for credit losses has increased $0.1 million since December 31, 2021.

Impaired receivables

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

Total impaired receivables increased to $6.6 million as at December 31, 2022, and remain near historic lows.

Portfolio Distribution by Geography

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

(in $000's for stated values)	**December 31, 2022**		September 30, 2022		December 31, 2021	
	$	**%**	$	%	$	%
United States and Canada	**4,710,263**	**56.3**	4,900,084	59.5	5,212,719	63.8
Australia and New Zealand	**1,597,736**	**19.1**	1,502,827	18.3	1,570,941	19.2
Mexico	**2,054,569**	**24.6**	1,837,111	22.2	1,381,535	17.0
Total	**8,362,568**	**100.0**	8,240,022	100.0	8,165,195	100.0
Allocated as:						
Net finance receivables	**5,555,727**	**66.4**	5,691,113	69.1	5,868,013	71.9
Equipment under operating leases, net	**2,806,841**	**33.6**	2,548,909	30.9	2,297,182	28.1
Total	**8,362,568**	**100.0**	8,240,022	100.0	8,165,195	100.0

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

(in $000's for stated values)	**December 31, 2022**		September 30, 2022		December 31, 2021	
	$	**%**	$	%	$	%
United States and Canada	**12,102,497**	**75.7**	12,074,757	78.3	11,205,186	78.1
Australia and New Zealand	**1,593,563**	**10.0**	1,520,711	9.9	1,570,657	11.0
Mexico	**2,277,157**	**14.3**	1,816,526	11.8	1,563,178	10.9
Assets under management	**15,973,217**	**100.0**	15,411,994	100.0	14,339,021	100.0

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

Liquidity

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

Cash Flow

Daily cash flow / liquidity

Our global cash management office assesses and proactively manages Element's liquidity position by ensuring we have controls over all sources and uses of cash flow. The cash management office also conducts ongoing comprehensive stress-tests to identify early indications of any risks to our cash flow and forward funding capacity. Throughout 2022, the results of those tests have confirmed the stability and sustainability of our cash flow and forward funding capacity.

Notwithstanding our dependable operating cash flows and $2.1 billion of committed, undrawn capital at December 31, 2022, we continue our efforts to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Statement of cash flows - as presented in the audited consolidated financial statements

Cash provided by operating activities for the year ended December 31, 2022 - as presented in our audited consolidated financial statements - was $229.6 million, a decrease of $2,282.5 million from the $2,512.1 million provided by operating activities for the year ended December 31, 2021. The decrease year-over-year was primarily the result of higher investments in finance leases resulting from increased origination volumes compared to prior year.

Cash used in investing activities for the year ended December 31, 2022 was $65.6 million compared to cash used in investing activities of $85.9 million for the year ended December 31, 2021. The primary driver of the change year-over-year is a decrease in the purchase of intangible assets, including computer software, compared to the prior year.

Cash used in financing activities for the year ended December 31, 2022 was $7.6 million, compared to $2,390.2 million used in financing activities for the year ended December 31, 2021. The year-over-year decrease is primarily due to increased borrowings on our facilities to finance the increase in investments in finance receivables.

Free cash flow

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

The table below illustrates the reconciliation of "free cash flow" (from our Supplementary Information document) to "Cash Flow from Operations" (from our audited consolidated financial statements):

(in $000's for stated values)	For the three-month periods ended			For the year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
	$	$	$	**$**	$
Free Cash Flow	**119,396**	151,801	119,464	**534,200**	442,170
Amortization of equipment under operating leases	**135,847**	123,771	118,481	**506,903**	450,256
Investment in finance receivables	**(1,689,131)**	(1,217,200)	(986,182)	**(5,913,475)**	(3,886,753)
Repayments of finance receivables	**587,970**	650,620	780,279	**2,888,526**	3,551,135
Investment in equipment under operating leases	**(333,056)**	(278,407)	(262,412)	**(1,151,126)**	(974,532)
Disposals of equipment under operating leases	**60,739**	87,953	70,480	**280,596**	285,453
Proceeds from syndication financings	**756,673**	613,460	516,628	**2,844,153**	2,715,474
Sustaining capital investments	**14,769**	8,644	14,508	**52,079**	48,979
Preferred share dividends	**5,945**	5,923	8,103	**28,074**	32,412
Other	**(10,933)**	107,472	72,657	**159,701**	(152,492)
Cash Flow from Operations	**(351,781)**	254,037	452,006	**229,631**	2,512,102

Credit and debt facilities

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

We had $2.1 billion of contractually committed, undrawn liquidity across our revolving unsecured ($0.6 billion) and vehicle management asset-backed ($1.5 billion) facilities at December 31, 2022. Commitments under these facilities are provided by syndicates of leading Canadian, U.S. and international banks.

These sources of financing were as follows:

As at	**December 31, 2022**			
(in $000's for stated values)	**$**	**%**	**$**	**$**
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	**2,505,788**	***24.4***	**612,465**	**1,893,323**
Senior notes	**1,219,032**	**—**	**—**	**1,219,032**
Term facilities	**387,034**	**—**	**—**	**387,034**
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	**1,115,459**	**—**	**—**	**1,115,459**
Variable funding notes	**5,582,429**	***26.2***	**1,462,068**	**4,120,361**
Other	**83,639**	**—**	**—**	**83,639**
Total vehicle management asset-backed debt	**6,781,527**	***21.6***	**1,462,068**	**5,319,459**
Total cash			**68,876**	
Total capital available for continuing operations			**2,143,409**	

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

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

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

During Q4 2022, the Company extended one of our variable funding note facilities to March 2024, at which time the available capacity was increased by $677.2 million.

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

We believe the $2.1 billion of liquidity available to the Company as at December 31, 2022, coupled with our durable operating cash flow and syndication activities, is sufficient to fund Element's business throughout 2023, as well as to pay dividends at current rates to all preferred and common shareholders.

Capital Resources

Capitalization

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

The Company's capitalization is calculated as follows:

As at	**December 31, 2022**	September 30, 2022	December 31, 2021
(in $000's)	**$**	$	$
Cash	**68,876**	55,121	45,271
Unsecured debt			
Senior credit facilities	**1,893,323**	1,425,361	1,106,629
4.250% Convertible Debentures due 2024	**163,933**	162,725	159,072
3.850% Senior Notes due 2025	**541,792**	547,624	508,007
1.600% Senior Notes due 2024	**677,240**	684,530	635,008
Term facilities	**387,034**	389,586	—
Vehicle Management Asset-Backed Debt			
Revolving term notes in amortization	**1,115,459**	1,371,442	2,154,974
Variable funding notes	**4,120,361**	3,856,940	3,605,799
Other	**83,639**	92,033	61,693
Deferred financing costs	**(19,227)**	(18,472)	(27,023)
Continuing involvement liability	**54,173**	20,165	—
Hedge accounting fair value adjustments	**(45,935)**	(46,632)	(6,124)
Total debt	**8,971,792**	8,506,199	8,198,035
Shareholders' equity			
Common share capital	**2,868,078**	2,877,643	2,951,596
Preferred share capital	**365,113**	365,113	511,869
Other	**447,782**	343,113	(12,516)
Total Shareholders' Equity	**3,680,973**	3,585,869	3,450,949
Total Capitalization	**12,652,765**	12,092,068	11,648,984

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

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

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

Normal Course Issuer Bids

On November 10, 2021, the TSX approved Element's notice of intention to renew its normal course issuer bid (the "2021 NCIB"). The 2021 NCIB allowed the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 15, 2021 and ending on the earlier of November 14, 2022 and the completion of purchases under the 2021 NCIB, up to 40,968,811 common shares, subject to the rules of the TSX and applicable law. Under the 2021 NCIB, 19,223,100 common shares were repurchased for cancellation for an aggregate amount of approximately $261.1 million at a volume weighted average price of $13.58 per common share.

On November 11, 2022, the TSX approved Element's notice of intention to renew its normal course issuer bid (the "2022 NCIB"). The 2022 NCIB allows Element to repurchase on the open market (or as otherwise permitted), at its discretion during the period from November 15, 2022 to November 14, 2023, up to 39,228,719 common shares, subject to rules of the TSX and applicable law. As of December 31, 2022, under the 2022 NCIB, 26,400 common shares were repurchased for cancellation for an aggregate amount of approximately $0.5 million at a volume weighted average price of $18.26 per common share.

Element applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. Trade date accounting is the date on which the Company commits itself to purchase the shares.

Leverage

We view both financial and tangible leverage as indicators of the strength of Element's financial position. At December 31, 2022, our financial leverage ratio was 2.42:1 and tangible leverage ratio was 5.86:1.

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

As at		**December 31, 2022**	December 31, 2021
(in $000's, except ratios)		**$**	$
Borrowings		**8,807,859**	8,038,963
Convertible debentures		**163,933**	159,072
Less: Continuing involvement liability		**(54,173)**	—
Total debt	**(a)**	**8,917,619**	8,198,035
Total shareholders' equity	**(b)**	**3,680,973**	3,450,949
		12,598,592	11,648,984
Goodwill and intangible assets	**(c)**	**2,159,699**	2,050,999
Financial leverage	**(a)/(b)**	**2.42**	2.38
Tangible leverage	**(a)/[(b)-(c)]**	**5.86**	5.86

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2022.

Credit ratings

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

Credit Ratings[1] as at December 31, 2022

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

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

In September 2022, DBRS, Inc. and Fitch Ratings affirmed their stable outlooks and investment-grade rating of BBB (high) and BBB+, respectively. Additionally, in Q4 2022, Kroll Bond Rating Agency affirmed its stable

outlook and investment-grade rating of A-, and Standard & Poor’s also affirmed its stable outlook and investment-grade rating of BBB.

Risk Management

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk.

Further, the organization's ability to effectively manage these risks has matured through increased awareness and monitoring, as evidenced by our strong ECRI performance and implementation of the cross functional Enterprise Risk Council led by our Chief Financial Officer.

In the normal course of business, the Company engages in operating and financing activities that generate risks in the following primary areas:

Element may Fail to Execute on its Growth Strategy

While Element believes it can achieve annual revenue growth of 6-8% in normal market conditions, the Company may be unable to achieve such expected growth for a variety of reasons.

Element's growth strategy relies on growing its client base and expanding its market share. However, the fleet management industry is competitive and characterized by competitive factors that vary based upon service offering and geographic region. Element competes with a wide variety of competitors that include independent lease finance companies, captive finance companies owned by manufacturers and distributors, banks, third party brokers and other large and mid-sized fleet management companies. Increased competition in the Company's markets could result in intensified pricing pressure, reduced profit margins, increased sales and marketing expenses and a failure to increase, or a loss of, market share. Element may not be able to maintain or improve its competitive position against current or future competitors. Future disintermediation by vehicle manufacturers could increase competitive pressures. In addition, future mergers or consolidations among competitors, or acquisitions of Element's competitors by large companies may present competitive challenges to Element's business and resulting combined entities could be at a competitive advantage. Further, competitors may reduce the fees for their services, which could increase pricing pressure within the Company's markets which could have a material adverse effect on Element's ability to achieve its growth objectives.

Element's growth strategy also includes tapping into currently underserved markets, such as self-managed fleets. While the Company believes that there are significant opportunities in these markets and that Element could deliver significant value to these clients, there is no assurance that the Company will be successful in expanding its reach in these market segments.

Another component of Element's growth strategy is minimizing client attrition. While Element believes that it will be able to continue to deliver a consistent, superior client experience that will help to minimize future client attrition, client attrition results from a variety of different factors, including financial difficulties experienced by the client, the integration of different client systems and platforms, the acquisition or ceasing of operations of the client, competition and other socio-economic factors. Any factors that adversely affect the ability of Element's services to compete with those available from competitors, such as availability of competitors' services and offering more advanced service architecture, superior functionality or performance or lower prices, or factors that reduce demand for Element's services, such as intensifying price competition, could lead to increased rates of client attrition.

If Element is unable to expand its market share, successfully tap into underserved markets and/or retain its clients, Element may be unable to achieve its growth objectives and its business, financial condition and/or results of operations may be adversely impacted.

Element's Operating Model may be Unable to Support its Growth Strategy

Element believes that its operations are sufficiently scalable to support its growth strategy. However, if Element achieves or exceeds its growth objectives, it is possible that Element's platform will not be able to scale in order to meet the additional requirements of such growth. Element may face challenges in (i) implementing new or updated information and financial systems and procedures; and (ii) training, managing and appropriately sizing its work force and other components of its business on a timely and cost-effective basis. There can be no assurance that Element will be able to manage its expanding operations effectively or that it will be able to continue to support its planned growth. In the event that Element's operations are not sufficiently scalable, Element's business, financial condition and/or results of operations may be adversely impacted.

Element Derives a Significant Portion of its Revenue from Program Fees and Charges Paid by its Clients. Any Decrease in Element's Receipt of Such Fees and Charges, or Limitations on Element's Service Fees and Charges, Could Materially and Adversely Affect Element's Business, Financial Condition and/or Results of Operations

Element's service programs include a variety of service fees and charges associated with transactions, cards, reports, optional services and late payments. Element derives a significant amount of its consolidated revenues from these service fees and charges. If the users of Element's cards or other services decrease their transaction activity, or the extent to which they use optional services, Element's revenue could be materially adversely affected. In addition, several market factors can affect the amount of Element's service fees and charges, including the market for similar charges for competitive card services and the availability of alternative payment methods. Furthermore, regulators may scrutinize the electronic payments industry's pricing, charges and other practices related to Element's business. Any legislative or regulatory restrictions on Element's ability to price its services could materially and adversely affect Element's revenue. Any decrease in Element's revenue derived from these service fees and charges could materially and adversely affect Element's business, financial condition and/or results of operations.

Concentration of Leases and Loans within the Fleet Leasing Industry or within a Particular Region May Negatively Impact Element's Business, Financial Condition and/or Results of Operations

Element specializes in vehicle fleet management. As a result, Element has a significant concentration of risk exposure related to this industry segment. If this industry segment experiences adverse economic or business conditions, Element's delinquencies, default rate and charge-offs may increase, which may negatively impact its business, financial condition and/or results of operations. Furthermore, Element may have significant exposures to unique regions and industries, such as Alberta and its oil sands industry, which, if negatively impacted by macroeconomic trends, could negatively impact Element's business, financial condition and/or results of operations.

Lack of Funding May Limit Element's Ability to Originate Leases and Loans

Element is dependent upon its ability to secure funding for its loans and leases to clients and to fund its existing obligations. While Element currently has sufficient funding, there can be no assurance that additional financing will be obtained on terms acceptable to Element or at all. In the past, Element has obtained the cash required for its operations through cash flows from its operating activities, the issuance of equity interests to institutional, accredited and other investors, by borrowing money through Senior Credit Facilities or other funding facilities, issuance of senior unsecured notes, and the syndication and securitization of certain of its leases and loans. Element may not be able to continue to access these or other sources of funds.

Concentration of Debt Financing Sources May Increase Element's Funding Risks

Element has obtained funding from a number of financial institutions. Element's reliance on such financial institutions for a significant amount of its funding exposes Element to funding risks. If these financial institutions decided to terminate, or not extend these borrowing arrangements, Element's business, financial condition and/or results of operations could be materially adversely affected.

Ability to Reduce Concentration Risk Through Syndication

One way that Element seeks to manage its exposures to large clients is by transferring leases and loans to third party investors, including through bulk transfers, securitization, syndication and similar risk transference arrangements. There can be no assurance that Element will continue to be able to reduce client credit concentration risks in this way if Element is unable to enter into such risk transference arrangements with third party investors on favorable terms, or at all. Element's reliance on syndication through risk transference arrangements may increase as Element funds the asset growth of its largest clients. There can be no assurance that Element will be able to expand its existing network of syndication market investors or increase the capacities of its existing syndication arrangements in order to manage this concentration risk. An inability to manage such risk could lead Element to curtail new originations with its largest clients in certain circumstances, which could have an adverse impact on Element's ability to maximize its new origination opportunities with such clients.

A Decline in Element's Origination Volume or Quality May Negatively Impact Element's Ability to Syndicate

If Element experiences a decrease in originations or if the credit quality of its originations declines, Element may be unable to meet the requirements of syndication investors. In such a scenario, Element's syndication volume may decline which could negatively impact Element's business, financial condition and/or results of operations. The continued increases in the fed funds rate and the decline of 80% bonus deprecation may add contained stress to our yields in the short term as well.

Tangible Leverage

In 2019, optimized tangible leverage of 5.5x-6.0x reflected higher spreads for debt funding and cost of equity premiums associated with elevated operating risks. Today, with a meaningfully strengthened operating platform and de-risked balance sheet, optimized tangible leverage has shifted marginally higher as a result of reduced debt funding spreads and cost of equity premiums. Accordingly, Element will be managing to FX-normalized tangible leverage of 6.0x-6.75x, with a target of 6.5x, ensuring the Company remains well within rating agency thresholds for negative ratings pressure.

Global Financial Markets and General Economic Conditions May Adversely Affect Element's Business, Financial Condition, and/or Results of Operations

Events in the financial markets have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, financial developments seemingly unrelated to Element or to its industry may materially adversely affect Element over the course of time. For example, general volatility in the equity markets or volatility with interest rates and spreads could hurt Element's ability to raise capital and significantly impact Element's access to funding and liquidity (including access to securitization and syndication markets for Element's originated finance assets). Element may also be negatively impacted by volatility in the equity markets as a result of a number of catastrophic events that are beyond Element's control, including infectious diseases, pandemics or similar health threats, such as the COVID-19 pandemic or fear of the foregoing.

Moreover, a reduction in credit, combined with reduced economic activity, may materially adversely affect businesses and industries that collectively constitute a significant portion of Element's client base and may make it more difficult for Element to maintain new business origination and the credit quality of new business at the levels currently forecast. As a result, these clients may need to reduce their purchases and reliance on Element's services or Element may experience greater difficulty in receiving payment for its services. Delinquencies, non-accruals and credit losses generally increase during economic slowdowns or recessions. Therefore, to the extent that economic and business conditions are unfavourable, Element's non-performing assets may become elevated and the value of Element's portfolio is likely to decrease.

Adverse economic conditions also may decrease the estimated value of the collateral securing some of Element's loans and leases. Further or prolonged economic slowdowns or recessions, including those caused by catastrophic events as the COVID-19 pandemic, could lead to financial losses in Element's portfolio and a

decrease in Element's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Element's business, financial condition and/or results of operations.

Element has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes in jurisdictions in which Element operates. These factors could negatively affect Element's future results of operations in those markets.

Dependence on Strategic Relationships

Element has strategic relationships in place with a number of organizations including Arval, original equipment manufacturers (OEMs), major oil companies, and fuel, tire, and maintenance service providers. While Element regularly monitors these relationships, there can be no guarantee that Element will be able to maintain them in the future. These relationships are important for Element's long-term business operations, and its results of operations could be lower in the event that certain of these relationships cease to exist. The termination of certain of these relationships could impact Element's competitive advantage, and its operating results could be adversely affected.

Disruption in the Operations of Suppliers Could Disrupt Our Business

Our business relies upon the continued ability of vehicle manufacturers to deliver vehicles to Element. Our ability to provide leasing and fleet management services to our clients is dependent upon vehicle manufacturers delivering sufficient quantities of vehicles on time to meet our clients' needs. In certain cases, vehicle production is dependent on raw materials and parts that are ultimately derived from a single source and may be at an increased risk for supply disruptions for vehicle manufacturers. Such disruptions could affect Element's business. If we experience supply disruptions, we may not be able to develop alternate sourcing. Any disruption of our suppliers' production schedule caused by an unexpected shortage of systems, components, raw materials or parts for vehicles could lead to Element being unable to lease vehicles and provide services at desired levels, which could have a material adverse effect on Element's business, financial condition and/or results of operations.

Environmental Laws and Element's ESG Policies Could Materially Adversely Affect the Company

Various governments and regulatory authorities in the U.S., Canada and internationally have considered, and will likely continue to consider, numerous measures related to climate change and greenhouse gas emissions. Should rules establishing limitations on greenhouse gas emissions or rules imposing fees on entities deemed to be responsible for greenhouse gas emissions become effective, demand for Element's services could be affected, our vehicle and/or other costs could increase, and our business could be adversely affected. Additionally, any ESG policies that Element institutes may fail to meet the expectations of investors, clients, employees or other stakeholders which could negatively impact Element's business, financial condition, operations and/or the market price of Element's securities.

Inability to Attract and Retain Employees May Limit Element's Ability to Grow its Business

If Element is not able to attract and retain top employees, its ability to compete may be harmed. Element's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. In order to grow Element's business, it must attract and retain qualified personnel, especially origination and credit personnel with relationships with referral sources and an understanding of the equipment financing businesses and the industries in which Element's borrowers operate. In addition, in Element's effort to attract and retain critical personnel, Element may experience increased compensation costs that are not offset by either improved productivity or higher prices for Element's services.

Many of the financial institutions that Element competes with for experienced personnel may be able to offer more attractive terms of employment. If any of Element's key origination personnel leave, Element's new equipment finance origination volume from their business contacts may decline or cease. In addition, Element

invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them and increases the costs of replacing them. These factors may have a material adverse effect on Element’s ability to grow its business.

Loss of Key Personnel May Significantly Harm Element's Business

Element's executive and other senior officers, including those referred to under "*Directors and Officers*", play a significant role in its success. The conduct of Element’s business, the execution of Element’s growth strategy and Element’s future performance and development depend, to a significant extent, on the abilities, experience and efforts of its management team. The Company's ability to retain its management team or attract suitable replacements, should key members of the management team leave, is dependent on the competitive nature of the employment market. The loss of services from key members of the management team or a limitation in their availability could adversely impact the Company’s prospects, financial condition and cash flow.

Further, Element does not maintain "key person" life insurance policies on any of its employees. The unexpected loss of services of or one or more executive or senior officer could also adversely affect Element. Element provides a competitive compensation package, which includes profit sharing and medical benefits as it continuously seeks to align the interest of employees and shareholders.

Funding Facilities May Limit Element’s Operational Flexibility

Element’s funding arrangements, including its various securitization facilities and the Senior Credit Facilities, contain financial and non-financial covenants, such as requirements that Element comply with one or more of interest coverage, consolidated debt to tangible shareholders equity ratio, loan loss ratios and change of control provisions. Complying with such covenants may at times necessitate that Element forego other favourable business opportunities, such as acquisitions. Moreover, Element’s failure to comply with any of these covenants would likely constitute a default under such facilities and could give rise to an acceleration of some, if not all, of Element’s then outstanding indebtedness, which would have a material adverse effect on Element’s business, financial condition and/or results of operations.

As of December 31, 2022, Element had $8.8 billion in secured and unsecured borrowings and $172 million face value aggregate principal amount of Debentures outstanding, and Element expects this amount may grow as it increases originations. From time to time, Element may owe amounts under its Senior Credit Facilities and may otherwise increase its debt to fund the growth of Element's business. While Element match funds its borrowings under its secured funding facilities, if the matched income earning assets securing the leases or loans underperform, Element may to some extent have to utilize cash flow or capital resources to fund its debt service payments. If Element's cash flow and capital resources are insufficient to service amounts owed under its secured funding facilities, the Senior Credit Facility or any future indebtedness, as applicable, Element may be forced to reduce or delay capital expenditures, dispose of assets, issue equity or incur additional debt to obtain necessary funds, or restructure its debt, any or all of which could have a material adverse effect on Element's business, financial condition and/or results of operations. In addition, Element cannot guarantee that it would be able to take any of these actions on terms acceptable to Element, or at all, that these actions would enable Element to continue to satisfy its capital requirements or that these actions would be permitted under the terms of Element's various debt agreements.

Data Privacy and Information Technology Security Breaches May Negatively Impact Element

Element collects and processes confidential information in the course of providing its services. Any inability on Element's part to protect the security of its platforms or the privacy of confidential information could have a material adverse effect on Element's profitability by exposing Element to additional liability, increasing Element's expenses relating to resolution of these breaches, and deterring users from using Element's services.

Element has administrative, technical, and physical security measures in place to protect the privacy of this confidential information as well as policies and procedures to contractually require third parties to whom Element transfers data to implement and maintain appropriate security measures. However, Element cannot

ensure that its current security measures will effectively counter security risks, prevent future slowdowns or disruptions, protect against cyber-attacks or address the security and privacy concerns of existing and potential users. If Element's security measures or those of the previously mentioned third parties are inadequate or are breached as a result of cyber-attacks, computer viruses, unauthorized access, employee error, malfeasance, system error, trickery, natural disasters, terrorism, war and telecommunication and electrical failures or otherwise, and, as a result, someone obtains unauthorized access to sensitive information, including personally identifiable information or protected health information, on Element's systems or its partners' systems, Element's reputation and business could be damaged. The deletion or modification of records could cause interruptions in Element's services and operations. Any system failures, slowdowns or disruptions will likely result in unanticipated disruptions in service to Element's users, decreased levels of user satisfaction and significant negative effects on Element's reputation. If the sensitive information is lost or improperly disclosed or threatened to be disclosed, Element could incur significant liability and be subject to regulatory scrutiny and penalties, including costs associated with remediation. Additionally, if Element's own confidential business information were improperly disclosed, Element's business could be materially and adversely affected. To address these matters, Element continues to evolve security safeguards.

Element's business depends on the efficient and uninterrupted operation of computer and communications systems and networks, hardware and software systems and other information technology. If systems were to fail or Element was unable to successfully expand the capacity of these systems or was unable to integrate new technologies into its existing systems, its operations and financial results could suffer.

Element relies on third-party encryption and authentication technology to provide secure transmission of confidential information over the Internet. Advances in technological capabilities, new discoveries in the field of cryptography, or other events or developments, could result in a compromise or breach of the technology Element uses to protect sensitive data. In addition, because techniques used to obtain unauthorized access or to sabotage systems change frequently and may not be recognized until launched against a target, Element may be unable to anticipate these techniques or to implement adequate preventative measures. If any such compromise of Element's security, or the security of Element's clients, were to occur, it could result in misappropriation of confidential information, proprietary information or interruptions in operations, and have an adverse impact on Element's reputation or the reputation of Element's clients. If Element is unable to detect and prevent unauthorized use of sensitive or confidential data, its business, financial condition and/or results of operations could be materially and adversely affected.

Potential Acquisitions and Investments

Element may seek to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of Element. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for Element, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on Element's administrative and operational resources and its ability to manage growth.

Risk Relating to Transformation

Although Element's transformation is complete and has provided benefits to the Company, including operating income improvements and improvements in Element's earnings profile, certain risks remain: certain benefits actioned through the transformation may not fully materialize or Element may not be able to fully sustain such benefits indefinitely. If such benefits do not materialize or are not able to be sustained, there could be a material adverse effect on Element's business, financial condition and/or results of operations.

Decreased Demand for Fuel and Other Vehicle and Services Could Harm Element's Business, Financial Condition and/or Results of Operations

Demand for vehicle-related products and services may be reduced by factors that are beyond Element's control, such as general market conditions or the implementation of fuel efficiency standards and the development by manufacturers and adoption by Element's clients of vehicles with greater fuel efficiency or alternative fuel sources. To the extent that Element's clients require less fuel, that decline in purchase volume

could reduce Element's revenues, limiting Element's profitability and preventing Element from taking on other initiatives.

Technological Change may Challenge Element Business Prospects or Require Significant Investment

Element's business depends on the efficient and uninterrupted operation of information technology infrastructure. If systems were to fail or Element was unable to successfully expand the capacity of these systems or was unable to integrate new technologies into its existing infrastructure, including the planned implementation of new enterprise resource planning (ERP) and ordering systems, its operations and financial results could suffer. Any changes to technologies associated with Element's business or analytics systems and platforms, or to technologies used by Element's competitors, clients, suppliers or other third parties, may make it more difficult for Element to maintain or increase revenues and earnings and could adversely impact Element's business and prospects.

The services Element delivers are designed to process large complex, data sets and provide reports and other information on that data on a timely basis. Any failure to deliver an effective, secure service or any performance issue that arises with a new service could result in significant processing or reporting errors or other losses. Element may rely on third parties to develop or co-develop solutions, or to incorporate Element's solutions into broader platforms. Element may not be able to enter into such relationships on attractive terms, or at all, and these relationships may not be successful.

Element expects that new services and technologies applicable to the fleet management business in which it operates will continue to emerge and evolve. These new services and technologies may be superior to, impair, or render obsolete the services Element currently offers, or the technologies Element currently uses to provide them. Further, if Element offers new services in the future, there is no guarantee that it will be successful in integrating the new services into its operations, which could materially and adversely affect Element's operating results and financial condition. Various investors, competitors or other third parties have invested or may invest significant amounts of capital in technologies that may impact the operation of the fleet management business and the services offered by Element. Element may be required to make significant investments in technology, in acquisitions, or in its business structure to continue to adapt to technological change. While Element has invested resources in technologies that benefit its clients and believes that its technological platform is one of its competitive advantages, there can be no guarantee that Element will continue to be able to adapt to technological change, and Element may have to invest additional capital to adapt in the future. Further, Element may enter into new lines of business in the future. There is no guarantee that Element will be successful in integrating these new lines of business into its operations, which could materially and adversely affect Element's operating results and financial condition.

Liquidity Risk

Liquidity risk is the risk that the Company will not generate sufficient cash or cash equivalents in a timely and cost-effective manner to satisfy its financial obligations as they come due. One of management’s primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that the Company will have sufficient liquidity to meet its liabilities when due as well as sustain and grow the Company’s assets and operations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

Growth in our lease portfolio will require ongoing availability of secured and unsecured financing and funding lines sufficient to accommodate projected growth objectives. The Company has taken steps to ensure appropriate funding will be in place as required.

The Company believes that its capacity to expand its existing secured and unsecured borrowing facilities and its access to bank term funding will be sufficient to fund its normal operating and capital expenditures as the Company grows.

As at December 31, 2022, the Company had available liquidity of $2,143.4 million compared to $2,361.6 million at December 31, 2021.

Credit Risk

Element's net investment in finance assets for its own account and to be held for future term funding exposes Element to credit risk. Credit risk is the risk that Element will incur an unexpected loss because its clients and counterparties fail to discharge their contractual obligations. Credit risk arises principally through Element's finance receivables that are a result of transactions within the equipment finance industry and, as such, contain an element of credit risk in the event that obligors are unable to meet the terms of their agreements. Element is exposed to credit risk as it arises from events and circumstances outside of Element's control relating to adverse economic conditions, business failure or fraud. The types of fraud to which Element is exposed generally fall into one of three primary categories: (i) vendor/dealer fraud; (ii) client fraud; and (iii) employee fraud. Excessive credit losses could adversely affect Element's ability to generate and fund new financings.

In order to manage credit risk, Element operates using a clearly identified set of policies and procedures throughout its business processes. This includes a detailed analysis of the value of collateral security, the applicant's financial condition, and the ability to service the debt or lease obligations at inception and throughout the term of the lease or loan. Element also manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans.

Credit Ratings and Ratings Outlook may Change

The credit rating agencies which rate the Company could re-evaluate their current credit ratings or outlook. There can be no assurance that the credit ratings assigned to Element will be confirmed or remain in effect for any given period of time and ratings may be upgraded, downgraded, or placed under review by an applicable credit ratings agency at any time.

In September 2022, credit rating agencies DBRS, Inc. and Fitch Ratings affirmed their stable outlooks and investment-grade ratings of BBB (high) and BBB+, respectively. In Q4 2022, credit rating agencies S&P Global Ratings and Kroll Bond Rating Agency affirmed their stable outlooks and investment-grade ratings of BBB and A-, respectively.

Negative changes in Element's credit ratings or ratings outlook may increase the cost of borrowing. In addition to higher interest rates, rating downgrades could adversely impact the Company's access to capital, cost of capital and financial flexibility, as well as the value of Element's securities.

Element's Provision for Credit Losses May Prove Inadequate

Element's business depends on the creditworthiness of its clients and their ability to fulfill their obligations to Element. Element maintains a provision for credit losses that reflects management's judgment of losses inherent in the portfolio. Element periodically reviews its provision for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets.

Element has and will continue to provide for credit losses based on industry specific historical losses considering the categories, segmentation and distribution of the assets being financed and its client base. However, Element's provision for credit losses may prove inadequate and Element cannot assure that it will be adequate over time to cover credit losses in Element's portfolio because of adverse changes in the economy or events adversely affecting specific clients, industries or markets. Element's credit reserves may not keep pace with changes in the creditworthiness of Element's clients or in collateral values. If the credit quality of Element's client base declines, if the risk profile of a market, industry, or group of clients changes significantly, or if the markets for equipment or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of Element's reserves for credit losses, it could have a material adverse effect on Element's business, financial condition and/or results of operations.

The Collateral Securing a Loan or a Lease May Not Be Sufficient

While most of Element loans and leases are secured by a lien on specified collateral of the client, there is no assurance that Element has obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect Element from suffering a partial or complete loss if the loan or lease becomes non-performing and Element moves to foreclose on the collateral. In such event, Element could suffer loan or lease losses which could have a material adverse effect on its business, financial condition and/or results of operations.

When underwriting collateral, Element makes an estimate of the value of the collateral under a distressed, disposition. The estimated realization value of equipment during the life of the lease is an important element in the leasing business. A decrease in the market value of leased equipment at a rate greater than the rate Element projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, would adversely affect the current realization values of such equipment.

Further, certain equipment realization values are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity. The degree of realization risk varies by transaction type.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In order to mitigate interest rate risk, the Company structures its borrowing arrangements to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving facilities and the interest received on the underlying finance receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances, the Company enters into interest rate swaps in order to align the interest rate variability and to limit interest rate risk exposure.

The Company does experience short-term interest rate risk on finance receivables during the period between fixing the contractual rate under the finance contracts with its clients and the locking of the interest rate under its funding facilities. During this time, an upward movement in respective benchmark rates can negatively impact the spread on the transaction. In order to mitigate this risk, the Company carefully monitors its borrowing costs to ensure its lease financing rates reflect appropriate spreads to insulate against sudden unexpected interest rate movements. Notwithstanding the Company's careful monitoring of borrowing costs, in a market environment featuring the sustained expansion of corporate spreads atop benchmark rates, Element may experience modest net interest income and rental revenue compression as the Company terms out, renews and extends its funding facilities opposite certain long-term lease contracts at fixed spreads to benchmark rates. The same market environment (sustained expansion of borrowing spreads atop benchmark rates) would impact the Company's analysis of when to syndicate certain assets to optimize the economics thereof.

In order to further mitigate risk, the Company undertakes regular securitizations under its funding arrangements to ensure its finance contracts are appropriately match-funded by its funding arrangements, which reduces the warehouse period and the likelihood that a significant movement in underlying benchmark rates will negatively impact the spreads on such transactions. The Company also maintains adequate balance sheet liquidity to allow it flexibility in developing a strategy of holding versus securitizing such finance assets.

As at December 31, 2022, the percentage of the total lease portfolio and the loan portfolio that had fixed interest rates was 49.3% and 100.0%, respectively.

After considering the fixed interest rate spread on the funding programs and the high exposure to fixed rate finance receivables described above, the Company's interest rate risk is generally limited to cash and restricted cash.

Element's Results May Fluctuate

Element's quarterly and annual operating results may fluctuate in the future. These fluctuations could cause Element's stock price to decline. In some future quarters or years, Element's financial or operating results may not meet the expectations of securities analysts and investors which could result in a decline in the price of the Common Shares. Investors should not rely on Element's results of operations in any prior reporting period to be indicative of its performance in future reporting periods. Many other different factors could cause Element's results of operations to fluctuate quarterly and annually, including:

- the success of Element's origination activities;
- market acceptance and penetration of Element's services credit losses and default rates;
- Element's ability to enter into financing and syndication arrangements;
- decreases in demand for fleet leasing and fleet management solutions and related service programs;
- competition;
- costs of compliance with regulatory requirements;
- the timing and effect of any future acquisitions;
- personnel changes;
- changes in accounting rules;
- changes in prevailing interest rates and foreign exchange rates;
- general changes to the Canadian, U.S., Mexican, Australian, New Zealand and global economies; and
- political conditions or events.

Element bases its current and future operating expense levels and its investment plans on estimates of future net finance income, origination activity and rate of growth. Any shortfalls in Element's net finance income and management, origination activity or in its expected growth rates could result in decreases in its share price.

Element May Be Unable to Protect, or May be Required to Incur Significant Cost and Attention to Protect, its Intellectual Property Rights and Confidential Information and May Be Required to Defend against Intellectual Property Infringement Claims of Third Parties

To protect its proprietary technology, which includes Xcelerate™ and Connected Data™, Element relies on copyright, trade secret, patent and other intellectual property law and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite such precautions, it may be possible for third parties to obtain and use - without Element's consent - confidential information or infringe on its intellectual property rights, and Element's ability to police such misappropriation or infringement is uncertain. In addition, confidentiality agreements with employees, vendors, clients and other third parties may not effectively prevent disclosure or use of proprietary technology or confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure. Protecting against the unauthorized use of Element's intellectual property and confidential information is expensive, difficult and not always possible.

Third parties could in the future claim that the technologies and processes underlying Element's services infringe their intellectual property. Element may, in the future, receive notices alleging that we have misappropriated or infringed a third party’s intellectual property rights. Any claims of infringement or misappropriation by a third party, even those without merit, could cause us to incur substantial defense costs and could distract management from Element's business, and there can be no assurance that we it be able to prevail against such claims.

Element Faces Tax Risks in Multiple Jurisdictions

Element is a Canadian corporation, which together with its subsidiaries operates in multiple jurisdictions. As a result, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments and of the governments of foreign jurisdictions in which Element operates, as well as to any income tax treaties between Canada and any such jurisdictions, and to the risk that those tax laws, regulations and treaties may change in the future. Any such changes could adversely affect the taxes payable or recoverable, including withholding taxes, and the effective tax rate in the jurisdictions in which Element operates.

The determination of Element’s provision for income taxes in Canada and elsewhere, including current and deferred tax assets and liabilities on Element’s financial statements, requires estimates, interpretation and significant judgment. Various internal and external factors may have favorable or unfavorable effects on future provisions for income taxes and Element’s effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years’ items, and changes in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements could have a material impact on Element’s effective income tax rate.

A deferred tax asset may only be recognized to the extent that future realization of the asset is probable. Element considers realization of deferred tax assets based on future taxable income forecasts, enacted future income tax rates, timing of reversal of temporary differences, tax loss carry forward limitations in certain jurisdictions and other items. The Company may be required to derecognize a portion or all of its deferred tax asset if the above assumptions change in the future.

The Canadian government has various tax legislative proposals and consultations that are being considered. This includes, among other things, deductibility, provisions on hybrid arrangements and Global Anti-Base Erosion Rules. These proposals, if implemented, could have a material adverse impact on Element’s business, financial condition and results of operations.

Element could be adversely impacted by various sunsetting provisions within the US taxation code if extensions are not granted in the future.

Element could be impacted by tax treatments for various revenue streams in different tax jurisdictions. If a tax authority has a different interpretation from Element’s, it could potentially impose additional taxes, penalties, fines or change the amount and timing of expected tax refunds. This would potentially reduce the amounts of revenue and net income received by Element.

Element, from time to time, has executed or may execute reorganization transactions impacting its tax structure. If a tax authority has a different interpretation from Element’s, it could potentially impose additional taxes, penalties or fines on Element.

Element could be exposed to substantial tax liabilities if the Tax-Deferred Spinoff Requirements are not met.

The tax treatment of the Separation Transaction is dependent on, among other things, the Separation Transaction complying with all of the requirements of the public company “butterfly reorganization” rules in section 55 of the *Income Tax Act* (Canada). Although the Separation Transaction is structured with the intent that it comply with these rules, there are certain requirements of these rules that depend on events occurring after the Separation Transaction is completed or that may not be within the control of Element or that are subject to differing interpretations regarding legal and factual matters (including valuation). If these requirements are not met, Element would recognize a taxable gain in respect of the Separation Transaction. If incurred, tax liabilities could be substantial and could have a material adverse effect on the financial position of Element.

No tax ruling has been requested or received from the authorities in Canada in respect of tax consequences of the Separation Transaction. If such requirements are not met due to an act of ECN Capital in breach of its representations and covenants made in connection with the Separation Transaction, then ECN Capital will in certain circumstances be required to indemnify Element under the arrangement agreement dated July 25, 2016 among Element, ECN Capital, 2510204 Ontario Inc. and INFOR Acquisition Corp. (the “Arrangement Agreement”). If ECN Capital has to indemnify Element for any substantial obligations, it may not be able to satisfy those obligations, and this may materially adversely affect Element's financial position.

The Decision to Pay Dividends on Common Shares and the Amount of Such Dividends are Subject to the Discretion of Element's Board Based on Numerous Factors and May Vary from Time to Time

Although Element currently pays quarterly cash dividends on its Common Shares, these cash dividends may be reduced or suspended. The amount of cash available to Element to pay dividends, if any, can vary significantly from period to period for a number of reasons, including, among other things: Element's operational and financial performance; fluctuations in market prices; the amount of cash required or retained for debt service or repayment; amounts required to fund capital expenditures and working capital requirements; access to capital markets; foreign currency exchange rates and interest rates; and the other risk factors set forth in the Annual Information Form.

The decision whether or not to pay dividends and the amount of any such dividends are subject to the discretion of the Board, which regularly evaluates proposed dividend payments and the solvency test requirements of the Ontario Business Corporations Act. In addition, the level of dividends per Common Share will be affected by the number of outstanding Common Shares and other securities that may be entitled to receive cash dividends or other payments. Dividends may be increased, reduced or suspended depending on the Corporation’s operational success. For example, as announced on October 1, 2018, the Company's quarterly Common Share dividend was reduced from $0.075 to $0.045. More recently, in Q4 2022 Element increased its quarterly Common Share dividend from $0.0775 to $0.10. The market value of Common Shares may deteriorate if Element is unable to meet dividend expectations in the future, and that deterioration may be material.

Foreign Currency Risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk the exchange rates will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2022, the Company did not have a significant un-hedged exposure to this type of foreign currency risk that would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and respective foreign currency exchange rate used to translate the Company's foreign currency denominated net income into the Canadian dollar equivalent during each period. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future income before taxes is consistent with the results generated in 2022, each $0.01 of depreciation (appreciation) in the value of the Canadian dollar against all of the U.S. dollar, Mexican peso, Australian dollar, and New Zealand dollar simultaneously would be expected to increase (decrease) income before taxes for the year by approximately $27.7 million in the absence of hedging transactions.

Historically, the Company has match-funded the assets of the business whereby its debt funding was aligned with its assets in terms of currency, duration and interest rate. Element Mexico was the lone exception in that the Company’s business in that country was funded in U.S. dollars. While this exception was readily justifiable when Mexico constituted approximately 4% of Element’s average net earning assets in 2018, its successful growth strategy (coupled with the Company’s syndication of U.S. assets) has resulted in Element Mexico now constituting approximately 18% of the Company’s assets. Given the success Element has had in that market (and the knowledge that sustained double-digit revenue growth could be the norm for the mid- to long-term), the Company has procured access to Peso-denominated funding and has replaced a portion of the U.S. dollar funding with Peso funding.

Volatility of Common Share Price

Market prices for fleet management and other financing corporations, including those of Element, have at times been volatile and subject to substantial fluctuations. The stock market, from time-to-time, experiences significant price and volume fluctuations unrelated to the operating performance of particular companies. Future announcements concerning Element or its competitors, including those pertaining to financing arrangements, government regulations, developments concerning regulatory actions affecting Element, litigation, additions or departures of key personnel, cash flow, and economic conditions and political factors in the U.S., the European Union, Canada or other regions may have a significant impact on the market price of the Common Shares. In addition, there can be no assurance that the Common Shares will continue to be listed on the TSX.

The market price of the Common Shares could fluctuate significantly for many other reasons, including for reasons unrelated to Element's specific performance, such as reports by industry analysts, investor perceptions, market rumors or speculation, or negative announcements by Element's clients, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. For example, market speculation of negative news relating to Element could trigger a sell-off in the Common Shares. Any sales of substantial numbers of the Common Shares in the public market or the perception that such sales or exercise might occur may cause the market price of the Common Shares to decline. In addition, to the extent that other large companies within Element's industry experience declines in their stock price, the share price of the Common Shares may decline as well. Moreover, when the market price of a company’s shares drops significantly, shareholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of Element's management and other resources.

Market Value of Common Shares and Other Securities

Element cannot predict at what price the Common Shares, Preferred Shares, Debentures or other securities issued by Element will trade in the future. The Common Shares, Preferred Shares, Debentures and other securities of Element will not necessarily trade at values determined solely by reference to the underlying value of Element's assets. One of the factors that may influence the market price of such securities is the annual yield on such securities. An increase in market interest rates may lead purchasers of securities of Element's to demand a higher annual yield and this could adversely affect the market price of such securities. In addition, the market price for securities of Element may be affected by announcements of new developments, changes in Elements’ operating results, failure to meet analysts’ expectations, changes in credit ratings, changes in general market conditions, fluctuations in the market for securities and numerous other factors beyond the control of Element.

Element's Business Could be Negatively Impacted as a Result of Shareholder Activism

In recent years, shareholder activists have become involved in numerous public companies. Shareholder activists frequently propose to involve themselves in the governance, strategic direction, and operations of the company. For example, on May 14, 2018 the Corporation entered into Nomination Agreements with some of its significant shareholders. Element may continue to be or may become subject to further shareholder activity and demands in the future. Such demands may disrupt Element's business and divert the attention of Element's management and employees, and any perceived uncertainties as to the Company's future direction resulting from such a situation could result in the loss of potential business opportunities, be exploited by competitors, cause concern to current or potential clients, and make it more difficult to attract and retain qualified personnel and business partners, all of which could adversely affect Element's business. In addition, actions of activist shareholders may cause significant fluctuations in the market price for Common Shares based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of Element's business.

Dilution from Further Equity Financing and Declining Share Price

If Element raises additional financing through the issuance of equity securities (including securities convertible into or exchangeable for equity securities) or completes an acquisition or merger by issuing additional equity

securities, such issuance may substantially dilute the interests of shareholders of Element and reduce the value of their investment. The market price of the Common Shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for Element itself to sell equity securities at a time and price that it deems appropriate.

Issue of Preferred Shares by Element

Element's Board has the authority to issue undesignated preferred shares in one or more series and, before issue, to fix the designation of, and the rights and restrictions attached to, the preferred shares of each series, without consent from holders of Common Shares. Preferred shares could be issued with voting, dividend, liquidation, dissolution, winding-up and other rights superior to those of the holders of Common Shares. Element has previously issued five series of preferred shares (the Series A Shares, Series C Shares, Series E Shares, Series G Shares and Series I Shares).

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, compliance with existing provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), future ESG reporting obligations, and the other applicable Canadian securities laws and regulation and related rules and policies, may cause Element to incur increased costs as it evaluates the implications of new rules and implements any new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

Any new laws and regulations may make it more expensive for Element to provide indemnities to Element's officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers. Accordingly, Element may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for Element to attract and retain qualified persons to serve on its Board of Directors or as executive officers. Element may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which could cause general and administrative costs to increase beyond what Element currently has planned. Element is continuously evaluating and monitoring developments with respect to these laws, rules and regulations and it cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs.

Element is required annually to review and report on the effectiveness of its internal control over financial reporting in accordance with NI 52-109. The results of this review are reported in the section of this MD&A titled "Internal Control over Disclosure and Financial Reporting". Element's Chief Executive Officer and Chief Financial Officer are required to report on the effectiveness of Element's internal control over financial reporting.

Management's review is designed to provide reasonable assurance, not absolute assurance, that all material weaknesses existing within Element's internal controls are identified. Material weaknesses represent deficiencies existing in Element's internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of Element. In addition, management cannot provide assurance that the remedial actions being taken by Element to address any material weaknesses identified will be successful, nor can management provide assurance that no further material weaknesses will be identified within its internal controls over financial reporting in future years.

Further, NI 52-109 requires that Element establish and maintain disclosure controls and procedures. Element's disclosure controls and procedures are designed to reasonably ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is processed on a timely basis to enable appropriate decisions to be made regarding public disclosure. Element believes that any disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are and will be met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls

can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

If Element fails to maintain effective (i) internal controls over its financial reporting or (ii) disclosure controls and procedures, there is the possibility of errors or omissions occurring or misrepresentations in Element's disclosures which could have a material adverse effect on Element's business, its financial statements and the value of the Common Shares.

Public Company Requirements May Strain Resources

As a public company, Element is subject to the reporting requirements of the Securities Act (Ontario) (the "Act"), as amended, the regulations and rules thereto, including the national and multilateral instruments adopted as rules, decisions, rulings and orders promulgated under the Act and the published policy statements issued by the Ontario Securities Commission and the listing requirements of the TSX. The ever-increasing obligations of operating as a public company will require significant expenditures and will place additional demands on management as Element complies with the reporting requirements of a public company. Element may need to hire additional accounting, financial and legal staff with appropriate public company experience and technical accounting and regulatory knowledge.

In addition, actions that may be taken by any significant shareholders, if any, may divert the time and attention of Element's Board of Directors and management from its business operations. Campaigns by significant investors to effect changes at publicly-traded companies have increased in recent years. If a proxy contest were to be pursued by any of Element's shareholders, it could result in substantial expense to Element and consume significant attention of management and the Board of Directors. In addition, there can be no assurance that any shareholder will not pursue actions to effect changes in the management and strategic direction of Element, including through the solicitation of proxies from Element's shareholders.

Element is Not Subject to the Same Extensive Supervision and Regulation as Certain Other Financial Services Companies

Element competes with financial institutions that are subject to extensive and complex federal, state and provincial regulatory requirements that do not apply to Element. For example, federally regulated financial institutions that are engaged in fleet financing may be subject to amplified supervisory activities (such as those of Canada's Office of the Superintendent of Financial Institutions), regulatory requirements relating to capital adequacy and market liquidity risk, and more rigorous financial reporting standards. Element operates in an unregulated environment with regard to capital requirements and its risk management policies and procedures may not be fully effective to identify, monitor and manage the risks that may jeopardize Element's ability to continue to satisfy its capital requirements. To the extent that Element must comply with financial reporting standards that are less extensive than those applicable to a competitor, it may be more difficult for an investor to completely and accurately assess Element's financial condition.

Litigation May Negatively Impact Element's Business, Financial Condition and/or Results of Operations

From time to time in the ordinary course of its business, Element may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Element to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on Element's business, financial condition and/or results of operations.

Element Has Indemnification Obligations to ECN Capital as a Result of the Separation Transaction that Could be Significant

If certain of the requirements of the "butterfly reorganization" rules in section 55 of the *Income Tax Act* (Canada), discussed above, are not met due to an act of Element, Element may in certain circumstances be required to indemnify ECN Capital under the Arrangement Agreement. These indemnification obligations

could be significant. If Element has to indemnify ECN Capital for any substantial obligations, this may materially adversely affect Element's financial position.

Element May be Treated as a Passive Foreign Investment Company ("PFIC") for U.S. Federal Income Tax Purposes, in Which Case U.S. Holders (as defined below) Would be Subject to a Special, Generally Adverse Tax Regime

Element has not made a determination as to whether Element may be a PFIC for any taxable year.

For purposes of this risk, a "U.S. Holder", is a beneficial owner of Common Shares that are, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (iv) a trust if (A) such trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes or (B) a court within the United States can exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

The U.S. federal income tax consequences to U.S. Holders of owning and disposing of Common Shares may be affected if Element were treated as a PFIC.

The PFIC rules, including the rules governing any elections that may potentially be made by a U.S. Holder, are extremely complex. Each U.S. Holder should consult its own tax advisor regarding the potential PFIC status of Element and how the PFIC rules (including elections that may be available thereunder) would affect the U.S. federal income tax consequences of the ownership and disposition of Common Shares.

Catastrophic Events, Natural Disasters, Severe Weather and Disease

Element’s business may be negatively impacted to varying degrees by a number of events which are beyond its control, including cyber-attacks, unauthorized access, energy blackouts, pandemics, terrorist attacks, acts of war, earthquakes, hurricanes, tornadoes, fires, floods, ice storms or other natural or manmade catastrophes.

While Element engages in emergency preparedness, including business continuity planning, to mitigate risks, such events can evolve very rapidly and their impacts can be difficult to predict. As such, there can be no assurance that in the event of such a catastrophe that Element’s operations and ability to carry on business will not be disrupted. Element may still be required to perform its obligations to third parties, notwithstanding the occurrence of any such events. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the COVID-19 pandemic, or fear of any of the foregoing, could adversely impact Element by causing operating or supply chain delays and disruptions, labor shortages, expansion project delays, facility shutdowns and other business disruptions, each of which could have a negative impact on Element’s ability to conduct its business and could increase its costs. In addition, liquidity and volatility, credit availability and market and financial conditions generally could change at any time as a result. Any of these events in isolation or in combination, could have a material negative impact on Element’s financial condition, operating results and cash flows.

COVID-19 Pandemic

Element Fleet’s business was negatively impacted by the COVID-19 pandemic, which created significant societal and economic disruptions. The COVID-19 pandemic had a broad impact across industries and the economy, including by affecting consumer confidence, global financial markets (with global equity markets having experienced significant volatility and weakness), regional and international travel, supply chain distribution of various products for many industries, oil prices, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce. Additionally, the COVID-19 pandemic led governments around the world to enact measures to combat the spread of the COVID-19 virus, including, but not limited to, the implementation of travel bans, border closings, mandated closure of non-essential services, self-imposed quarantine periods

and social and physical distancing policies, which have contributed to the material disruption to businesses globally resulting in a sudden economic slowdown. While the impacts of the COVID-19 pandemic have significantly declined from the peak of the pandemic, the future impact of the COVID-19 pandemic is uncertain. Any future increases in the impact of the COVID-19 pandemic and measures to prevent its spread could have a material negative impact on Element Fleet's financial condition, operating results and cash flows.

Economic Conditions and Outlook

Economic Conditions

Inflation

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

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

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

Recession

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

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

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

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

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

Rising interest rates

Element's business model is largely agnostic to interest rate movements. We match-fund our leases on interest rate type (fixed vs. floating) and duration, carefully monitor borrowing costs to ensure lease financing rates reflect appropriate spreads, and actively manage our funding facilities to optimize interest margins/spreads given market conditions – which margins/spreads are preserved for the life of the asset on our balance sheet.

Pandemic-Related Conditions

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

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

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

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

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

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

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

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

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

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

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

Outlook

Management and the Board completed their annual strategic review in Q4 2022, confirming the organization's commitment to our three strategic growth priorities and updating our three-year view of operating and financial performance.

Profitable organic net revenue growth atop a scalable operating platform

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

To better attain (and onboard) this growth, and as signaled last quarter, we have planned on slightly elevated levels of operating expenses in Q4 2022, and throughout 2023. That said, we continue to target year-over-year expansion of operating margins in this period (and anticipate elevated levels of expansion thereafter), such that revenue growth rates are expected be in excess of operating expense growth, creating superior growth in operating income.

A capital-lighter business model

In addition to the increased focus on services growth noted above, we continue to see syndication as a key enabler of our capital-lighter business model and enhanced returns on equity for the foreseeable future. Growing originations from increasing OEM production should provide a ready supply of lease assets to sell to a broadening geographic base of syndication investors (already in Canada and, eventually, in Mexico). Accordingly, we expect syndication volume to step-up significantly in 2023 and again in 2024.

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

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

- Eliminate the last of the high-cost legacy financing instruments (preferred share series);
- Grow the common dividend consistent with the growth in free cash flow per share; and
- Repurchase common shares under NCIBs.

Electric vehicles

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

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

Full-year 2023 results guidance

We are confident in our ability to deliver the following results[12] for full-year 2023, with growing conviction in our ability to meet the high-end of certain of these ranges:

- Net revenue of $1.14 to $1.17 billion
- Operating margin of 54-55%
- Adjusted operating income of $615 to $645 million
- Adjusted EPS[13] of $1.12 to $1.17
- Free cash flow per share[13] of $1.45 to $1.50
- Originations of approximately $7.5 to $8.0 billion
- Syndication of approximately $3.0 to $4.0 billion[14]

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[12] Based on a CAD:USD exchange rate of 1.29:1

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

[14] Full-year 2023 syndication volume guidance has been lowered to reflect Element's decision to – in the short-term – hold on book some of the leases the Company had planned to syndicate. Given the volatile interest rate environment, Management thought it best to inventory these assets in the short-term, re-evaluating syndication options as corporate spreads return to more historical norms.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial conditions and results of operations are made with reference to the consolidated financial statements for the year ended December 31, 2022. A summary of the Company's significant accounting policies and critical accounting estimates are presented in Notes 2 and 3, respectively, to the audited consolidated financial statements for the year ended December 31, 2022. Some of the Company's accounting policies, as required by International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

Recent events impacting the Company's business include global economic conditions, inflationary cost environment, disruption in the OEM supply chain, the COVID-19 pandemic, and the ongoing conflict between Russia and Ukraine. While we expect the impacts of COVID-19 on the business to moderate, there still remains uncertainty around the pandemic and its effect on labor or other macroeconomic factors. The ongoing conflict between Russia and Ukraine, and the sanctions imposed in response to this conflict, have also increased global economic and political uncertainty. In the preparation of these consolidated financial statements, the Company has incorporated the potential impact of these events into its estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as at December 31, 2022. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by these events include those underlying the estimate of any expected credit losses on its net investment in finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

Finance receivables

The Company determines the classification of a lease at its lease inception date.

The Company primarily provides financing to clients through direct financing leases. Direct financing leases transfer substantially all the benefits and risks of equipment ownership to the lessee. These leases are recorded at (i) the aggregate minimum payments plus residual values accruing to the Company, less (ii) unearned finance income, which includes origination fees. These leases are carried at amortized cost using the effective interest rate method (i.e. interest income is allocated over the expected term of the lease by applying the effective interest rate to the carrying amount of the lease).

In certain circumstances, the Company may provide financing to clients through loans. Loans are recorded and carried at amortized cost using the effective interest rate method (i.e. interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan). Unearned finance income includes loan origination fees. The Company does not retain title to the vehicles that are subject to these loans.

Initial direct costs that relate to the origination of the finance receivables are deferred and recognized as yield adjustments using the effective interest rate method over the term of the related financial asset. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

Direct financing leases and loans are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a direct financing lease or a loan is deemed to be impaired when timely collection is not assured or when it has been in arrears for 120 days or more. When amounts receivable are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for credit losses.

Also included in finance receivables are secondary receivables, including interim funding (vehicles paid for by the Company but not yet delivered to clients) and fleet management receivables (amounts receivable from lease billings and ancillary fleet service revenues, including fuel cards, accident management services and maintenance). The outstanding receivables are evaluated for recoverability at the end of each reporting period and appropriate reserves are recorded based on the Company's analysis of collectability.

Equipment under operating leases

An operating lease is one that does not transfer substantially all of the risks and rewards of ownership to the lessee.

Operating leases entered into by the Company are reported as "Equipment under operating leases" and are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term or estimated useful life of the asset up to 10 years from the date of manufacture, with an average term of approximately 45 months. The Company retains the residual value risk on certain equipment under operating leases and finance receivables for which there is an unguaranteed residual value and, as a result, manages this risk through a combination of its credit policies and the determination of residual value at the inception of the lease. The Company maintains a strict credit review process and over time, has transitioned a large portion of its portfolio to investment-grade clients, reducing potential exposure to non-payment. Additionally, the process of setting the residual value at the inception of the lease is a highly structured, data driven methodology that includes multiple data points including model life, deflation forecast, and trade price to calculate the residual value.

Rental revenue on operating leases is recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use.

Allowance for credit losses

Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of leased assets, and past experience.

The Company reviews its individually significant leases and loans at each consolidated balance sheet date to assess the adequacy of the allowance for credit losses and to determine whether an impairment loss should be recorded in the consolidated statement of operations. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the allowance. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. Leases and loans that have been assessed individually and found not to be impaired and all individually insignificant leases are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio such as levels of arrears and credit utilization and judgments to the effect of concentrations of risks.

As at December 31, 2022, the allowance for credit losses as a percentage of outstanding finance receivables was 0.13%.

Deferred tax assets

Deferred tax assets are recognized for unused income tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax-planning strategies.

Stock option expense

Compensation expense relating to stock option awards granted by the Company to employees in exchange for services rendered is based on the fair value of the option. The stock option fair value is determined using the Black-Scholes option valuation model, which requires the use of assumptions and is, by its nature, subject to measurement uncertainty.

Useful lives and residual values of equipment under operating leases

The Company's equipment under operating leases are recorded at cost and depreciated over their estimated useful lives to an estimated residual value using the straight-line method. The Company determines the economic useful life based on management's estimate of the period which the asset will generate revenue. The residual values are based on historical experience and economic factors. Management will periodically review the appropriateness of the estimated useful lives and residual values based on changes in economic circumstances and other factors. Changes in these estimates would result in a change in future depreciation expense.

Intangible assets valuation - Customer Relationships

The Company's client relationships require management to use judgment in estimating the fair value of this intangible asset acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating client attrition rates to determine the appropriate amortization period for the client relationship intangible asset.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable value of the Company's cash generating unit ("CGU") and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Syndication

The Company periodically syndicates certain finance lease receivables, either through transferring ownership of the syndicated lease receivables to the third-party investor or through the transfer of an interest in interest bearing notes to third-party investors with the finance lease receivables as a security against the issued note, as well as all contractual rights to future cash flow, interest rate risk, credit risk and tax benefits, if applicable, related to the syndicated lease receivables. In the event the lessee terminates its lease agreement prior to the lease term, the Company is required to pay the third-party investor the foregone interest it would have earned if there was no early lease termination. For each syndication transaction, the Company evaluates the extent to which the risks and rewards of ownership have been transferred.

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

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

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

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

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, including options to renew if the Company considers it highly likely it will exercise the renewal options. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Fair Value Hedges

The Company designates fair value hedges as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged interest rate risk are accounted for as basis adjustments to the hedged financial instruments and are included in net income. Changes in fair value from the hedging derivatives are also included in net income. Any differences between the two represent hedge ineffectiveness that is included in other income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and the basis adjustment applied to the hedged item is amortized over the remaining term of the hedged item. If the hedged item is de-recognized, the unamortized basis adjustment is recognized immediately in the consolidated statement of operations.

Related Party Transactions

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

Derivatives and Hedging

From time to time, the Company enters into derivative transactions to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving loan facilities and the interest received on the underlying finance receivables. The Company will enter into interest rate swap transactions whereby the Company will pay a fixed rate of interest and receive a floating rate of interest, primarily to hedge interest rate exposure resulting from its floating rate debt obligations. Similarly, the Company will enter into interest rate cap contracts whereby the Company will receive payments if the floating rate exceeds the cap strike price. The notional amounts of the derivatives are matched to the expected amortization of the related debt. The Company will also enter into interest rate swap transactions whereby the Company will pay a

floating rate of interest and receive a fixed rate of interest, primarily to hedge interest rate exposure resulting from its floating rate finance receivables.

The Company has designated these instruments as cash flow hedges when the criteria for hedge accounting has been met and the changes in fair value of the effective portions of the hedging instruments are recognized through other comprehensive income, interest settlements on these interest rate swaps are applied to the related interest expense through the statement of operations.

The Company also designates fair value hedges as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged interest rate risk are accounted for as basis adjustments to the hedged financial instruments and are included in net income. Changes in fair value from the hedging derivatives are also included in net income. Any differences between the two represent hedge ineffectiveness that is included in other income.

The Company will also enter into foreign exchange forward agreements to hedge its exposures to foreign currency risk on foreign denominated finance receivables and its net investment in foreign subsidiaries. Fair value changes on the foreign exchange forward agreements and settlements on the foreign exchange forward contracts are recognized through other comprehensive income and are transferred to income as foreign exchange gains and losses are recognized on the related hedged finance receivable or on the disposition of the related foreign subsidiary.

The Company also enters into total return swap agreements to partially hedge its exposure to changes to Company's share price on the Company's stock compensation plans that are accounted for as liabilities. The Company has designated both fair value and cash flow hedging relationships depending on the stock compensation plan.

As at December 31, 2022, the Company had net derivative assets of $50.2 million on notional balances of $6,822.7 million.

For the year ended December 31, 2022, the fair value changes recorded in net income was nil and a gain in other comprehensive income of $63.7 million for derivatives designated as cash flow hedges.

Recently Adopted Accounting Standards

Interest Rate Benchmark Reform

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

On December 15, 2021, the Canadian Alternative Reference Rate Working Group (CARR) published a whitepaper on the future of CDOR, which recommended the cessation of CDOR after June 30, 2024. On January 31, 2022, Refinitiv Benchmark Services (UK) Ltd. (RBSL) published a public consultation regarding the potential cessation of Canadian Dollar Offered Rate (CDOR). It is expected that the Canadian market will migrate to using the Canadian Overnight Repo Rate Average (CORRA) as a reference rate in the future.

Hedge Accounting

The Company's accounting policies relating to hedge accounting are described in Notes 2 and 18 of the Company's consolidated financial statements for the year ended December 31, 2022, respectively. The Company applies hedge accounting when designated hedging instruments are highly effective in offsetting changes in the fair value or cash flows of the hedged items at inception and on an ongoing basis. Retrospective assessments are performed to demonstrate that the relationship has been effective since designation of the hedge and prospective assessments to evaluate whether the hedge is expected to be effective over the remaining term of the hedge. While uncertainty due to the IBOR Reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in Note 18 of the Company's consolidated financial statements for the year ended December 31, 2022, the Reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may occur at different times. This may result in different impacts on the valuation or cash flow variability of hedged items and related hedging instruments.

Cash flow hedges

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

Fair value hedges

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

Interest rate benchmark reform exposure

The following table shows the Company's exposure at December 31, 2022 and December 31, 2021 subject to to IBOR Reform for finanicial assets 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:

	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**

	As at December 31, 2021		
	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/ Principal amount(1)
	$	$	$
USD LIBOR (1 month)	2,128,654	—	2,619,091
USD LIBOR (3 month)	669,833	—	—
	2,798,487	—	2,619,091

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"). Element's exposure to the Canadian Dollar Offered Rate ("CDOR") is immaterial.

Future Accounting Changes

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

Internal Control over Disclosure and Financial Reporting

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

The CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of Element's internal control over financial reporting and based on this assessment have concluded that Element's internal control over financial reporting is effective as of December 31, 2022.

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

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

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

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2022.

IFRS to Non-GAAP Reconciliations

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

		As at and for the three-month periods ended			As at and for the year ended	
(in $000's for stated values)		**December 31, 2022**	September 30, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
Reported and adjusted income measures						
Net income	A	**101,216**	103,703	94,664	**409,643**	356,006
Adjustments:						
Amortization of debenture discount		**982**	966	918	**3,831**	3,580
Share-based compensation		**7,044**	12,885	6,283	**31,303**	24,120
Amortization of intangible assets from acquisitions		**9,466**	9,144	8,871	**36,477**	35,313
Provision for income taxes		**31,011**	38,708	14,300	**139,910**	101,670
Loss/(gain) on investments		**588**	—	(2,475)	**3,352**	(8,689)
Before-tax adjusted operating income	B	**150,307**	165,406	122,561	**624,516**	512,000
Provision for taxes applicable to adjusted operating income	C	**37,607**	42,179	28,189	**159,250**	124,313
After-tax adjusted operating income	D=B-C	**112,700**	123,227	94,372	**465,266**	387,687
Cumulative preferred share dividends during the period	Y	**5,946**	5,923	8,103	**28,074**	32,412
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**106,754**	117,304	86,269	**437,192**	355,275
Provision for income taxes		**31,011**	38,708	14,300	**139,910**	101,670
Adjustments:						
Pre-tax income		**5,042**	6,304	3,528	**20,994**	14,094
Foreign tax rate differential and other		**1,554**	(2,833)	10,361	**(1,654)**	8,549
Provision for taxes applicable to adjusted operating income		**37,607**	42,179	28,189	**159,250**	124,313
Selected statement of financial position amounts						
Total Finance receivables, before allowance for credit losses	E	**8,079,755**	7,706,220	7,446,521	**8,079,755**	7,446,521
Allowance for credit losses	F	**10,369**	10,143	10,246	**10,369**	10,246
Net investment in finance receivable	G	**5,587,416**	5,738,104	5,905,977	**5,587,416**	5,905,977
Equipment under operating leases	H	**2,806,841**	2,548,909	2,297,182	**2,806,841**	2,297,182
Net earning assets	I=G+H	**8,394,257**	8,287,013	8,203,159	**8,394,257**	8,203,159
Average net earning assets	J	**8,283,008**	8,069,879	8,474,002	**8,133,661**	9,178,109
Goodwill and intangible assets	K	**2,159,699**	2,179,821	2,050,999	**2,159,699**	2,050,999
Average goodwill and intangible assets	L	**2,158,593**	2,108,455	2,036,655	**2,092,308**	2,020,969
Borrowings	M	**8,807,859**	8,343,474	8,038,963	**8,807,859**	8,038,963
Unsecured convertible debentures	N	**163,933**	162,725	159,072	**163,933**	159,072
Less: continuing involvement liability	O	**(54,173)**	(41,062)	—	**(54,173)**	—
Total debt	P=M+N-O	**8,917,619**	8,465,137	8,198,035	**8,917,619**	8,198,035
Average debt	Q	**8,511,085**	8,196,262	7,354,234	**8,251,833**	8,315,566
Total shareholders' equity	R	**3,680,973**	3,585,869	3,450,949	**3,680,973**	3,450,949
Preferred shares	S	**365,113**	365,113	511,869	**365,113**	511,869
Common shareholders' equity	T=R-S	**3,315,860**	3,220,756	2,939,080	**3,315,860**	2,939,080
Average common shareholders' equity	U	**3,272,442**	3,114,995	2,938,001	**3,089,962**	3,062
Average total shareholders' equity	V	**3,637,535**	3,480,108	3,449,869	**3,516,223**	3,573,973

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

		As at and for the three-month periods ended			As at and for the year ended	
(in $000's for stated values, except ratios and per share amounts)		**December 31, 2022**	September 30, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
Key annualized operating ratios						
Leverage ratios						
Financial leverage ratio	P/R	**2.42**	2.36	2.38	**2.42**	2.38
Tangible leverage ratio	P/(R-K)	**5.86**	6.02	5.86	**5.86**	5.86
Average financial leverage ratio	Q/V	**2.34**	2.36	2.13	**2.35**	2.33
Average tangible leverage ratio	Q/(V-L)	**5.75**	5.98	5.20	**5.80**	5.35
Other key operating ratios						
Allowance for credit losses as a % of total finance receivables before allowance	F/E	**0.13 %**	0.13 %	0.14 %	**0.13 %**	0.14 %
Adjusted operating income on average net earning assets	B/J	**7.26 %**	8.20 %	5.79 %	**7.68 %**	5.58 %
After-tax adjusted operating income on average tangible total equity of Element	D/(V-L)	**30.48 %**	35.94 %	26.71 %	**32.68 %**	24.96 %
Per share information						
Number of shares outstanding	W	**392,495**	393,874	405,077	**392,495**	405,077
Weighted average number of shares outstanding [basic]	X	**392,811**	395,117	409,175	**396,907**	423,070
Pro forma diluted average number of shares outstanding	Y	**409,590**	411,669	425,504	**413,335**	439,488
Cumulative preferred share dividends during the period	Z	**5,946**	5,923	8,103	**28,074**	32,412
Other effects of dilution on an adjusted operating income basis	AA	**$ 1,620**	$ 1,607	$ 1,652	**$ 6,421**	$ 6,479
Net income per share [basic]	(A-Z)/X	**$ 0.24**	$ 0.25	$ 0.21	**$ 0.96**	$ 0.76
Net income per share [diluted]		**$ 0.24**	$ 0.24	$ 0.21	**$ 0.94**	$ 0.75
After-tax adjusted operating income per share [basic]	(D1)/X	**$ 0.27**	$ 0.30	$ 0.21	**$ 1.10**	$ 0.84
After-tax pro forma diluted adjusted operating income per share	(D1+AA)/Y	**$ 0.26**	$ 0.29	$ 0.21	**$ 1.07**	$ 0.82

The following table provides a reconciliation of the after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended December 31, 2022:

(in $000's for stated values, except per share amounts)	**Amount $**	**Weighted average number of shares outstanding applicable**	**Amount per share $**
Adjusted operating income before taxes	**150,307**		**0.38**
Less:			
Income taxes related to adjusted operating income	**(37,607)**		**(0.10)**
Preferred share dividends	**(5,946)**		**(0.02)**
After-tax adjusted operating income attributable to common shareholders	**106,754**	**392,811,028**	**0.27**
Dilution items:			
Employee stock option plan	**—**	**2,316,003**	**—**
Convertible debentures (after-tax net interest expense)	**1,620**	**14,463,059**	**(0.01)**
After-tax pro forma diluted adjusted operating income	**108,374**	**409,590,089**	**0.26**

Glossary of Terms

Assets under management

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

Average financial leverage or average financial leverage ratio

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

Average net earning assets

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

Free cash flow per share

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

"Organic" results

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

Pre-tax income margin

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

Pre-tax return on common equity

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

Descriptions of Non-GAAP Measures

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

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

Adjusted operating expenses

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

Adjusted operating income on average net earning assets

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

Adjusted operating income or Before-tax adjusted operating income

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

Adjusted operating margin

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

After-tax adjusted operating income

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

After-tax adjusted operating income attributable to common shareholders

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

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

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

After-tax pro forma diluted adjusted operating income per share

After-tax pro forma diluted adjusted operating income per share computes the diluted after-tax adjusted operating income per share for the period on the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day

and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises. Convertible debentures are assumed to be converted at the beginning of the period (or at issuance if issued during the period on a time weighted basis) with the other effects of dilution added to the adjusted operating income, if they are dilutive.

After-tax adjusted operating income per share

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

Allowance for credit losses as a percentage of total finance receivables

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

Average common shareholders' equity

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

Average cost of borrowing or average cost of debt

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

Average debt outstanding

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

Average goodwill and intangible assets

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

Average shareholders' equity

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

Average tangible leverage ratio

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

Common shareholders' equity

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

Finance assets or total finance assets

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

Financial leverage or financial leverage ratio

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

Net earning assets

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

Net financing revenue yield on average net earning assets

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

Net interest and rental revenue

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

Other effects of dilution adjusted operating income basis

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

Pro forma diluted average number of shares outstanding

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

Return on common equity

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

Tangible leverage ratio

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

Tangible leverage ratio excluding non-recourse warehouse credit facility

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

Updated Share Information

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

As at March 6, 2023, the Company had 392,375,676 Common Shares issued and outstanding. In addition, 3,792,030 options were issued and outstanding under the Company's stock option plan as at March 6, 2023. These convertible securities are convertible into, or exercisable for, Common Shares of the Company. 3,809,948 of these convertible securities were exercisable at December 31, 2022, for what would have been proceeds to the Company upon exercise of $27.3 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,463,059 Common Shares.

As at March 6, 2023, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C and 5,321,900 Preferred Shares, Series E issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on March 6, 2023.