Consolidated Financial Statements

Element Fleet Management Corp.

December 31, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

Element Fleet Management Corp.

Opinion

We have audited the consolidated financial statements of Element Fleet Management Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of deferred tax assets

Key audit matter

As described in Notes 3 and 14 to the consolidated financial statements, the Company has deferred tax assets of $300,514 thousand as at December 31, 2023. Deferred tax assets are recognized to the extent that it is probable that they can be utilized to offset future taxable profit. The Company's ability to recognize deferred tax assets on tax losses carried forward is assessed by management at the end of each reporting period, considering forecasts of future taxable profits and the interpretation of taxation legislation for tax planning strategies.

Auditing the valuation of the deferred tax assets required significant judgment in the interpretation of complex tax legislation and jurisprudence as well as the evaluation of management's tax planning strategies and projections of future taxable profits. The application of these judgments impacts the evaluation of the timeline to realize deferred tax assets.

How our audit addressed the key audit matter

To test the valuation of deferred tax assets, we performed the following audit procedures, among others, with the involvement of our tax specialists:

a. Obtained an understanding of the Company's overall tax strategies and components of income tax-related account balances by jurisdiction;
b. Evaluated tax utilization strategies for recognized deferred tax assets in jurisdictions where tax planning is required to support utilization, including consideration of the technical merits of management's tax planning strategies and the amount of expected taxable income/loss using our knowledge of, and experience with, the application of income tax laws by the relevant income tax authorities;
c. Evaluated the reasonableness of significant assumptions and inputs in management's forecast, including the growth rate of revenues and expenses, by comparing to historical cash flow trends, assessing the historical accuracy of management's previous forecasts, considering the manner in which changes to the company's business model, customer base, or revenue streams were incorporated into the forecasts, and comparing to current industry and economic trends; and
d. Assessed the adequacy of the disclosures related to income taxes.

Other information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

a. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
d. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
e. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Andrew Morgan.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 27, 2024

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	As at December 31, 2023	As at December 31, 2022
	$	$
ASSETS		
Cash	**127,772**	68,876
Restricted funds (note 9)	**336,882**	433,327
Finance receivables (notes 4 and 24)	**9,567,136**	8,069,386
Equipment under operating leases (note 5)	**3,506,610**	2,806,841
Accounts receivable and other assets	**268,874**	215,817
Derivative financial instruments (notes 18 and 24)	**113,248**	131,943
Property, equipment and leasehold improvements, net (note 6)	**136,138**	80,899
Intangible assets, net (note 7)	**846,004**	864,611
Deferred tax assets (note 14)	**300,514**	365,430
Goodwill (note 8)	**1,269,396**	1,295,088
	16,472,574	14,332,218
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**1,600,936**	1,465,198
Derivative financial instruments (notes 18 and 24)	**36,925**	81,730
Borrowings (note 9)	**10,625,388**	8,807,859
Convertible debenture (notes 10 and 24)	**169,378**	163,933
Deferred tax liabilities (note 14)	**139,274**	132,525
	12,571,901	10,651,245
Shareholders' equity (note 11)	**3,900,673**	3,680,973
	16,472,574	14,332,218

See accompanying notes

On behalf of the Board:

Director Director

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31, 2023	Year ended December 31, 2022
	$	$
NET REVENUE		
Interest income, net (note 13)	**703,980**	441,807
Rental revenue and other (note 13)	**1,084,359**	826,672
Depreciation of equipment under operating leases (notes 5 and 13)	**(652,547)**	(506,903)
	1,135,792	761,576
Interest expense	**581,365**	272,835
Net financing revenue	**554,427**	488,741
Fleet service revenue (note 13)	**729,899**	629,049
Direct costs of fixed rate service contracts (note 13)	**(51,663)**	(48,031)
Servicing income, net	**678,236**	581,018
Syndication revenue, net (notes 13 and 25)	**61,493**	62,290
Net revenue	**1,294,156**	1,132,049
OPERATING EXPENSES		
Salaries, wages and benefits	**366,796**	322,886
General and administrative expenses	**160,716**	124,848
Depreciation and amortization (notes 6, 7, and 21)	**69,300**	59,799
Amortization of convertible debenture discount (note 10)	**4,100**	3,831
Share-based compensation (note 12)	**49,232**	31,303
	650,144	542,667
OTHER EXPENSES		
Amortization of intangible assets from acquisitions (note 7)	**37,667**	36,477
Loss on investments	**687**	3,352
Income before income taxes from operations	**605,658**	549,553
Provision for income taxes (note 14)	**139,461**	139,910
Net income for the year	**466,197**	409,643
Basic earnings per share (note 17)	**$ 1.13**	$ 0.96
Diluted earnings per share (note 17)	**$ 1.11**	$ 0.94

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

	Year ended December 31, 2023	Year ended December 31, 2022
	$	$
Net income for the year	**466,197**	409,643
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	**(16,583)**	63,677
Net unrealized foreign exchange gain	**174,682**	262,016
	158,099	325,693
(Recovery of) provision for income taxes	**(1,272)**	17,191
Total other comprehensive income	**159,371**	308,502
Comprehensive income for the year	**625,568**	718,145

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

	Common share capital	Preferred share capital	Equity component of convertible debentures	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	$	$	$	$	$	$
Balance, December 31, 2022	**2,868,078**	**365,113**	**13,799**	**129,290**	**304,693**	**3,680,973**
Comprehensive income for the year	—	—	—	**466,197**	**159,371**	**625,568**
Dividends - Preferred shares (note 11)	—	—	—	**(23,764)**	—	**(23,764)**
Dividends - Common shares (note 11)	—	—	—	**(163,755)**	—	**(163,755)**
Redemption of preferred shares (note 11)	—	**(110,375)**	—	**(4,625)**	—	**(115,000)**
Issuance of shares (notes 10 and 11)	**9**	—	**(1)**	—	—	**8**
Options exercised (notes 11 and 12)	**8,653**	—	—	**(38,551)**	—	**(29,898)**
Shares repurchased for cancellation (note 11)	**(29,534)**	—	—	**(43,925)**	—	**(73,459)**
Balance, December 31, 2023	**2,847,206**	**254,738**	**13,798**	**320,867**	**464,064**	**3,900,673**
Balance, December 31, 2021	2,951,596	511,869	13,829	(22,536)	(3,809)	3,450,949
Comprehensive income for the year	—	—	—	409,643	308,502	718,145
Dividends - Preferred shares (note 11)	—	—	—	(28,074)	—	(28,074)
Dividends - Common shares (note 11)	—	—	—	(131,632)	—	(131,632)
Redemption for preferred shares (note 11)	—	(146,756)	—	(3,244)	—	(150,000)
Options exercised (notes 11 and 12)	19,462	—	—	(5,224)	—	14,238
Issuance of shares, net of share issue costs (note 11)	287	—	(30)	—	—	257
Shares repurchased for cancellation (note 11)	(103,267)	—	—	(89,643)	—	(192,910)
Balance, December 31, 2022	2,868,078	365,113	13,799	129,290	304,693	3,680,973

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Year ended	
	December 31, 2023	December 31, 2022
	$	$
OPERATING ACTIVITIES		
Net income for the year	**466,197**	409,643
Items not affecting cash		
Depreciation of property, equipment and leasehold improvements	**22,637**	20,377
Amortization of intangible assets, including from acquisitions	**84,330**	75,899
Amortization of deferred lease costs	**34,429**	31,583
Amortization of deferred financing costs	**19,091**	15,028
Depreciation of equipment under operating leases	**652,547**	506,903
Amortization of convertible debenture discount and deferred costs (note 10)	**5,453**	5,118
Loss on investments	**687**	3,352
Provision for credit losses	**(2,105)**	(25)
	1,283,266	1,067,878
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(8,380,695)**	(5,973,269)
Repayments of finance receivables	**3,599,284**	2,888,526
Investment in equipment under operating leases	**(1,587,306)**	(1,151,126)
Proceeds on disposal of equipment under operating leases	**380,018**	280,596
Syndications of finance receivables	**3,418,131**	2,844,153
Cash payments for interest portion of lease liability	**(3,939)**	(1,946)
Other non-cash operating assets and liabilities	**(13,107)**	274,819
Cash (used in) provided by operating activities	**(1,304,348)**	229,631
INVESTING ACTIVITIES		
Investments	**521**	938
Purchase of property, equipment and leasehold improvements	**(22,518)**	(3,866)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	**561**	1,933
Purchase of intangible assets, including computer software	**(80,059)**	(64,999)
Decrease in notes receivable	**—**	384
Cash used in investing activities	**(101,495)**	(65,610)
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	**(5,616)**	(9,825)
Increase (decrease) in restricted funds	**90,715**	(5,967)
Increase in deferred financing costs	**(39,373)**	(6,898)
Issuance of share capital, net	**(29,898)**	14,238
Shares repurchased (note 11)	**(73,821)**	(196,170)
(Repayment) Issuance of term facilities (note 9)	**(375,334)**	375,334
Issuance of asset-backed facilities (note 9)	**2,027,565**	—
Repayments of borrowings, net	**(1,870,260)**	123,587
Dividends paid (note 11)	**(180,093)**	(151,893)
Issuance of senior notes (note 9)	**2,002,613**	—
Redemption of preferred shares (note 11)	**(115,000)**	(150,000)
Cash provided by (used in) financing activities	**1,431,498**	(7,594)
Effects of foreign exchange rates on cash	**33,241**	(132,822)
Net increase in cash during the year	**58,896**	23,605
Cash, beginning of the year	**68,876**	45,271
Cash, end of the year	**127,772**	68,876
Supplemental cash flow information:		
Cash taxes paid	**77,569**	58,003
Cash interest paid	**542,028**	267,503

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with $16.5 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing services and financings for commercial vehicle and equipment fleets, reaching 55 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing with approximately 1.5 million fleet vehicles under management which include all leased vehicles, including syndicated leases and interim funding.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company (the "Board") on February 27, 2024.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the dates of their acquisition. Transactions and balances amongst these entities have been eliminated upon consolidation.

Subsidiaries, which include certain private partnerships and structured entities, are entities over which the Company has control. The Company controls an entity when (1) it has the power over the entity; (2) it has exposure, or rights, to variable returns from its involvement with the entity, and (3) it has the ability to use its power over the entity to affect the amount of its returns.

Material accounting policies

Finance receivables

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

The Company primarily provides financing to clients through finance leases. Finance 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.

Finance 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 finance ease 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.

Revenue recognition

The Company recognizes interest income that relates to finance receivables as described above. This income is recognized on an accrual basis using the effective interest rate method for leases and loans. The Company also recognizes rental income that relates to equipment under operating leases described above. This revenue is recognized on a straight-line basis over the lease term.

Service and other revenue is recognized when such services are provided to the client, at a point in time or over time. These services include fuel cards, accident management services, maintenance services, and other fleet management services. Certain fixed-fee service revenues are recognized over time, on a straight-line basis, as the Company performs the related service and costs are recognized as incurred.

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.

Allowance for credit losses

The Company assesses its portfolio of leases and loans separately at each consolidated statement of financial position date. The Company segments its lease portfolio into one of two classifications:

- Leases are performing and are not credit impaired. Full lifetime expected credit losses ("ECL") are recognized immediately at a reporting date (Performing); and
- Credit-impaired (Impaired).

The Company has elected, as an accounting policy choice, to apply the simplified approach to its lease receivables to apply lifetime ECL at all times (Performing or Impaired).

Under this approach:

- Leases begin in Performing.
- Leases enter Impaired when there is an event of default. Contractual delinquencies over 120 days are automatically considered defaulted accounts (Impaired) and are fully provisioned (net of any anticipated recoveries) and presented at their net realizable value on the consolidated statements of financial position. Accounts are also considered for transfer to Impaired when internal or external credit ratings indicate a default or when they are under repossession, or when the borrower has filed for bankruptcy or creditor protection. A borrower is generally considered cured and moved out of Impaired when none of these conditions are present for six consecutive months.
- Leases are charged-off when the Company has stopped pursuing the recovery.

The Company segments its loan portfolio into one of three classifications at each consolidated statement of financial position date:

- Financially healthy with no sign of increased credit risk (Stage 1);
- Increased credit risk when compared to origination but not credit impaired. Full lifetime ECL are recognized immediately at a reporting date (Stage 2); and
- Credit-impaired (Stage 3).

Stage 1 and 2 are disclosed as Performing and Stage 3 is disclosed as Impaired in Note 4. Internal risk rating changes and delinquencies are used by the Company to determine when there has been a significant increase or decrease in credit risk of a loan.

Under this approach:

- Loans begin in Stage 1 unless they are initiated or acquired in an impaired state. ECL within the next 12 months are recognized immediately at a reporting date.
- Loans move to Stage 2 when it is determined that a significant increase in credit risk has occurred. ECL over the expected life of the lease or loan are recognized immediately. Loans may return to Stage 1 if a significant decrease in credit risk has occurred.
- Loans enter Stage 3 when there is an event of default. Contractual delinquencies over 120 days are automatically considered defaulted accounts (Stage 3) and are fully provisioned (net of any anticipated recoveries) and presented at their net realizable value on the consolidated statements of financial position. Accounts are also considered for transfer to Stage 3 when internal or external credit ratings indicate a default, or when they are under repossession, or when the borrower has filed for bankruptcy or creditor protection. A borrower is generally considered cured and moved out of Stage 3 when none of these conditions are present for six consecutive months.

- Loans are charged-off when the Company has stopped pursuing the recovery.

ECLs are calculated based on a range of scenarios (with a base case, an upside, and a downside) and corresponding probability weights. The scenarios take into consideration forward-looking macroeconomic information including changes in forecasted default rates and the impact on probability of default ("PD") and changes in the used vehicle price index and the corresponding impact on loss given default ("LGD"). Local and global macroeconomic factors are considered within each geography.

Restricted funds

Restricted funds represent cash reserve accounts that are held in trust as security for borrowings and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts.

Restricted funds also include amounts posted as collateral for derivative contracts.

Derivative financial instruments and hedge accounting

The Company utilizes derivatives to manage interest rate risk and foreign currency exposure, as well as equity price risk exposure related to the Company's stock compensation plans that are accounted for as liabilities. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IFRS 9, *Financial Instruments*. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

The effective portion of the change in fair value of the derivative instrument is recognized in other comprehensive income ("OCI") until the forecasted cash flows being hedged are recognized in income in future accounting periods. When forecasted cash flows are recognized in income, an appropriate amount of fair value changes of the derivative instrument in accumulated other comprehensive income ("AOCI") is reclassified to income. Any hedge ineffectiveness is immediately recognized in income.

The Company uses interest rate swaps to hedge its exposure to changes in future cash flows due to interest rate risk.

The Company also uses interest rate derivatives, mainly interest rate swap agreements, to hedge its exposure to changes in future cash flows due to interest rate risk on its floating rate debt and assets.

The Company also uses total return swap agreements to hedge its exposure to changes in future cash flows due to changes in the Company's share price on its stock compensation plans that are accounted for as liabilities.

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 derecognized, the unamortized basis adjustment is recognized immediately in the consolidated statement of operations.

Hedges of a net investment

Hedges of a net investment in a foreign operation ("NIFO") are accounted for in a way similar to cash flow hedges. Gains or losses on a hedging instrument relating to the effective portion of the hedge are recognized in OCI while any gains or losses relating to the ineffective portion are recognized in income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in AOCI is transferred to income.

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 ceased to apply the amendments on June 30, 2023.

Effective December 31, 2021, the publication of LIBOR settings ceased for the 1-week and 2-month US LIBOR setting. The overnight, one-month, three-month, six-month and 12-month US LIBOR settings terminated on June 30, 2023. Effective January 1, 2023, the Company migrated all floating rate leases tied to LIBOR to the Secured Overnight Financing Rate ("SOFR"). All derivatives tied to LIBOR were transitioned to SOFR effective June 30, 2023.

The following tables show the Company's exposure for financial assets and liabilities at December 31, 2023 and December 31, 2022 subject to IBOR reform that have yet to transition to SOFR.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

	As at December 31, 2023		
	Non-derivative financial assets - carrying value	**Non-derivative financial liabilities - carrying value**	**Derivative Notional/Principal amount[1]**
	$	**$**	**$**
USD LIBOR (1 month)	—	—	—
USD LIBOR (3 month)	—	—	—
	—	—	—

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

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rate jurisdictions, including the Australian Bank Bill Swap Rates ("BBSW"), New Zealand Bank Bill Rates ("BBR"), and MXN-TIIE-Banxico ("MXIBTIIE"). Element's exposure to the Canadian Dollar Offered Rate ("CDOR") is immaterial.

On May 16, 2022, Refinitiv Benchmark Services (UK) Ltd. ("RBSL"), the administrator of the Canadian Dollar Offered Rate ("CDOR"), announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Company has determined that its exposure to CDOR is immaterial.

Borrowings

The Company periodically transfers pools of finance receivables to third parties, including structured entities. Transfers of pools of finance receivables under certain arrangements, including transfers where a security interest or legal ownership is transferred, do not result in derecognition of the finance receivables from the Company's consolidated statements of financial position and continue to be recognized on the Company's consolidated statements of financial position and accounted for as finance receivables, as described above.

As such, these transactions result in the recognition of borrowings when cash is received from the third party or structured entity.

The borrowings are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability.

Deferred financing costs are presented as a reduction of borrowings and relate to costs incurred to establish and maintain the Company's funding facilities. These amounts are accreted to income over a period matching the repayment terms of the borrowing obtained during the commitment period.

Convertible debentures

The convertible debentures are accounted for as a compound financial instrument with a debt component and a separate equity component. The debt component of this compound financial instrument is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component is subsequently deducted from the total carrying value of the compound instrument to derive the equity component. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through income as finance costs.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation using the straight-line method over the estimated useful life of the asset. Land is not depreciated.

The rates of amortization are as follows:

Office equipment	5 years
Computer equipment	3 - 5 years
Leasehold Improvements	Lesser of remaining lease term per the right-of-use asset or 20 years
Vehicles	5 years
Buildings	25 years
Right-of-use assets	Remaining lease term

Impairment is recognized when a fixed asset's estimated recoverable amount is less than the carrying amount.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets, including previously unrecognized intangible assets and liabilities, including contingent liabilities but excluding future restructuring of the acquired business, at fair value.

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGUs") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Intangible assets

The Company's intangible assets, which include computer software and customer relationships acquired in business combinations, are measured at cost. Examples of costs that are capitalized related to computer software include internal payroll-related costs directly related to the capital project, internal and external costs of materials and services, and the cost of related software to bring the asset to its intended use. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for impairment at each reporting period. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of operations.

The rates of amortization are as follows:

Computer software	Straight line over 3 to 15 years depending on the software application
Customer relationships	Straight line over 25 years from the date of acquisition

Share-based compensation

The Company issues share-based awards to certain employees and directors.

Stock options

The Company previously established a stock option plan for employees of the Company whereby the Board awarded stock options as compensation for services rendered. The awards consisted of equity-settled stock options and the related cost was measured based on the estimated fair value on the date the awards were granted. The fair value of the stock options was estimated using the Black-Scholes option valuation model. The cost of the stock options issued to employees is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. The Company subsequently did not seek re-approval of the stock option plan from shareholders as the granting of stock options was no longer part of the Company's compensation strategy. As a result, the Company is not currently eligible to grant stock options and would need to seek re-approval of the stock option plan in order to do so.

Deferred share unit plan

The Company has established a Deferred Share Unit ("DSU") plan whereby the Board may award DSUs as compensation for services rendered by Company directors Further, DSUs can be issued to executives, pursuant to their advanced election, in lieu of cash payment of their annual short-term incentive payments. The plan is intended to promote a greater alignment of long-term interests between executives and directors and the shareholders of the Company. The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Additionally, directors may elect to receive up to 100% of their annual remuneration in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant.

Each DSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a common share. DSUs mature upon termination of employment or directorship, whereupon the holder is entitled to receive a cash payment that reflects the fair market value of the equivalent number of common shares.

DSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of DSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed.

Performance share unit plan

The Company has established a Performance Share Unit ("PSU") plan for employees of the Company and its subsidiaries, whereby the Board may award PSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of PSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each PSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional PSUs based on the amount of the dividend paid on a common share.

PSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of PSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed or expectations with respect to performance criteria as calculated based on the relative total shareholder return compared to the S&P TSX Composite Index. Until the PSUs are settled, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Restricted share unit plan

The Company has established a Restricted Share Unit ("RSU") plan for employees of the Company and its subsidiaries, whereby the Board may award RSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of RSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each RSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional RSUs based on the amount of the dividend paid on a common share.

RSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of RSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed. Until the RSUs are settled in cash, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the year attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period.

Financial assets and liabilities

The Company initially recognizes financial assets and liabilities at fair value and subsequently measures at either fair value or amortized cost based on their classification under IFRS 9 as described below.

Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities that the Company purchases or incurs, respectively, with the intention of generating earnings in the near term are classified as FVTPL. Such assets and liabilities are carried on the consolidated statements of financial position at fair value, with any subsequent changes to fair value recognized through the consolidated statements of operations. Transaction costs are recognized in the consolidated statements of operations as incurred. The Company accounts for certain investments that it holds under FVTPL.

Amortized cost

Financial assets held to collect contractual cash flows (in the form of payment of principal and interest earned on the principal outstanding) are carried at amortized cost. The assets are initially recognized at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method. The Company accounts for its finance receivables under amortized cost.

Other financial instruments

Other financial instruments held or issued by the Company include cash, restricted funds, finance receivables, accounts receivable, notes receivable, accounts payable and accrued liabilities, and borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Translation of foreign currencies

The consolidated financial statements of the Company are presented in Canadian dollars, which is the Company's functional and presentation currency. Foreign currency denominated monetary assets and liabilities of the Company and its subsidiaries that have the same functional currency are translated using the closing rate and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenue and expense items are measured at average exchange rates during the year. Realized and unrealized gains and losses arising from translation into the functional currency are included in the consolidated statements of operations. Foreign currency denominated non-monetary assets and liabilities, measured at historical cost, are translated at the rate of exchange in effect at the transaction date.

Assets and liabilities of foreign operations with a functional currency other than the Canadian dollar, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates prevailing at the year end, while revenue and expenses of these foreign operations are translated into Canadian dollars at the average exchange rates for the year. Exchange gains and losses arising from the translation of these foreign operations and from the results of hedging the net investment in these foreign operations, net of applicable taxes, are included in net foreign currency translation adjustments, which is included in AOCI. A deferred tax asset or liability is not recognized in respect of a translation gain or loss arising from the Company's investment in its foreign operations as it is not expected that such a gain or loss would be realized for tax purposes in the foreseeable future.

Upon disposition of a foreign operation, any cumulative translation adjustment gain or loss, including the impact of hedging, will be reclassified from OCI to the consolidated statements of operations, and included as part of the gain or loss recognized on disposition of the foreign operations.

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Company operates. The legislation will be effective for the Company's financial year beginning January 1, 2024. The Company is in scope of the enacted or substantively enacted legislation and has performed an assessment of the it's potential exposure to Pillar Two income taxes.

The assessment of the potential exposure to Pillar Two income taxes is based on the most recent tax filings, country-by-country reporting and financial statements for the constituent entities in the Company. Based on the assessment, the Pillar Two effective tax rates in most of the jurisdictions in which the Company operates are above 15%. However, there are a limited number of jurisdictions where the transitional safe harbour relief does not apply and the Pillar Two effective tax rate is close to 15%. The Company does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

Leases

The Company applies a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

Right-of-use assets

The Company recognizes right-of-use ("ROU") 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.

3. CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and judgments are made based on information available as at the date the consolidated financial statements are issued. Accordingly, actual results may differ from those recorded amounts. Areas of financial reporting that require management's estimates and judgments are discussed below.

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 the underlying leased assets and past experience.

Income tax

Element’s business is subject to various changing tax laws. While Element believes it has adequately provided for all income taxes based on information that is currently available, the calculations in many cases require significant judgment in interpreting tax laws and regulations. Element’s tax filings are also subject to government audits which could result in changes in the amount of current and deferred income tax assets and liabilities.

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.

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 customer 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 customer attrition rates to determine the appropriate amortization period for the customer relationship intangible asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

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 values of the Company's cash generating units ("CGUs") 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.

4. FINANCE RECEIVABLES

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

	As at December 31, 2023			
	US and Canada	Australia and New Zealand	Mexico	Total
	$	$	$	$
Minimum lease payments	**6,409,636**	**302,426**	**840,941**	**7,553,003**
Unguaranteed residual values	**—**	**82,119**	**—**	**82,119**
Gross investment	**6,409,636**	**384,545**	**840,941**	**7,635,122**
Unearned income	**(870,928)**	**(56,190)**	**(129,629)**	**(1,056,747)**
Net investment	**5,538,708**	**328,355**	**711,312**	**6,578,375**
Net realizable value of impaired receivables	**7,610**	**668**	**—**	**8,278**
Unamortized deferred costs and subsidies	**(77,167)**	**—**	**—**	**(77,167)**
Prepaid lease payments and security deposits	**(20,372)**	**—**	**(59,156)**	**(79,528)**
Interim funding	**1,259,839**	**—**	**236,398**	**1,496,237**
Fleet management receivables	**763,739**	**41,995**	**55,047**	**860,781**
Other receivables	**360,899**	**101,673**	**216,463**	**679,035**
Continuing involvement asset	**108,466**	**—**	**—**	**108,466**
Allowance for credit losses (Subsection B)	**(3,892)**	**(2,285)**	**(1,164)**	**(7,341)**
Total finance receivables	**7,937,830**	**470,406**	**1,158,900**	**9,567,136**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

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

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

	As at December 31, 2023		As at December 31, 2022	
	Leases	**Loans**	Leases	Loans
Net investment	**$ 6,223,369**	**$ 355,006**	$ 5,284,600	$ 302,816
Weighted average fixed interest rate	**6.39 %**	**10.71 %**	5.42 %	9.35 %
Weighted average floating interest rate	**8.02 %**	**8.30 %**	6.92 %	6.84 %
Percentage of portfolio with fixed interest rate	**49.86 %**	**99.99 %**	49.33 %	99.98 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the ECL model to ensure it appropriately reflects current market conditions in light of a clearing economic outlook, with lower risk of a potential recession, moderating inflation, and potentially declining interest rates later in the year, and information available to the Company as at December 31, 2023.

The Company evaluates its credit risk exposure broadly in line with Standard & Poor's and Moody's ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company's evaluation of the PD as at December 31, 2023, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

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

The Company’s lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment.

Although overall used vehicle prices have declined starting the second half of 2022 and continued into 2023 as OEM production returned to pre-Covid levels, prices remain materially elevated from a historical basis leading to continued low LGD levels as at December 31, 2023. The Company expects used vehicle pricing in 2024 to follow normal season trends and for values to decline versus 2023 while continuing to remain materially elevated versus historical values. Should a recessionary scenario occur, we would expect an increasing number of drivers to keep their vehicles for longer periods of time (or purchase used, instead of new, vehicles) which would likely lead to higher used vehicle demand and prices.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information, pointing to the decreasing possibility of an economic recession given moderating inflation, the potential decline in interest rates in 2024, and the impact that potential upward or downward trends in GDP and default rates might have on the Company’s lease and loan portfolio. The Company has also evaluated multiple scenarios related to this environment, including how it is expected to affect markets and as it pertains to specific industries or clients most susceptible to be impacted by a potential recession. Continued clearing forward-looking macroeconomic expectations, the creditworthiness of our clients and the favorable evolution of our portfolio, as well as the release of specific provisions, allowed Element to reduce the Company's allowance for credit losses to $7,341 as at December 31, 2023.

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

Finance receivables	**Performing**	**Impaired**	**Total**
	$	**$**	**$**
Balance as at January 1, 2022	**10,302**	**67**	**10,369**
Transfer to Performing	**1**	**(1)**	**—**
Transfer to Impaired	**(47)**	**47**	**—**
Lease originations	**12,099**	**—**	**12,099**
Changes in models and inputs, derecognition, and repayments	**(15,179)**	**975**	**(14,204)**
Total	**7,176**	**1,088**	**8,264**
Charge-offs, net of recoveries	**—**	**(1,004)**	**(1,004)**
Foreign exchange	**82**	**(1)**	**81**
Balance as at December 31, 2023	**7,258**	**83**	**7,341**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

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

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

Allowance for credit losses	**Year ended December 31, 2023 $**	Year ended December 31, 2022 $
Allowance for credit losses, beginning of the year	**10,369**	10,246
Recovery of credit losses	**(2,105)**	(25)
Charge-offs, net of recoveries	**(1,004)**	(431)
Impact of foreign exchange rates	**81**	579
Allowance for credit losses, end of the year	**7,341**	10,369
Allowance as a percentage of total finance receivables before allowance	**0.08 %**	0.13%

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

C) Credit risk exposure

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

	As at December 31, 2023		
Finance receivables	**Performing**	**Impaired**	**Total**
	$	**$**	**$**
Internal risk rating grade (1)			
Low	**3,996,408**	**—**	**3,996,408**
Medium	**2,464,365**	**—**	**2,464,365**
High	**117,602**	**—**	**117,602**
Fleet management receivables	**860,012**	**769**	**860,781**
Other finance receivables	**679,035**	**—**	**679,035**
Impaired	**—**	**8,278**	**8,278**
	8,117,422	**9,047**	**8,126,469**
Allowance for credit losses	**(7,258)**	**(83)**	**(7,341)**
Net carrying value	**8,110,164**	**8,964**	**8,119,128**

1. Loan balances of $12,259, $342,746 and $1 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

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

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

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

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

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

D) Contract maturities

The contractual maturity of the portfolio outstanding as of December 31, excluding impaired receivables and assuming no prepayments, is as follows:

	2023			2022		
	Gross investment	**Unearned income**	**Net investment**	Gross investment	Unearned income	Net investment
	$	$	$	$	$	$
Maturity						
Year 1	**2,801,650**	**(345,086)**	**2,456,564**	2,578,679	(246,299)	2,332,380
Year 2	**2,104,974**	**(321,263)**	**1,783,711**	1,667,457	(212,859)	1,454,598
Year 3	**1,701,203**	**(231,313)**	**1,469,890**	1,304,235	(154,823)	1,149,412
Year 4	**715,049**	**(81,583)**	**633,466**	513,153	(62,509)	450,644
Year 5	**191,581**	**(44,145)**	**147,436**	164,988	(31,080)	133,908
Thereafter	**120,665**	**(33,357)**	**87,308**	85,367	(18,893)	66,474
	7,635,122	**(1,056,747)**	**6,578,375**	6,313,879	(726,463)	5,587,416

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

5. EQUIPMENT UNDER OPERATING LEASES

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

	As at December 31, 2023	As at December 31, 2022
	$	$
COST		
At the beginning of the year	**4,078,247**	3,271,322
Additions	**1,587,306**	1,151,126
Transfers	**(6,937)**	(1,210)
Disposals	**(773,761)**	(562,465)
Foreign exchange rate adjustments	**230,179**	219,474
Cost	**5,115,034**	4,078,247
ACCUMULATED DEPRECIATION		
At the beginning of the year	**1,271,406**	974,140
Depreciation charge for the year	**652,547**	506,903
Disposals	**(393,744)**	(281,869)
Foreign exchange rate adjustments	**78,215**	72,232
Accumulated depreciation	**1,608,424**	1,271,406
Net carrying amount	**3,506,610**	2,806,841

The future minimum lease payments arising from non-cancellable operating leases as at December 31 are as follows:

	2023	2022
	$	$
Year 1	**1,133,295**	857,360
Year 2	**763,291**	574,652
Year 3	**521,006**	361,176
Year 4	**275,410**	185,646
Year 5	**96,345**	80,030
Thereafter	**29,738**	31,665
	2,819,085	2,090,529

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

6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2023					
	Leasehold improvements	**Computer equipment**	**Office equipment**	**Right-of-use assets - Buildings**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Cost						
As at January 1, 2023	**16,307**	**63,527**	**13,696**	**110,072**	**7,112**	**210,714**
Additions	**11,634**	**4,096**	**239**	**55,790**	**6,549**	**78,308**
Disposals	**(278)**	**(33,945)**	**(3,326)**	**(4,698)**	**(1,528)**	**(43,775)**
Foreign exchange rate adjustments	**117**	**(581)**	**(151)**	**(644)**	**574**	**(685)**
As at December 31, 2023	**27,780**	**33,097**	**10,458**	**160,520**	**12,707**	**244,562**
Accumulated depreciation						
As at January 1, 2023	**7,595**	**55,442**	**9,931**	**54,324**	**2,523**	**129,815**
Disposals	**(276)**	**(33,945)**	**(3,336)**	**(4,698)**	**(960)**	**(43,215)**
Depreciation charge for the year	**1,602**	**3,650**	**1,857**	**13,385**	**2,143**	**22,637**
Foreign exchange rate adjustments	**105**	**(509)**	**(101)**	**(462)**	**154**	**(813)**
As at December 31, 2023	**9,026**	**24,638**	**8,351**	**62,549**	**3,860**	**108,424**
Net carrying amount	**18,754**	**8,459**	**2,107**	**97,971**	**8,847**	**136,138**

	2022					
	Leasehold improvements	Computer equipment	Office equipment	Right-of-use assets - Buildings	Vehicles	Total
	$	$	$	$	$	$
Cost						
As at January 1, 2022	17,114	59,195	13,375	105,949	5,904	201,537
Additions	—	1,122	137	190	2,607	4,056
Disposals	(1,446)	(3)	(509)	(1,288)	(1,944)	(5,190)
Foreign exchange rate adjustments	639	3,213	693	5,221	545	10,311
As at December 31, 2022	16,307	63,527	13,696	110,072	7,112	210,714
Accumulated depreciation						
As at January 1, 2022	7,117	47,718	8,766	41,761	2,303	107,665
Disposals	(1,246)	(3)	(459)	(1,288)	(1,111)	(4,107)
Depreciation charge for the year	1,527	4,996	1,170	11,523	1,161	20,377
Foreign exchange rate adjustments	197	2,731	454	2,328	170	5,880
As at December 31, 2022	7,595	55,442	9,931	54,324	2,523	129,815
Net carrying amount	8,712	8,085	3,765	55,748	4,589	80,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

7. INTANGIBLE ASSETS

	Computer software			Customer relationships			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$	$	$
As at January 1, 2023	**455,611**	**(147,273)**	**308,338**	**897,492**	**(341,219)**	**556,273**	**864,611**
Additions	**80,059**	**—**	**80,059**	**—**	**—**	**—**	**80,059**
Amortization	**—**	**(51,733)**	**(51,733)**	**—**	**(32,597)**	**(32,597)**	**(84,330)**
Disposals/write-offs	**(985)**	**985**	**—**	**—**	**—**	**—**	**—**
Foreign exchange rate adjustments	**(7,744)**	**3,434**	**(4,310)**	**(17,030)**	**7,004**	**(10,026)**	**(14,336)**
As at December 31, 2023	**526,941**	**(194,587)**	**332,354**	**880,462**	**(366,812)**	**513,650**	**846,004**
As at January 1, 2022	372,680	(99,524)	273,156	848,418	(291,561)	556,857	830,013
Additions	64,999	—	64,999	—	—	—	64,999
Amortization	—	(44,310)	(44,310)	—	(31,589)	(31,589)	(75,899)
Other	(3,574)	2,724	(850)	—	—	—	(850)
Foreign exchange rate adjustments	21,506	(6,163)	15,343	49,074	(18,069)	31,005	46,348
As at December 31, 2022	455,611	(147,273)	308,338	897,492	(341,219)	556,273	864,611

8. GOODWILL

	2023	2022
	$	$
Balance, beginning of year	**1,295,088**	1,220,986
Foreign exchange rate adjustments	**(25,692)**	74,102
Balance, end of year	**1,269,396**	1,295,088

For the purpose of impairment testing, the recoverable amount of the CGU has been determined based on its value in use. The value in use method is based on estimated future cash flows over a five-year period referenced to the most recent financial forecasts approved by management and actual historic results, discounted to a present value. Beyond the initial five-year period, cash flows were estimated to grow at perpetual annual rates of up to 6%. The discount rate the Company applied in determining the recoverable amount was 13.18% (December 31, 2022 - 12.88%), which comprised a risk-free rate, equity risk premium, size premium and company specific premium. These components were based on data from external sources.

In considering the sensitivity of the key assumptions discussed above, management determined that there is no plausible change in any of the above that would result in the carrying value of the Fleet Management CGU to exceed its recoverable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

9 . BORROWINGS

The Company's outstanding borrowings were as follows:

	As at December 31, 2023			
	Balance outstanding	**Weighted average interest rate(1)**	**Pledged finance receivables and equipment under operating leases**	**Cash reserves**
	$	**%**	**$**	**$**
Revolving term notes in amortization	**2,245,947**	**5.01**	**2,723,706**	**27,348**
Variable funding notes	**3,974,997**	**6.22**	**4,627,322**	**18,800**
Other	**38,512**	**4.75**	**37,704**	**—**
Vehicle management asset-backed debt	**6,259,456**	**5.78**	**7,388,732**	**46,148**
Revolving senior credit facilities	**1,093,685**	**9.17**	**—**	**—**
Senior notes	**3,180,409**	**4.91**	**—**	**—**
Term facilities	**—**	**—**	**—**	**—**
	10,533,550	**5.87**	**7,388,732**	**46,148**
Deferred financing costs	**(39,249)**			
Hedge accounting fair value adjustments	**22,621**			
Continuing involvement liability	**108,466**			
Total borrowings	**10,625,388**			

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

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

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2023.

Prior to June 30, 2023, the Company transitioned all of its US dollar based floating rate benchmark credit facilities from LIBOR to SOFR. In addition, prior to December 31, 2023 the Company transitioned all of its Canadian dollar based floating rate benchmark credit facilities from CDOR to CORRA.

Vehicle management asset-backed debt

Vehicle management asset-backed debt includes term notes and variable funding notes.

Term notes provide a fixed funding amount at the time of issuance. During the amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: (i) 125 months following the commencement of the amortization period; or (ii) when the respective series of notes are paid in full. During the second quarter of 2023, the Company issued $993,878 (US $750,000) of amortizing term notes at an initial weighted average interest rate of 5.78%. The proceeds from this issuance were used to pay down variable funding notes. During the third quarter of 2023, the Company issued an additional $993,878 (US $750,000) of amortizing term notes at an initial weighted average interest rate of 6.19%. The proceeds from this issuance were used to pay down variable funding notes. As at December 31, 2023, the term notes in amortization period, had a weighted average interest rate of 5.01%, which ranged from 0.47% to 6.69% with expected maturities in 2024 to 2027 (December 31, 2022 - the weighted average interest was 1.50% which ranged from 0.47% to 5.04%).

Variable funding notes provide a committed capacity that may be drawn upon as needed during a commitment period, which is primarily one to two years in duration. Similar to term notes, the monthly collections in respect of pledged assets create availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Available committed capacity under variable funding notes may be used to fund growth in net investment in fleet assets during the term of the commitment. Upon expiration of the commitment period, variable funding notes begin amortizing. As at December 31, 2023, the Company had a total of $3,974,997 (December 31, 2022 – $4,120,361) in variable funding notes outstanding, with a weighted average floating interest rate of 6.22%, which ranged from 5.70% to 6.45% and expected maturities in 2024 to 2025 (December 31, 2022 - the weighted average interest was 5.04%, which ranged from 3.96% to 5.68%).

The term notes and the variable funding notes are secured by either a security interest and/or legal ownership in fleet assets. As at December 31, 2023, the Company had available capacity in variable funding notes of $3,122,097 (December 31, 2022 – $1,462,068) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

The aggregate capacity under the Senior Credit Facilities is $4,141,156 and is comprised of (i) a $3,213,537 committed revolving facility, syndicated to a diverse group of Canadian, US and international banks (the "Syndicated Senior Credit Facility") and (ii) a $927,619, committed revolving facility (the "Committed Credit Facility") syndicated between two lenders. Borrowings under the Syndicated Senior Credit Facility are available in Canadian dollars, U.S. dollars, Australian dollars and New Zealand dollars, and are subject to an applicable benchmark based on the currency plus an applicable margin determined in accordance with a debt ratings-based pricing grid. During the first quarter of 2023, the Syndicated Senior Credit Facility was amended to increase the available capacity by $662,585 and the maturity date was extended to November 2, 2025. In June 2023, two members of the lending syndicate entered into an accordion agreement with each of the borrowers to increase their commitments by $231,905 pursuant to the accordion provided for in the Syndicated Senior Credit Facility. Additionally, the Syndicated Senior Credit Facility further was amended in December 2023, at which time the available capacity was increased by $662,585 to $3,213,537, and the maturity date was extended to November 2, 2026. The Committed Credit Facility allows for borrowings in

U.S. dollars, New Zealand dollars, and Mexican Pesos, with pricing based on an applicable benchmark plus margin determined in accordance with a debt ratings-based pricing grid. During the first quarter of 2023, the Syndicated Senior Credit Facility was amended to increase the available capacity by $662,585 and the maturity date was extended to November 2, 2025. In June 2023, two members of the lending syndicate entered into an accordion agreement with each of the borrowers to increase their commitments by $231,905 pursuant to the accordion provided for in the Syndicated Senior Credit Facility. Additionally, the Syndicated Senior Credit Facility was further amended in December 2023, at which time the available capacity was increased by $662,585 to $3,213,537, and the maturity date was extended to November 2, 2026. The Committed Credit Facility allows for borrowings in U.S. dollars, New Zealand dollars, and Mexican Pesos, with pricing based on an applicable benchmark plus margin determined in accordance with a debt ratings-based pricing grid. This facility was amended in March 2023, at which time the facility was increased by $132,517, the revolving term was extended until April 24, 2024, and the non-revolving term-out period was extended to March 24, 2028. As at December 31, 2023, $1,093,685 was drawn on the Senior Credit Facilities (December 31, 2022 - $1,893,323) leaving the Company with access to $3,047,471 (December 31, 2022 - $612,465) of available financing under these facilities.

Senior notes

During the second quarter of 2023, the Company issued $993,878 (US $750,000) in aggregate principal amount of 6.271% senior unsecured notes due June 2026. The notes were issued at par. Interest is paid semi-annually in arrears on June 26 and December 26, commencing on December 26, 2023. The proceeds received at the time of closing were used for working capital and general corporate purposes.

During the fourth quarter of 2023, the Company issued an additional $993,878 (US $750,000) in aggregate principal amount of 6.319% senior unsecured notes due December 2028. The notes were issued at par. Interest is paid semi-annually in arrears on June 4 and December 4, commencing on June 4, 2024. The proceeds received at the time of closing were used (i) to repay all of the outstanding indebtedness under our existing Term facilities, including related fees and expenses, thereby terminating these facilities, and (ii) for working capital and general corporate purposes.

As at December 31, 2023, the Company had $3,180,409 (US $2,400,000) in outstanding senior unsecured notes (December 31, 2022 - $1,219,032 (US $900,000)).

Term facilities

During the second quarter of 2022, the Company issued two bi-lateral term facilities with Canadian banks, one in the amount of $150,000 and another in the amount of $231,905 (USD $175,000), both having one-year terms. During the second quarter of 2023, both facilities were extended by one year, with maturities extended to the second quarter of 2024. During Q4 2023, both facilities were paid in full and terminated.

During the fourth quarter of 2023, the Company entered into a $60,000 bilateral letter of credit agreement with a Canadian bank for a period of two years to November 2025. Borrowings under this facility are made available in Canadian dollars in the form of two separate letters of credit, both issued in November 2023. As at December 31, 2023, no amounts were drawn on this facility.

Restricted funds

As at December 31, 2023, restricted funds include (i) cash reserves of $46,148 (December 31, 2022 - $47,827), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts or other segregated cash accounts of $287,326 (December 31, 2022 - $385,500), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions and other payments received that are due back to clients in accordance with their contracts; and (iii) cash of $3,408 (December 31, 2022 - nil) provided to counter-parties as collateral against derivative liabilities.

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

Contractual maturity of borrowings

The contractual maturity of the secured borrowings gross of interest costs outstanding as at December 31, compared to the maturity of the gross investment in finance receivables and future minimum payments received on equipment under operating leases, is as follows:

	2023			**2022**		
	Borrowings gross of interest costs(1)	**Finance receivables and equipment under operating leases**(2)		Borrowings gross of interest costs(1)	Finance receivables and equipment under operating leases(2)	
Maturity	**$**	**$**	**%**	$	$	%
Within 1 year	**2,984,592**	**4,531,272**	**65.9 %**	2,503,853	4,013,318	62.4 %
In 1 to 3 years	**2,857,980**	**5,090,474**	**56.1 %**	2,750,515	3,907,520	70.4 %
In 3 to 5 years	**713,591**	**1,278,385**	**55.8 %**	273,063	943,817	28.9 %
After 5 years	**49,332**	**150,403**	**32.8 %**	4,383	117,032	3.7 %
	6,605,495	**11,050,534**	**59.8 %**	5,531,814	8,981,687	61.6 %
Interest costs	**(346,039)**			(212,355)		
Net of interest costs	**6,259,456**			5,319,459		
Revolving senior credit facility	**1,093,685**			1,893,323		
Senior notes	**3,180,409**			1,219,032		
Term facilities	**—**			387,034		
	10,533,550			8,818,848		

1. Maturity schedule for borrowings gross of interest costs has been calculated based on interest expense rates as at the respective year ends and excludes the impact of hedging, and assumes the interest rate remains unchanged for the remaining life of the debt, including floating rate credit facilities.
2. Maturity schedule for finance receivables is based on the gross investment balance, certain fleet management service receivables, and certain interim funding balances. For equipment under operating leases, the schedule is based on the existing contractual future minimum lease payments.

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

10. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	As at December 31, 2023						
Issue Date	**Final maturity date**	**Conversion price per share[1]**	**Interest rate[2]**	**Face value**	**Deferred costs**	**Discount**	**Net carrying value**
		$	**%**	**$**	**$**	**$**	**$**
April 5, 2019	**June 30, 2024**	**11.77**	**4.250**	**172,224**	**(702)**	**(2,144)**	**169,378**

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

1. The conversion price was adjusted on June 30, 2023, the ex-dividend date for dividends to be paid on July 14, 2023, to $11.77391 for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

Conversions

During January 2023, holders of the April 2019 Convertible Debentures ("2019 Debentures") redeemed $8 at a conversion price equal to $11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per $1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of nil and 671 common shares.

During December 2022, holders of the April 2019 Convertible Debentures ("2019 Debentures") redeemed $106 at a conversion price equal to $11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per $1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of $2 and 8,899 common shares.

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

April 5, 2019 Issuance

On April 5, 2019, the Company closed on its offering of $150,000, 4.25% aggregate principal amount of convertible unsecured subordinated debentures (the "2019 Debentures"). On April 8, 2019, the underwriters exercised in full their over-allotment option to purchase an additional $22,500 aggregate principal amount of the 2019 Debentures. With the exercise of the over-allotment, the Company has issued a total of $172,500 aggregate principal amount of 2019 Debentures pursuant to the offering.

To determine the initial amount of the respective debt and equity components of the 2019 Debentures issued, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 6.80%, which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $146,553 (net of transaction costs of $6,572) and the equity component was assigned a value of $18,544 (net of after-tax transaction costs of $831, and before the impact of deferred taxes).

The 2019 Debentures bear interest at an annual coupon rate of 4.25% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2019. The maturity date for the 2019 Debentures is June 30, 2024.

Each 2019 Debenture is convertible into common shares at the option of the holder of a Debenture at any time prior to 5:00 p.m. (Toronto time) on June 30, 2024, initially at a conversion price of $12.05 per common share (the "2019 Conversion Price"), subject to adjustment in accordance with the indenture agreement. Holders converting their 2019 Debentures will be entitled to receive, in addition to the applicable number of common shares to be received on conversion, accrued and unpaid interest thereon in cash for the period from the last interest payment date on their 2019 Debentures to, but excluding, the date of conversion.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2019 Conversion Price.

Subject to required regulatory approvals and provided that there is not a current 2019 Debentures event of default, the Company may, at its option and with notice, elect to repay, in whole or in part, the principal amount of the 2019 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2019 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2019 Debentures to be redeemed or that have matured, by 95% of the current market price of the common shares on the redemption date or maturity date. Any accrued and unpaid interest will be paid in cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

11. SHARE CAPITAL

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

	Common shares	
	Shares #	Amount $
Balance, December 31, 2021	405,077,227	2,951,596
Convertible debenture	22,502	287
Share repurchase	(13,906,200)	(103,267)
Exercise of options	1,301,758	19,462
Balance, December 31, 2022	**392,495,287**	**2,868,078**
Convertible debenture	**671**	**9**
Share repurchase	**(3,957,622)**	**(29,534)**
Exercise of options	**630,399**	**8,653**
Balance, December 31, 2023	**389,168,735**	**2,847,206**

Share repurchase

On November 13, 2023, the TSX approved the Company's notice of intention to renew its Normal Course Issuer Bid ("NCIB"). The renewal allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 15, 2023 and ending on the earlier of November 14, 2024 or the completion of purchases under the NCIB, up to 38,852,159 common shares of the Company, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period.

For the year ended December 31, 2023, 3,957,622 common shares have been repurchased for cancellation for $73,459 including commission, at a volume weighted average price of $18.56 per common share. For the year ended December 31, 2022 13,906,200 common shares have been repurchased for cancellation for $192,910, including commission, at a volume weighted average price of $13.87 per common share. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the audited consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

Common share dividends

For the year ended December 31, 2023, the Company declared $163,755 in common share dividends or $0.420 per common share (December 31, 2022 - $131,632 or $0.333 per common share).

As at December 31, 2023, the accrued common share dividends were $46,700 (December 31, 2022 – $39,252).

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

Increase in common share dividend

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

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

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at December 31, 2023 consist of the following:

Series	Issue date	Interest rate %	Gross $	After tax transaction costs $	Net proceeds $	Shares #
C	**March 7, 2014**	**6.21**[1]	**128,160**	**3,416**	**124,744**	**5,126,400**
E	**June 18, 2014**	**5.903**[2]	**133,048**	**3,054**	**129,994**	**5,321,900**

1. On June 21, 2019, Preferred Shares Series C dividend rate was reset from 6.50% to 6.21%.
2. On September 19, 2019, Preferred Shares Series E dividend rate was reset from 6.40% to 5.903%.

For each five-year period, holders of the respective Series are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year.

Preferred Shares, Series E

The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.72%. The Company will have the right to redeem the Series E shares on September 30, 2024, and on September 30 every five years thereafter for $25 per Series E share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series E shares, the holders of the Series E shares will have the right on September 30, 2020, and on September 30 every five years thereafter, to convert all or any of the Series E shares into Series F shares, on the basis of one Series F share for each Series E share converted. Holders of Series F shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.72%.

Preferred Shares, Series C

The annual dividend rate will reset at each five year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.81%. The Company will have the right to redeem the Series C shares on June 30, 2024, and on June 30 every five years thereafter for $25 per Series C share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series C shares, the holders of the Series C shares will have the right on June 30, 2024, and on June 30 every five years thereafter, to convert all or any of the Series C shares into Series D shares, on the basis of one Series D share for each Series C share converted. Holders of Series D shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.81%.

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

Series A Preferred Shares Redemption

On December 31, 2023, Company redeemed all of its 4,600,000 Series A Preferred Shares for a redemption price equal to $25.00 per share for a total of $115,000 together with all accrued and unpaid dividends.

Series I Preferred Shares Redemption

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

Preferred share dividends

For the year ended December 31, 2023, the Company declared $23,764 in preferred share dividends (December 31, 2022 – $28,074).

As at December 31, 2023, the accrued preferred share dividends were $43 (December 31, 2022 – $65).

12. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Year ended	
	December 31, 2023	December 31, 2022
	$	$
(b) Deferred share units	**1,895**	2,003
(c) Performance share units	**30,758**	19,057
(d) Restricted share units	**16,579**	10,243
	49,232	31,303

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

(a) Stock options

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

	Number of options #	Weighted average exercise price $
Outstanding, December 31, 2021	5,524,785	8.45
Forfeited	(1,667)	12.65
Expired	(411,412)	12.49
Exercised(1)	(1,301,758)	10.94
Outstanding, December 31, 2022	**3,809,948**	**7.17**
Expired	**(123,280)**	**12.97**
Exercised(1)	**(3,130,399)**	**6.70**
Outstanding, December 31, 2023	**556,269**	**8.49**

1. Weighted average share price of options exercised during the year ended December 31, 2023 was $20.22 (year ended December 31, 2022 – $14.92).

As at December 31, 2023, the following employee and director stock options to purchase common shares were outstanding:

Range of exercise prices	Weighted avg remaining life (in years)	Options Outstanding[1] #
$0.00 to $5.00	—	—
$5.01 to $10.00	1.65	363,672
$10.01 to $15.00	0.77	192,597
$15.01 and over	—	—
	1.34	556,269

1. All options have vested as at December 31, 2021.

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

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2021	771,453	2,119,340	1,531,924
Granted	136,526	1,863,612	928,360
Forfeited	—	(95,050)	(162,909)
Redeemed	(119,797)	(2,135,422)	(521,461)
Outstanding, December 31, 2022	**788,182**	**1,752,480**	**1,775,914**
Granted	**110,841**	**1,122,451**	**812,991**
Forfeited	**—**	**(664)**	**(74,122)**
Redeemed	**(70,810)**	**(976,528)**	**(673,141)**
Outstanding, December 31, 2023	**828,213**	**1,897,739**	**1,841,642**

(i) Deferred share units ("DSUs")

As at December 31, 2023, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $17,856 (December 31, 2022 – $14,542).

(ii) Performance share units ("PSUs")

As at December 31, 2023, 1,897,739 PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $47,533 (December 31, 2022 – 1,752,480 PSUs and $29,822 of liabilities). Certain PSUs issued during 2023, 2022, and 2021 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2023, 2024 and 2025.

(iii) Restricted share units ("RSUs")

As at December 31, 2023, 1,841,642 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $24,429 (December 31, 2022 – 1,755,914 RSUs and $19,577 of liabilities). The RSUs outstanding will vest over one, two and three years.

(iv) Hedging of DSUs, PSUs and RSUs

As at December 31, 2023, the Company has hedged 2,736,238 referenced share units with net derivative assets of $31,501 which will be applied to the settlement of PSU, RSU and DSU awards (December 31, 2022 – 2,679,270 referenced share units hedged and net derivative assets of $21,940). For the year ended December 31, 2023, derivative mark to market adjustments were netted against share-based compensation expense of $9,561 (December 31, 2022 - $15,696).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

13. REVENUE

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

	Year ended	
	December 31, 2023	December 31, 2022
	$	$
Major service lines		
Interest income, net	**703,980**	441,807
Rental revenue	**950,671**	714,957
Gain on sale of equipment under operating leases	**133,688**	111,715
Depreciation of equipment under operating leases	**(652,547)**	(506,903)
Financing revenue before interest expense	**1,135,792**	761,576
Service revenue, net	**554,750**	481,509
Vehicle sales and end of contract fees	**123,486**	99,509
Servicing income, net	**678,236**	581,018
Syndication revenue, net	**61,493**	62,290
Net revenue before interest expense	**1,875,521**	1,404,884
Primary geographical markets		
US and Canada	**1,261,142**	951,567
Australia and New Zealand	**276,991**	241,763
Mexico	**337,388**	211,554
Net revenue before interest expense	**1,875,521**	1,404,884
Timing of revenue recognition		
Revenue earned at a point in time	**621,608**	533,747
Revenue earned over time	**1,253,913**	871,137
Net revenue before interest expense	**1,875,521**	1,404,884

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

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

A) Contract balances

	As at December 31, 2023	As at December 31, 2022
	$	$
Contract assets	**17,064**	21,574

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 4. For the year ended December 31, 2023, the Company has recorded $12,575 of amortization on its service contract assets (December 31, 2022 - $9,844).

B) Performance obligations

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

14. INCOME TAXES

The major components of the provision for income taxes for the years ended December 31 are as follows:

	2023	2022
	$	$
Consolidated statements of operations		
Current income tax expense	**53,055**	49,410
Foreign withholding tax expense	**13,485**	8,247
Origination and reversal of temporary differences	**72,921**	82,253
Income tax expense reported in the consolidated statements of operations	**139,461**	139,910

Reconciliation of the effective tax rate for the years ended December 31:

	2023	2022
	$	$
Income before income taxes	**605,658**	549,553
Combined statutory Canadian federal and provincial tax rate	**25.95 %**	25.95 %
Income tax expense based on statutory rate	**157,168**	142,609
Income taxes adjusted for the effect of:		
Non-deductible and non-taxable items	**(4,745)**	(19,613)
Foreign rate differential	**2,986**	2,785
Change in unrecognized tax losses	—	15,223
Adjustments of prior year taxes and other	**(15,948)**	(1,094)
Income tax expense	**139,461**	139,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

Deferred taxes as at December 31 relate to the following:

	2023	2022
	$	$
Deferred tax assets		
Share and convertible debentures issuance costs	**—**	43
Tax loss carryforwards	**973,841**	759,295
Transaction and integration costs	**29,642**	25,837
Capital assets, intangibles, and other	**—**	2,681
Deferred share units	**22,535**	15,992
	1,026,018	803,848
Deferred tax liabilities		
Finance receivables	**713,327**	498,388
Intangible assets arising from acquisitions	**12,367**	12,384
Convertible debentures	**557**	1,621
Unrealized gain or loss on foreign exchange and derivatives	**17,522**	58,550
	864,778	570,943
Net deferred tax asset position	**161,240**	232,905

Deferred tax assets and liabilities are assessed by the Company for presentation in the consolidated statement of financial position. As a result, as at December 31, the deferred tax assets and liabilities are reported as:

	2023	2022
	$	$
Deferred tax assets	**300,514**	365,430
Deferred tax liabilities	**139,274**	132,525
Net deferred tax asset position	**161,240**	232,905

Reconciliation of the net deferred tax asset for the years ended December 31 is as follows:

	2023	2022
	$	$
Balance, beginning of the year	**232,905**	328,405
Tax expense recognized in profit or loss	**(72,921)**	(82,253)
Tax expense recognized through shareholders' equity	**(43)**	(856)
Tax expense recognized through OCI	**1,299**	(12,391)
Balance, end of the year	**161,240**	232,905

Management has concluded the deferred tax asset of $300,514 (2022 - $365,430) meets the relevant recognition criteria under IFRS. Management's conclusion is supported by forecasted taxable profits, embedded profits in existing finance receivables and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax asset.

The Company has incurred capital losses for tax purposes of $278,512 (2022 - $316,551), which are available to reduce future capital gains. A deferred income tax asset of nil (2022 - nil) has been recognized in respect of capital loss carryforwards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

15. SUBSIDIARIES

(a) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly owned:

	Principal place of business
Element Fleet Management (US) Corp.	US
Element Fleet Management (US) Holdings Inc.	US
Element Vehicle Management Services Group LLC	US
Element Fleet Corporation	US
Chesapeake Finance Holdings II LLC	US
Element Technology LLC	US
Element Fleet Management Inc.	Canada
Element Fleet Lease Receivable LP	Canada
FLR LP Inc.	Canada
EFN (Netherlands) International B.V.	Netherlands
EFN (Netherlands) B.V.	Netherlands
EFN (Netherlands) 2 B.V.	Netherlands
EFN (Netherlands) 3 B.V.	Netherlands
EFN (Netherlands) 4 B.V.	Netherlands
Element Fleet Leasing Limited	Ireland
Element Fleet Sourcing Pte Ltd	Singapore
Element Fleet Services Australia Pty Ltd.	Australia
EFN (Australia) Pty Limited	Australia
Element Financial (Australia) Pty Limited	Australia
Custom Fleet Pty Limited	Australia
EFN (New Zealand) Limited	New Zealand
Custom Fleet NZ	New Zealand
Element Fleet Mexico, S.A. de C.V. SOFOM E.N.R.	Mexico
Element Fleet Management Corporation Mexico S.A. de C.V.	Mexico

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

(b) Subsidiaries with restrictions

The Company's operations have restrictions on its ability to access or use its assets and settle its liabilities in Chesapeake Finance Holdings II LLC, Chesapeake Funding II LLC, and Element Fleet Lease Receivable LP. These subsidiaries facilitate the transfer of financial assets and related property or interests, in connection with funding facilities, and the activities of these entities are governed by their constituting agreements and debt agreements. Assets held as collateral by these subsidiaries for such funding facilities are not available to satisfy the claims of creditors of the Company. The carrying amounts of assets and liabilities in these subsidiaries as at December 31, 2023 were $5,966,354 and $4,758,975, respectively (December 31, 2022 - $4,867,246 and $3,849,525, respectively).

16. RELATED PARTY

Compensation of directors and key management

The remuneration of directors and key management personnel of the Company were as follows for the years ended December 31:

	2023 **$**	2022 $
Salaries, bonuses and benefits	**15,233**	12,051
Share-based compensation	**16,953**	13,526
	32,186	25,577

17. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Net income attributable to shareholders	**$ 466,197**	$ 409,643
Cumulative dividends on preferred shares	**(23,764)**	(28,074)
Net income available to common shareholders	**$ 442,433**	$ 381,569
Weighted average number of common shares outstanding – basic (number)	**390,297,255**	396,907,113
Basic earnings per share	**$ 1.13**	$ 0.96

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

Diluted earnings per share is as follows:

	Year ended	
	December 31, 2023	December 31, 2022
Net income available to common shareholders adjusted for the effects of dilution	**$ 448,990**	$ 387,989
Weighted average number of common shares outstanding – basic (number)	**390,297,255**	396,907,113
Convertible debentures (number)	**14,627,599**	14,463,056
Dilutive stock options (number)	**317,089**	1,964,788
Weighted average number of common shares outstanding – diluted (number)	**405,241,943**	413,334,957
Diluted earnings per share	**$ 1.11**	$ 0.94

Instruments outstanding as at December 31, 2023 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, included nil stock options for the year ended December 31, 2023 (December 31, 2022 - nil stock options).

18. DERIVATIVE AND HEDGING INSTRUMENTS

Hedge accounting

In the normal course of business and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposure to share-based compensation.

Interest rate risk

The majority of the Company's derivative contracts used to hedge certain exposures to benchmark interest rate risk are interest rate swaps. For cash flow hedges, the Company converts certain exposures to cash flow variability from its variable rate instruments to fixed interest rate exposures. For fair value hedges, the Company converts fixed interest rate exposures from the hedged financial instruments to floating interest rate exposures.

Foreign currency risk

For cash flow hedges, the Company may use foreign exchange forwards to hedge and manage anticipated foreign currency obligations. For NIFO hedges, the Company uses foreign exchange forward contracts and foreign currency denominated debt to manage the foreign currency exposure of our NIFOs with a functional currency other than the Canadian dollar.

Equity price risk

The Company uses cash settled total return swaps in designated cash flow hedge relationships to hedge changes in Element's share price in respect of certain cash-settled share-based compensation awards. Note 12 provides details on cash-settled share-based compensation plans. The average share price of the outstanding hedging derivatives as at December 31, 2023 was $10.05 (December 31, 2022 - $10.26).

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

Hedge Ineffectiveness

For the hedge relationships above, hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis, primarily using the dollar offset method. The sources of hedge ineffectiveness may be attributed to the following:

- Differences in fixed rates, when contractual coupons of the fixed rate hedged items are designated;
- Differences in the discounting factors between the hedged item and the hedging instruments arising from different rate reset frequencies and timing of cash flows; and
- Employee forfeitures and quarterly interest payments on the equity swaps.

Designated hedging instruments

The following table provides a summary of financial instruments designated as hedging instruments:

As at December 31, 2023	Notional amount of the hedging instrument	Maturity range			Fair value of the hedge derivatives		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
		Less than 1 year	1-5 years	Over 5 years	Assets	Liabilities	
	$	$	$	$	$	$	$
Cash flow hedges							
Interest rate risk							
Interest rate swaps	**5,119,214**	**1,721,745**	**3,237,061**	**160,408**	**41,852**	**11,077**	**(20,860)**
Interest rate caps	—	—	—	—	—	—	—
Equity share price risk							
Equity swaps	**31,501**	**31,501**	—	—	**31,501**	—	—
	5,150,715	**1,753,246**	**3,237,061**	**160,408**	**73,353**	**11,077**	**(20,860)**
Fair value hedges							
Interest rate swaps	**5,166,271**	**1,061,154**	**3,568,749**	**536,368**	**39,895**	**18,664**	**44,593**
	5,166,271	**1,061,154**	**3,568,749**	**536,368**	**39,895**	**18,664**	**44,593**
NIFO hedges							
FX forwards	**1,485,420**	**1,485,420**	—	—	—	**7,184**	—
Borrowings	**4,095,795**	**1,577,972**	**2,517,823**	—	**n/a**	**n/a**	**23,924**
	5,581,215	**3,063,392**	**2,517,823**	—	—	**7,184**	**23,924**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

As at December 31, 2022	Notional amount of the hedging instrument	Maturity range			Fair value of the hedge derivatives		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
		Less than 1 year	1-5 years	Over 5 years	Assets	Liabilities	
	$	$	$	$	$	$	$
Cash flow hedges							
Interest rate risk							
Interest rate swaps	4,324,316	854,912	2,670,851	798,553	86,936	36,322	57,067
Interest rate caps	15,123	1,560	13,563	—	170	—	(170)
Equity share price risk							
Equity swaps	49,433	49,433	—	—	21,940	—	—
	4,388,872	905,905	2,684,414	798,553	109,046	36,322	56,897
Fair value hedges							
Interest rate swaps	2,433,866	827,398	1,376,330	230,138	22,897	45,408	(20,107)
	2,433,866	827,398	1,376,330	230,138	22,897	45,408	(20,107)
NIFO hedges							
Borrowings	3,076,784	1,857,752	1,219,032	—	n/a	n/a	(130,226)
	3,076,784	1,857,752	1,219,032	—	n/a	n/a	(130,226)

n/a Not applicable

The following table provides the average rate or price of the hedging derivatives:

As at December 31, 2023		**Average exchange rate (1)**		**Average fixed interest rate**
Cash flow hedges				
Foreign exchange risk				
Foreign exchange forwards	**CAD - MXN**	**$12.89**		**n/a**
Interest rate risk				
Interest rate swaps		**n/a**	**CAN**	**1.98 %**
		n/a	**USD**	**3.76 %**
		n/a	**NZD**	**3.78 %**
		n/a	**AUD**	**2.69 %**
		n/a	**MXN**	**9.02 %**
Interest rate caps		**n/a**	**USD**	**— %**
Fair value hedges				
Interest rate risk				
Interest rate swaps		**n/a**	**CAN**	**4.25 %**
		n/a	**USD**	**4.41 %**

1. Includes average foreign exchange rates and interest rates relating to significant hedging relationships.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

As at December 31, 2022		Average fixed interest rate
Cash flow hedges		
Interest rate risk		
Interest rate swaps	CAN	2.06 %
	USD	1.51 %
	NZD	3.23 %
	AUD	1.24 %
	MXN	7.34 %
Interest rate caps	USD	3.36 %
Fair value hedges		
Interest rate risk		
Interest rate swaps	USD	1.85 %

n/a Not applicable

Designated hedged items

The following table provides information on designated hedged items:

As at December 31, 2023	Carrying amount of the hedged item		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	
	$	$	$
Cash flow hedges			
Interest rate risk			
Floating Rate Leases	**2,483,665**	**—**	**(6,160)**
Borrowings	**—**	**2,635,549**	**27,020**
Equity share price risk			
Share-based payment	**—**	**31,501**	**—**
	2,483,665	**2,667,050**	**20,860**
Fair value hedges			
Interest rate risk			
Borrowings	**—**	**2,849,437**	**(68,875)**
Fixed rate lease assets	**2,361,427**	**—**	**24,282**
	2,361,427	**2,849,437**	**(44,593)**
NIFO hedges			
Net investment in foreign subsidiaries	**5,581,215**	**—**	**(23,924)**
	5,581,215	**—**	**(23,924)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

As at December 31, 2022	Carrying amount of the hedged item		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	
	$	$	$
Cash flow hedges			
Interest rate risk			
Floating Rate Leases	1,259,802	—	(26,813)
Borrowings	—	3,079,637	(30,084)
Equity share price risk			
Share-based payment	—	49,433	—
	1,259,802	3,129,070	(56,897)
Fair value hedges			
Interest rate risk			
Borrowings	—	951,008	39,106
Fair value for fixed rate lease assets	1,462,751	—	(18,999)
	1,462,751	951,008	20,107
NIFO hedges			
Net investment in foreign subsidiaries	3,076,784	—	130,226
	3,076,784	—	130,226

Hedge accounting gains (losses) on the consolidated statement of operations and consolidated statement of comprehensive income

Year Ended December 31, 2023	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	$	$	$	$	$	$
Cash flow hedges						
Foreign exchange risk	**5,710**	—	**(2,192)**	—	**3,518**	—
Interest rate risk	**(53,653)**	**20,860**	**(2,085)**	**(1,272)**	**(36,150)**	—
	(47,943)	**20,860**	**(4,277)**	**(1,272)**	**(32,632)**	—
NIFO hedges						
Net investment in foreign subsidiaries	**(68,724)**	**(23,924)**	—	—	**(92,648)**	—
	(68,724)	**(23,924)**	—	—	**(92,648)**	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

Year Ended December 31, 2022	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	$	$	$	$	$	$
Cash flow hedges						
Foreign exchange risk	7,974	—	(2,264)	—	5,710	—
Interest rate risk	(9,431)	(56,897)	(4,516)	17,191	(53,653)	—
	(1,457)	(56,897)	(6,780)	17,191	(47,943)	—
NIFO hedges						
Net investment in foreign subsidiaries	(198,950)	130,226	—	—	(68,724)	—
	(198,950)	130,226	—	—	(68,724)	—

Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated statements of financial position; the net amounts presented in the consolidated statements of financial position; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount mentioned above; and the amount of cash collateral received or pledged.

				Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	**Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position**	**Net amount of financial instruments presented in the Consolidated Statements of Financial Position**	**Amounts subject to an enforceable master netting agreement**	**Collateral**	**Net amount**
	$	$	$	$	$	$
As at December 31, 2023						
Derivative financial instrument assets	**113,248**	**—**	**113,248**	**29,731**	**—**	**83,517**
Derivative financial instrument liabilities	**36,925**	**—**	**36,925**	**29,731**	**3,408**	**3,786**
As at December 31, 2022						
Derivative financial instrument assets	131,943	—	131,943	61,065	—	70,878
Derivative financial instrument liabilities	81,730	—	81,730	61,065	—	20,665

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

19. CAPITALIZATION

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

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

As at	**December 31, 2023**	December 31, 2022
	$	$
Cash	**127,772**	68,876
Unsecured debt		
Revolving senior credit facilities	**1,093,685**	1,893,323
4.250% Convertible Debentures due 2024	**169,378**	163,933
1.600% Senior Notes due 2024	**530,068**	677,240
3.850% Senior Notes due 2025	**662,585**	541,792
6.271% Senior Notes due 2026	**993,878**	—
6.319% Senior Notes due 2028	**993,878**	—
Term facilities	—	387,034
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	**2,245,947**	1,115,459
Variable funding notes	**3,974,997**	4,120,361
Other	**38,512**	83,639
Deferred financing costs	**(39,249)**	(19,227)
Continuing involvement liability	**108,466**	54,173
Hedge accounting fair value adjustments	**22,621**	(45,935)
Total debt	**10,794,766**	8,971,792
Shareholders' equity		
Common share capital	**2,847,206**	2,868,078
Preferred share capital	**254,738**	365,113
Other	**798,729**	447,782
Total Shareholders' Equity	**3,900,673**	3,680,973
Total Capitalization	**14,695,439**	12,652,765

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

20. GEOGRAPHIC INFORMATION

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

Selected geographic assets are as follows:

	As at December 31, 2023				As at December 31, 2022			
	US and Canada	**Australia and New Zealand**	**Mexico**	**Total**	US and Canada	Australia and New Zealand	Mexico	Total
	$	**$**	**$**	**$**	$	$	$	$
Select assets								
Finance receivables	**7,937,830**	**470,406**	**1,158,900**	**9,567,136**	6,724,114	415,542	929,730	8,069,386
Equipment under operating leases	**24,420**	**1,351,305**	**2,130,885**	**3,506,610**	35,329	1,318,913	1,452,599	2,806,841
Goodwill and intangible assets	**2,067,090**	**32,038**	**16,272**	**2,115,400**	2,118,822	30,307	10,570	2,159,699
Property, equipment and leasehold improvements	**102,715**	**20,128**	**13,295**	**136,138**	57,341	10,391	13,167	80,899
	10,132,055	**1,873,877**	**3,319,352**	**15,325,284**	8,935,606	1,775,153	2,406,066	13,116,825

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

21. LEASES

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

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

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

Management evaluates all facilities to ensure the Company’s footprint continues to support business activities, employees and client needs. In support of this and to align with the Company’s growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year ended December 31, 2020. The remaining lease liability for the closed facilities is $1,432 as at December 31, 2023 (December 31, 2022 - $2,135).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

		As at December 31, 2023	As at December 31, 2022
		$	$
Assets	**Classification**		
Right-of-use assets	Buildings, net of accumulated amortization[1]	**97,971**	55,748
Liabilities	**Classification**		
Lease liabilities	Accounts payable and accrued liabilities	**109,729**	64,272

1. As at December 31, 2023, right-of-use assets are recorded net of accumulated amortization of $62,549 (December 31, 2022 - $54,324).

		Year ended	
		December 31, 2023	December 31, 2022
Lease cost	**Classification**	**$**	$
Amortization of leased assets	Depreciation and amortization	**13,385**	11,523
Interest on lease liabilities	Interest expense	**3,939**	1,946
Net lease cost		**17,324**	13,469

Maturity of lease liabilities	**As at December 31, 2023**
	$
2024	**7,083**
2025	**7,014**
2026	**7,109**
2027	**7,609**
2028	**7,392**
Thereafter	**73,522**

Lease Term and Discount Rate	As at December 31, 2023	As at December 31, 2022
Weighted-average remaining lease term (years)	**14.4**	11.7
Weighted-average discount rate	**3.84 %**	2.91 %

22. COMMITMENTS

The Company enters into commitments to extend credit and provide lease or loan financing to its clients in the ordinary course of business, or commits to purchase equipment for leases. The funding of these commitments is subject to the client satisfying various conditions and contractual requirements prior to funding. As a result, the total commitments outstanding do not necessarily reflect actual future cash flow requirements. As at December 31, 2023, the Company had $2,518,438 of commitments outstanding to provide financing or purchase equipment, and expire or settle on various dates through to December 31, 2023.

23. FINANCIAL INSTRUMENT RISKS

Credit risk

Credit risk is the risk that the Company will incur a loss because its clients and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on finance leases and loans. Counterparty limits are established by the use of both external and internal credit risk classification systems, which assign each counterparty a risk rating. The Company also manages credit risk through the existence of asset collateral held against both finance leases and loans. The Company maintains insurance coverage over these assets to further mitigate risk of loss. In situations where the Company takes possession of collateral under the terms of the finance lease or loan agreement, the asset is sold and a gain or loss on disposal is recognized.

The Company also monitors the diversification of its lending across asset class, geography and transaction size. As a result of transaction sizes and collateral arrangements, no individual client represents a significant credit risk to the Company.

The Company's maximum exposure to credit risk for components of the consolidated statements of financial position as at December 31, 2023 and 2022 is the carrying amounts as disclosed on the consolidated statements of financial position.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the Company's liquidity to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due and sustain and grow its assets and operations under both normal and stress conditions.

The most significant exposure to liquidity risk relates to the repayment of borrowings (Note 9). This exposure is managed as the cash flows generated by the Company's net investment in leases and loans, syndication, and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements, and its capacity to expand its existing secured and unsecured borrowings facilities and its access to bank term funding.

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 loan 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.

The Company does experience short-term interest rate risk on these 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 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 rates reflect appropriate spreads to insulate against sudden unexpected interest rate movements. In order to further mitigate risk, the Company undertakes regular securitizations under its borrowing arrangements to ensure its finance contracts are appropriately match-funded by its borrowings, which reduces the warehouse period and the likelihood that a significant movement in bond rates will negatively impact the spreads on such transactions.

After considering the fixed interest rate spread on the borrowing programs and exposure to fixed rate finance receivables described above, the Company's interest rate risk is generally limited to cash and restricted cash, floating-rate finance receivables that are neither hedged nor part of a match-funded borrowing arrangement, and senior revolving credit facility. Based on its exposure as at December 31, 2023, the Company estimates that a 100 basis point increase would decrease net income before taxes by approximately $4,140 and a 100 basis point decrease in interest rates would increase net income before taxes by approximately by the same amount.

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 matching the currency of debt financing and where prudent 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.

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 foreign currency exchange rate used to translate the Company's foreign currency denominated net income into Canadian dollar equivalent during each year. 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 net income before income taxes is consistent with results generated in 2023, 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) net income and income taxes for the year by approximately $35,371 in the absence of hedging transactions.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities the Company can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.

- Level 2 – Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation techniques where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.

- Level 3 – Non-observable or indicative prices or use of valuation techniques where one or more significant inputs are non-observable.

Valuation methods and assumptions

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

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

Convertible debentures

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

Derivatives

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

Investments

The FVTPL investments are valued based on bids received in the private market or using valuation techniques and/or inputs that are based on unobservable market data.

Accounts receivable, accounts payable, and accrued liabilities

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

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

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

	As at December 31, 2023				
		Level 1	Level 2	Level 3	
	Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs	Total
	$	$	$	$	$
Financial assets					
Assets not carried at fair value					
Cash	**127,772**	**127,772**	—	—	**127,772**
Finance lease receivables[1]	**9,103,664**	—	—	**9,103,664**	**9,103,664**
Finance loans receivables	**355,006**	—	—	**355,006**	**355,006**
Accounts receivable and other assets	**260,683**	—	—	**260,683**	**260,683**
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	**81,747**	—	**81,747**	—	**81,747**
Equity swaps	**31,501**	—	**31,501**	—	**31,501**
Investments classified as FVTPL	**8,191**	—	—	**8,191**	**8,191**
Total financial assets	**9,968,564**	**127,772**	**113,248**	**9,727,544**	**9,968,564**
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	**1,600,936**	—	—	**1,600,936**	**1,600,936**
Borrowings on finance receivables[1]	**10,516,922**	—	—	**10,516,922**	**10,516,922**
Convertible debentures	**169,378**	—	**170,406**	—	**170,406**
Liabilities held at fair value					
Derivative financial liabilities					
Foreign exchange contracts	**7,184**	—	**7,184**	—	**7,184**
Interest rate swaps	**29,741**	—	**29,741**	—	**29,741**
Total financial liabilities	**12,324,161**	—	**207,331**	**12,117,858**	**12,325,189**

1. As at December 31, 2023, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of $108,466.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023

25. SYNDICATIONS

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

	Classification	**As at December 31, 2023** **$**	As at December 31, 2022 $
Allowance for early termination	Accounts payable and accrued liabilities	**4,814**	7,518
Deferred servicing fee	Finance receivables	**169**	323

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

	Classification	**As at December 31, 2023** **$**	As at December 31, 2022 $
Continuing involvement in syndicated assets	Finance receivables	**108,466**	54,173
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	**108,466**	54,173
Allowance for early termination	Accounts payable and accrued liabilities	**13,986**	9,181
Net book value of assets related to deals remaining in continuing involvement	N/A	**3,688,865**	2,339,900

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

		Year ended	
	Classification	**December 31, 2023** **$**	December 31, 2022 $
Syndication revenue, net	Syndication revenue, net	**61,493**	62,290
Net book value of assets syndicated	n/a	**3,351,723**	2,796,428

26. COMPARATIVE FIGURES

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