Element Fleet Management Corp.

Management Discussion and Analysis

December 31, 2020

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the year ended December 31, 2020 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2020 filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or ratios. References to "Q4 2020", "this quarter", or "the quarter" are to the fiscal quarter ended December 31, 2020 and references to "Q3 2020" and "Q4 2019" are to the fiscal quarters ended September 30, 2020 and December 31, 2019, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO MARCH 3, 2021. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "WILL", "POTENTIAL", "PROPOSED" AND OTHER SIMILAR WORDS, OR STATEMENTS THAT CERTAIN EVENTS OR CONDITIONS "MAY" OR "WILL" OCCUR ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION. FORWARD-LOOKING STATEMENTS (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS AS AT AND FOR THE PERIODS ENDED ON CERTAIN DATES AND TO PRESENT INFORMATION ABOUT MANAGEMENT'S CURRENT EXPECTATIONS AND PLANS RELATING TO THE FUTURE AND THE READER IS CAUTIONED THAT SUCH STATEMENTS MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS OR INFORMATION. UNDUE RELIANCE SHOULD NOT BE PLACED ON THESE FORWARD-LOOKING STATEMENTS, AS THERE CAN BE NO ASSURANCE THAT THE PLANS, INTENTIONS OR EXPECTATIONS UPON WHICH THEY ARE BASED WILL OCCUR. BY ITS NATURE, FORWARD-LOOKING INFORMATION INVOLVES NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, THAT CONTRIBUTE TO THE POSSIBILITY THAT THE EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THE IMPACT OF THE COVID-19 PANDEMIC ON INDUSTRY AND MARKET CONDITIONS; THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET FINANCING REVENUE YIELD ON AVERAGE NET EARNING ASSETS; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; EXPECTATIONS REGARDING SYNDICATION; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; AND THE RESET RATES FOR THE COMPANY'S OUTSTANDING PREFERRED SHARES. ELEMENT BELIEVES THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.

THE COVID-19 PANDEMIC HAS CAST ADDITIONAL UNCERTAINTY ON ELEMENT'S INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THERE CAN BE NO ASSURANCE THAT THEY WILL CONTINUE TO BE VALID. GIVEN THE RAPID PACE OF CHANGE WITH RESPECT TO THE IMPACT OF THE COVID-19 PANDEMIC, IT IS PREMATURE TO MAKE FURTHER ASSUMPTIONS ABOUT THESE MATTERS. THE DURATION, EXTENT AND SEVERITY OF THE IMPACT THE COVID-19 PANDEMIC, INCLUDING MEASURES TO PREVENT ITS SPREAD, WILL HAVE ON ELEMENT'S BUSINESS IS HIGHLY UNCERTAIN AND DIFFICULT TO PREDICT AT THIS TIME.

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

SOME OF THE RISKS AND OTHER FACTORS, SOME OF WHICH ARE BEYOND ELEMENT'S CONTROL, WHICH COULD CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS AND INFORMATION CONTAINED IN THIS MD&A, INCLUDE, BUT ARE NOT LIMITED TO, THOSE SET FORTH UNDER THE HEADING "RISK MANAGEMENT" HEREIN AND UNDER THE HEADING "RISK FACTORS" IN ELEMENT'S ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 2020. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.

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Company Overview

Element Fleet Management Corp. is the largest pure-play automotive fleet manager in the world. Our business is exclusively focused on "B2B" services for corporates, governments and not-for-profits that operate vehicle fleets. We are the market leader in the geographies in which we operate: the U.S., Canada, Mexico, and Australia and New Zealand (ANZ). Element has approximately $15.7 billion in assets under management and over 1 million vehicles under management in serving more than 5,500 clients.

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

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

Fleet vehicles are essential to our clients' ability to generate and sustain revenue or, in the case of governments and not-for-profits, fulfill their obligations to stakeholders. Regardless, fleet vehicles have significant associated costs. Element's value proposition is the material reduction of our clients' total cost of fleet operations, and the elimination of related administrative burden. We deliver this value through services and solutions that span the fleet lifecycle, from acquisition and financing to maintenance, repair and remarketing.

In 2018, we completed an end-to-end assessment of Element's business that resulted in a strategic plan to solidify the Company's core operating platform and client relationships, strengthen and deleverage its balance sheet and divest of all non-core assets. We knew that the successful execution of this three-prong strategy would position Element for organic growth in 2021 and beyond.

In 2020, we completed the transformation of Element, having effected hundreds of changes to the organization resulting in a more consistent, superior client experience; greater operational efficiency and scalability; a materially strengthened financial position and maturing capital structure; diversified funding sources, including approximately $3 billion of committed, undrawn liquidity; and meaningfully improved profitability.

The rapid and successful transformation of Element allowed our Commercial teams to focus on the aggressive pursuit of profitable, organic revenue growth, beginning in mid-2020 in the U.S. and Canada, and earlier in Mexico, Australia and New Zealand. Element's global growth strategy leverages our market leadership to (i) hold share through best-in-class client retention, (ii) improve salesforce effectiveness and win clients from other fleet management companies, (iii) better manage client profitability and (iv) convert self-managed fleets into Element clients. We are also pursuing additional, Armada[1]-like "mega fleet" opportunities.

Transforming Element has given our people the skills and confidence to deal with large, complicated and deeply nuanced business problems. These capabilities have been on full display in our swift and successful adaptation to operating through the COVID-19 pandemic. Despite the practical and economic consequences of the pandemic, Element completed its transformation program in 2020 and we are focused on our strategic priorities for 2021 and beyond:

- Aggressively pursue organic growth in all our geographies and demonstrate the scalability of Element's transformed operating platform by magnifying 4-6% annual net revenue growth into high single-digit to low double-digit annual operating income growth;
- Advance a capital-light*er* business model that enhances return on equity; and
- Achieve high single-digit to low double-digit annual free cash flow growth and predictably return excess equity to shareholders by way of dividends and share buybacks.

[1] "Armada" is the term Element uses to reference one large client in particular that the Company does not name due to the client's desire for confidentiality.

With the release of Element's Q3 results in October 2020, we announced

- a 44% increase to the common dividend, from $0.18 to $0.26 annually per share, representing approximately 30% of the Company’s last twelve months’ adjusted earnings per share, which is the mid-point of the 25% to 35% payout range the Company plans to maintain going forward; and
- the establishment of a normal course issuer bid (NCIB) to repurchase EFN common shares over the ensuing 12 months – the first year of what is envisioned to be a regular, ongoing program by the Company.

Regarding COVID-19

The COVID-19 pandemic continues to disrupt ways of life and economies around the world, including in Element’s operating geographies – the U.S., Canada, Mexico, Australia and New Zealand.

Our priorities are taking care of our people and our clients. We have approached the pandemic as an opportunity to deepen our relationships with our clients; and our people remain safe, healthy and productive, with the vast majority working from home for the foreseeable future.

As we expected and have communicated, Element is not going unscathed by the circumstances created by COVID-19.

However, our blue-chip client base – diversified across geographies and industries – and resilient business model underpinned solid financial and operating performance throughout 2020:

- Growth in net revenue, adjusted operating income and assets under management in both Mexico and ANZ:
- Less than 3% declines in each of Element’s annual services and financing revenue streams;
- Less than 2% decline in annual free cash flow;
- A 3% reduction in year-end client delinquencies from 2019;
- A 27% reduction from 2019 in charge-offs (net of recoveries) – which were less than 2 basis points as a percentage of total finance receivables at the end of 2020; and
- A 52% reduction in year-end impaired receivables from 2019.

We include further relevant COVID-19-related information throughout this document and in our Supplementary Information document available on the Company’s website.

Financial Highlights

Select Year-End 2020 Results

Net revenue	Servicing income, net / Net revenue	Earnings / share	After-tax adjusted operating income / share
$ 963 M	50 %	$ 0.56	$ 0.85
Profitability improvements actioned	**Tangible leverage ratio**	**Financial leverage ratio**	**Free cash flow / share**
$ 208 M	5.74 x	2.65 x	$ 1.02
Pre-tax return on common equity[2]	**Return on common equity[3]**	**Assets under management**	**Net earning assets**
14.0 %	6.0 %	$ 15.7 B	$ 10.5 B

Income Summary

(in $000's for stated values, except per share amounts)		**For the year ended December 31, 2020**
Net financing revenue	**$**	**405,687**
Servicing income, net		**481,854**
Syndication revenue, net		**75,552**
Net revenue		**963,093**
Adjusted operating expenses		*461,584*
Total operating expenses		**502,876**
Total other expenses		**127,164**
Net income before taxes		**333,053**
Earnings per share [basic]		**0.56**
Adjusted operating income before taxes		*501,509*
After-tax adjusted operating income per share [basic]	*$*	*0.85*

[2] Pre-tax return on common equity provides the reader with a perspective on the returns on common equity generated by Element (i) on an adjusted basis with respect to operating income, and (ii) before the impact of the Company's effective tax rate for the period - which is not representative of any actual (cash) tax impact to Element's operating income. (This differs from IFRS ROE (Return on common equity), which identifies the return on common equity represented by IFRS after-tax net earnings.) Pre-tax return on common equity is the sum of (before-tax adjusted operating income, minus preferred share dividends) for the current and three preceding quarters; divided by (the average of (total equity for the current quarter and same quarter prior year), minus current quarter preferred share capital).

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

Select Q4 2020 Results

Net revenue	Earnings / share	After-tax adjusted operating income / share	Free cash flow / share
$ 247 M	$ 0.16	$ 0.23	$ 0.25

Income Summary

(in $000's for stated values, except per share amounts)		**For the three-month period ended December 31, 2020**
Net financing revenue	**$**	**106,455**
Servicing income, net		**116,758**
Syndication revenue, net		**23,886**
Net revenue		**247,099**
Adjusted operating expenses		*115,041*
Total operating expenses		**135,477**
Total other expenses		**25,446**
Net income before taxes		**86,176**
Earnings per share [basic]		**0.16**
Adjusted operating income before taxes		*132,058*
After-tax adjusted operating income per share [basic]	*$*	*0.23*

Balanced Scorecard

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

Element's global balanced scorecard distills our strategy on to a single page. Its broad dissemination throughout the organization allows all our employees to see our progress through clearly defined metrics.

Element's 2020 global balanced scorecard results were as follows:

Despite the challenging circumstances created by the pandemic, we stayed the course in our advancement of Element's strategic objectives, successfully concluding the execution of our three-prong strategic plan and meeting or exceeding all but 2 of our 15 targets for 2020.

Our Clients rely on our expertise to identify and action productivity improvements, making our value proposition even more compelling through the economic distress wrought by COVID-19. In 2020, we identified over $1.5 billion of productivity improvement opportunities for our clients, a quarter of which our clients actioned. This and more is reflected in our growing global Net Promoter Score, reinforcing the loyalty of our clients.

Our Business is steadily recovering across most operational areas, with transaction volumes trending back to pre-COVID levels. We completed 2020 having actioned a cumulative $208 million of annual run-rate, pre-tax operating income improvements – a 15.5% overachievement of our $180 million Transformation end-goal – and delivered $133 million of profit enhancement in 2020 alone.

Our People continue to deliver a consistent, superior service experience for our clients, and are our greatest competitive differentiator. Employee engagement increased from 75% to 86% over the course of our Transformation (as measured by our Employee Engagement survey), representing a significant increase in the satisfaction that our people feel working at Element.

Our Investor efforts and outcomes are addressed throughout this document.

Achievements and Initiatives in Q4 and 2020

Our Business

Achievements

Transformation complete

Element completed its 27-month client-centric Transformation on December 31, 2020 having actioned a cumulative $208 million of annual run-rate, pre-tax profit improvements - over 15% more than our $180 million end-goal and over 38% more than our original $150 million end-goal.

Over the course of our Transformation journey, we made much-needed investments in Element, re-tooled and automated hundreds of business processes, and bolstered our talent roster - all to ensure we deliver a consistent, superior client experience every day. We strengthened our market-leading platform and increased both client satisfaction and employee engagement, all while driving down both our direct and operating costs and improving net revenue and profitability.

Transformation initiatives delivered $39 million of operating income enhancement in Q4 and $133 million of operating income enhancement in 2020. The remaining $75 million of value will be delivered as the benefits of Transformation are realized in 2021 and beyond.

We made $75 million of one-time investments in our business in 2020 in support of Transformation, bringing our total one-time investments in Transformation to $208 million over the course of the program. With Transformation now complete, no further such costs will be incurred.

The anticipated success of our growth strategy should help actioned Transformation initiatives deliver even more operating income enhancement in future years than currently scoped, because the annual run-rate valuation of these initiatives is based on existing business volumes.

EV penetration in New Zealand

As the fleet solutions market leader everywhere we operate, Element is strategically well-positioned to support our clients and lead our industry through the gradual electrification of automotive fleets over the next decade.

In ANZ, Custom Fleet[4] began developing an EV fleet product offering in 2018, and we are the first and only fleet management company to offer an integrated wing-to-wing EV solution in New Zealand.

Custom Fleet continues to build on the strength of that offering, known as “EV+”, with particular traction and success in New Zealand in 2020.

At year-end, we had a total of 528 EVs across our clients’ fleets in New Zealand, representing 1.8% of the approximately 29,000 vehicles we manage in the country. These EVs include both battery electric vehicles (BEV) and plug-in hybrid electric vehicles (PHEV). If traditional hybrid vehicles are added to the EV count, penetration rises to approximately 5.6% of our vehicles under management in New Zealand.

The EV market across ANZ is still in its early stages, with limited model availability. EVs (BEVs plus PHEVs) represent less than 2% of all vehicles in New Zealand, and less than half of that as a percentage of all vehicles in Australia.

Nonetheless, we see continued growth in EV adoption by corporate and government fleets in New Zealand over the next 12-36 months. Reasons include a national cultural inclination towards early adoption of environmentally friendly technologies, public commitments to transition to EVs, OEMs committing to manufacture new models, and significant investments being made in nationwide EV charging networks.

[4] Element does business as Custom Fleet in Australia and New Zealand.

Our EV+ offering in ANZ constitutes a full suite of client services, including strategic consulting (to understand the client's needs and analyze and advise how best to transition to EVs); EV-specific change management support; the acquisition of vehicles and related charging infrastructure (and the installation of the latter); ongoing management and traditional fleet services; access to a mature partner network; and remarketing.

The result is a consistent value proposition and superior client experience, whether a client chooses internal combustion engine (ICE), hybrid or electric vehicles – or a strategic combination thereof. Clients report high levels of satisfaction with EV pilot programs delivered by Custom Fleet and tend to gradually increase the penetration of EVs in their fleets soon after their initial experience.

EV+ client wins include:

- Westpac Bank, and - two of the largest passenger fleets in New Zealand - WSP and the Warehouse Group, all of which answered a 2016 government challenge to commit to 30% EV penetration in their fleets by 2019, and were early movers among corporates to do so;
    - the Warehouse Group are now looking to transition 100% of their passenger fleet to EVs through EV+ (as vehicle supply allows); and
- a number of New Zealand government agencies transitioning to EVs, for whom we are also installing charging infrastructure. We expect this work to scale further in 2021 and 2022.

In addition to supporting our clients, we are leading by example. Alongside 29 other leading New Zealand businesses, we made the 2016 public commitment to transition 30% of our in-house fleet to EVs by the end of 2019, and achieved and surpassed our target, with EV penetration having grown to 50% by the end of 2020.

Initiatives

Continuous improvement

Our Transformation program has established a new strand of organizational DNA in the ongoing, active pursuit of ways to deliver an ever-more consistent and superior service experience to our clients while lowering costs to serve through Continuous Improvement.

We are committed to maintaining the client-centricity, critical rigor and momentum created by Transformation beyond our completion of the program.

To this end, we stood up a Continuous Improvement Group at Element in Q2 2020 and began to make related skills and mindset training programs available to all employees. In Q4, Element's "Center of Operational Excellence" finalized the implementation of a model to support the organization going forward:

- We have developed a team of dedicated resources to drive Continuous Improvement at Element:
    - The Continuous Improvement Group is staffed with 12 experienced black belts.
    - The team is aligned across the U.S., Canada and Mexico, by business area, with 25% of the team dedicated to Element's Strategic Relationships operation, which includes Armada.
    - Black belts lead larger and more complex projects in support of Element's Continuous Improvement targets with 50 projects already completed in 2020.
    - Black belts also play a key role in training other employees on Lean Six Sigma methods, and mentoring yellow and green belt candidates.
    - We graduated 25 senior employees from across Element in 2020, who were all trained in Lean Six Sigma and earned yellow belt certifications. Each graduate is now executing process improvement projects in their area of the business – not only to improve efficiency, but also to help promote our Continuous Improvement mantra.
- We developed and implemented a total of 45 RPA (Robotic Process Automation) "bots" in 2020, bringing our total library to 75 such bots. These bots processed approximately 1.3 million transactions

in 2020, saving employees over 44,000 hours of time (on an annualized basis) and improving the client experience with reduced cycle times and a 0% error rate.

Our Clients

Achievements

Pivot to growth

We used the first half of 2020 to accelerate our pivot to growth in the U.S. and Canada - approximately six months sooner than originally anticipated. We appointed David Madrigal – the architect of the high-performing Element Mexico team – as our Chief Commercial Officer in the U.S. and Canada, and reorganized our Commercial group into regional growth units and a team dedicated to account management and client retention.

We also established new Commercial compensation structures in the U.S. and Canada, designed to incent profitable revenue growth, and invested in strengthening our marketing function with a full suite of technology to help our salesforce identify, qualify and ultimately secure new business opportunities.

In Australia and New Zealand, Custom Fleet completed a similar set of initiatives in 2019, designed to give them the necessary tools to take market share and win new business across our key areas of focus in the region, including self-managed and government fleets. As a carveout from GE Leasing, Custom Fleet had less transforming to do and was able to begin their pivot to growth in early 2020 – six months ahead of the U.S. and Canada – delivering (on a constant currency basis) 6% net revenue growth and 18% adjusted operating income growth year-over-year in 2020.

In Mexico, we continue to build on our team's success converting self-managed fleets into Element clients, delivering (on a constant currency basis) 10% net revenue growth and 13% adjusted operating income growth year-over-year in 2020 on 35.7% AUM growth. This despite the pandemic. That brings our three-year CAGRs to 25% on net revenue and 45.3% on AUM (on a constant currency basis) and we expect continued strong growth in 2021 having invested in adding and training more commercial and operational talent in Mexico these last two years.

New and growing client relationships

We won healthy volumes of new business in 2020, including in the fourth quarter, and grew relationships with existing clients throughout the year.

U.S. & Canada

- In Q4, Element won the business of a leading automotive aftermarket parts company; the sister company of an existing Element client with 1,400 vehicles under our management. When the aftermarket parts company identified customer service issues with their then-fleet management provider, we rapidly engaged the requisite stakeholders and offered our superior client service experience (which their sister company was already receiving from Element). By working directly with both companies' fleet teams, we won 1,300 vehicles from the aftermarket parts company, and added accident management services to our relationship across the board (now 2,700 vehicles). Finally, we obtained a three-year exclusivity agreement to ensure we continue the long-term partnership.

- Also in Q4, we grew our relationship with an acquisitive engineering firm that became a 350-vehicle client in 2019. The client's fleet grew by 500 vehicles in December 2020 when they completed an acquisition, and Element was awarded management of the entire (now) 850-vehicle fleet on a 3-year contract, supplanting the services of another FMC. Our client continues to pursue its aggressive acquisition strategy, which we anticipate will add more volume to this long-term relationship.

- In Q3, Element retained and renewed our services and lease agreements with the 5th largest energy company in North America, whose 1,800 vehicles we manage in the U.S. and Canada. Our investment-grade client has a place on the global stage as one of the largest independent energy businesses in the world. Element was able to retain this client due to our long-term existing

partnership, our proven ability to execute, and continued proactive account management - specifically, our strategic consulting services team's ability to identify initiatives for the client to drive cost efficiencies and productivity improvements.

- Our client – a Fortune 500 global electrical, communications, and utility distribution and supply chains company – extended their North American contract with Element in Q3 for three additional years. The extension included our winning an incremental 600 vehicles' worth of business previously managed by a different FMC. Potential upside to the approximately 2,000 vehicles across the U.S. and Canada is an additional ~1,000 vehicles currently on reimbursement. Element won the extension due to our strong partnership with the client – in particular our account management team, service execution and strategic consulting services.

- In Q2, we won the business of a U.S.-headquartered Top 10 global logistics firm's newly outsourced fleet. Element will finance and service the client's 800 previously self-managed vehicles, with the potential to earn responsibility for the client's additional 3,000 vehicles that are currently still being self-managed.

- A Pacific Northwest telecommunications business entrusted Element with the management of their 1,235-vehicle fleet in Q2. We provide financing and a broad suite of services to this client in support of their growth extending fiber to millions of customers.

- Our superior client experience standards and breadth of servicing capabilities were key to our taking market share from another FMC in Q2 by winning the Canadian business of a global cable, transmission and substation servicer. Element will provide financing and a broad suite of services for 750 vehicles with the opportunity to displace the client's current FMC in the U.S. as well.

- We renewed our lease and services agreements in Q2 with one of our largest North American clients – an investment-grade company in the fabricated goods space with over 22,000 vehicles managed by Element – for another 3 years. The go-forward arrangement is on terms that will improve the profitability of this client relationship.

- In Q1, we won the business of a U.S.-based technology services company that chose to partner with Element as they convert from an employee reimbursement model to a company-owned vehicle fleet. We will provide the ordering, title/registration, fuel, and maintenance services to the clients 500 vehicles.

Mexico

- Q4 saw the highest quarterly take-up of services in 2020 by Element Mexico clients, with contracts for more than 6,000 service units being initiated. The highlight of the quarter in this regard was the extension of our maintenance services program to the entire fleet of one of Mexico's largest telecommunications companies.

- Element continued to grow its presence in the food and beverage industry in Q4, onboarding new clients and being awarded the renewal of one of Latam's largest dairy companies, with a total fleet potential of 5,500 vehicles in Mexico.

- Element is also growing its participation in the mobility & transportation industry. In Q4, we began to provide leasing to Mexico's second largest intercity bus carrier and trucking company – a fleet of 7,000 buses and trucks – and to a Top 10 trucking company, representing 4,000 trucks and trailers.

- In Q3, Element materially enlarged our service relationship with an existing financial institution client in Mexico by winning the client's RFP to provide maintenance services to over 1,000 vehicles we already lease to the organization.

- In Q2, Element became part of the expansion plans of one of the largest delivery and logistic services companies in Mexico. Our new, investment-grade client will grow their 2,300-vehicle fleet to support increased operations for over 140,000 national and international customers serving the growing e-commerce industry.

- Also in Q2, we became a strategic partner of an investment-grade Mexican waste management company with a +30-year history and operations throughout Central America. Element enabled this

client's acquisition of over 100 new specialty trash collection vehicles and have taken over management of the company's 150-vehicle sales and executive fleet (previously self-managed). We will be renewing all 3,000 fleet vehicles across the business over the next 4 years.

- One of our existing clients in Mexico was acquired by a global chemical firm whose fleet was already managed by another FMC in the region. Not only did we retain the existing client's business post-merger; in Q2 we were able to win the business of the acquirer – an account representing 1,100 vehicles in Mexico and approximately 4,000 service units.

- In Q1, we earned the business of a Mexican-based manufacturer of products for the construction industry with presence in North, Central and South America. The client previously self-managed its vehicle and equipment fleets, with Element now providing financing and services for its vehicles as well as financing the client's forklift fleet.

Australia & New Zealand

- In Q4, a leading Japanese-owned beverage company awarded Custom Fleet sole supply of their Australian and New Zealand fleets. This trans-Tasman opportunity was the product of an established, positive relationship with the NZ business (as a member of their previous panel) and has enabled Custom Fleet to provide our full suite of services, ensuring we maintain this partnership well into the future.

- Custom Fleet were chosen in Q4 as the fleet manager for a large department within the NZ Government sector. This ~700 vehicle sale-leaseback represents the largest new business win for our NZ operations in more than 10 years. By coupling consistency with our advanced technological capability and unique value proposition, we were able to successfully convert the client's previously self-managed operation into an exciting new relationship for Custom Fleet.

- Custom Fleet won exclusive supply of fleet management services for a major department within the Victorian Government in Q4. Our overall value proposition, demonstrated technological capability, and existing client relationships are to be attributed for winning this 420-vehicle opportunity, further cementing our position as a key player in the government sector.

- In Q3, Custom Fleet was awarded sole supply of The Salvation Army's Australian fleet. As part of this new partnership, we were also able to execute a sale and leaseback with the organization -— one of Australia's largest not-for-profit operations. Custom Fleet were successful in winning this opportunity because of our people, our technological capability and our innovative approach to providing additional value and benefit to the client - all through a challenging period by virtue of COVID-19 that made digital communication the only option for the entire negotiation.

- Also in Q3, one of Australia's major telecommunications companies entrusted Custom Fleet with being the sole provider of accident management services to their 7,800-vehicle fleet. Expertise in technology, coupled with a client-centric approach to solution design were instrumental in successfully winning this business.

- In Q2, Custom Fleet became the manager of Australian supermarket chain Coles' newly-outsourced Online fleet. We won a competitive RFP process for the nearly 1,000-vehicle opportunity because of our asset class expertise, the superior client experience we deliver (including bespoke reporting capabilities), our third-party partnerships enabling wing-to-wing client service and the funding certainty given Element's balance sheet and liquidity. Coles is an investment-grade client listed on the Australian Stock Exchange.

- We entered into an exclusivity agreement in Q2 with Schneider Electric, an investment-grade global energy management firm awarding us sole supply of their fleet across Australia and New Zealand.

- Custom Fleet in New Zealand won the contract to manage 700 vehicles on behalf of the Department of Conservation in Q2, extending our successful partnership with the New Zealand government and further demonstrating our position as a key player in public sector fleet management and service.

- In Q1, Custom Fleet was chosen to be the fleet manager for the Australian division of a U.S.-based pharmaceutical company, winning the business from another ANZ fleet management company. We

won the business on the basis of a strong relationship and coupling the consistency of fleet fundamentals with our advanced technology capability and unique value proposition.

Continuously improving the client experience

We continue to improve the consistency and superiority of our clients' experience with Element, and in Q4 we made upgrades to our systems and processes across all geographies to better serve our clients.

- Our in-house strategic consulting services team - whose focus is the proactive provision of data-driven fleet-cost-saving insights and productivity-enhancement recommendations to our clients - evolved their business review and real-time benchmarking capabilities, empowering the team to glean deeper insights into cost saving opportunities for our clients.
- In the U.S. and Canada, we launched a proactive monitoring tool that allows our strategic consultants to (i) quickly identify significant changes to key metrics across a client's spend categories with Element, (ii) investigate the root causes of the changes and (iii) develop solutions to undo the changes as desired.
- Element Mexico developed a number of new tools to facilitate direct contact with clients' individual drivers, creating a superior client experience for those drivers - as well as for clients' fleet managers, by reducing the latter's administrative burden. We also launched a new-to-Mexico feature in Xcelerate – Element's proprietary fleet management software and app – allowing fleet managers to track the status of their new vehicle orders.
- Custom Fleet released a new online Accident Management tool, with integrated workflow to the accident repairer network, improving efficiency and flexibility for clients by providing multiple avenues to lodging claims.
- Custom Fleet also implemented a new service booking system, providing proactive maintenance management and direct connectivity between clients and preferred third-party providers and leveraging our "services due / overdue" data.

Deeper client relationships

Over the course of 2020 we provided our clients full support as they addressed the challenges and opportunities COVID-19 presented them. These interactions are welcome and valuable occasions to deepen our client relationships.

For example, our strategic consulting services team has been busy identifying fleet cost savings opportunities based on clients' specific business circumstances (as impacted by COVID-19). In some cases, we are identifying sale-leaseback opportunities for clients to instantly increase their liquidity and better manage their balance sheets.

In turn, clients are eager to act on our recommendations to reduce their total cost of fleet operations – especially in the current economic environment. As reported on our global balanced scorecard, Element identified over $1.5 billion in cost savings opportunities for clients in 2020, with clients having acted on approximately one quarter of those opportunities.

The operational effectiveness index on our global balanced scorecard measures the extent to which Element is delivering the consistent, superior client experience we strive for. Metrics in the index that measure operational effectiveness independent of third-party contributions are consistently scoring above target. There are also metrics in the index that measure "wing-to-wing" processes impacting the client experience. Improved circumstances with respect to OEM production times, motor vehicle licensing, and maintenance and accident vendor activity levels are returning those metrics closer to pre-COVID levels. As a result, the overall operational effectiveness index score was on-target for the year in 2020, which represents a material improvement over 2019 performance, as the targets were raised significantly year-over-year.

We also receive simple scores from clients after every interaction we have with them. These scores are independent of our balanced scorecard and continue to indicate that our service delivery is strong and client satisfaction is high. Our global Net Promoter Score, which is a weighted average of trailing-four-quarter Net Promoter Scores in each of our geographies, grew materially over the course of 2020.

Initiatives

Growing with Armada

In early 2019, Element began working with Armada to rapidly build - from scratch - what will quickly become one of the largest commercial fleets in North America.

To facilitate this rapid expansion, we developed and resourced a myriad of operational and financial capabilities to address Armada's unique needs.

Having achieved a quick and successful launch of the client's initial ambition, and with the better part of two years of experience working together, we aligned on changes to our operating relationship that will see Armada own (self-finance) vehicles they will order from Element in 2021 and beyond, while we focus solely on the provision of a growing set of fleet solutions for Armada.

This evolution of the Armada relationship aligns with our strategic designs on a capital-lighter Element business model that enhances return on equity.

The only material impacts of this evolution in our relationship with Armada in 2020 were

- the substantial reduction of debt (and the corresponding reduction in equity required) as we wound down the dedicated credit facility, which materially reduced tangible leverage, and
- accelerated income of approximately $8.8 million, which was recorded in Q3's servicing income.

In 2021 and beyond, we expect this evolution to have the following impacts:

- The elimination of as much as USD $1 billion of interim financing requirements;
- An expansion in the number of units under management (and the opportunity to expand the breadth of service offerings for this growing fleet); and
- The loss of syndication revenue on the sale of Armada assets to third parties, which will be partially offset by the planned increase in syndication of other clients' assets.

We will focus on the design and delivery of sophisticated fleet services and solutions for Armada's already-sizable and still-growing fleet, which is currently the single largest consumer of Element's services. We expect this to remain the case as Armada's fleet and its consumption of Element services continue to grow in the coming years.

Our People

Achievements

The year 2020 was a pivotal one for our people as we completed Transformation while living through a pandemic. Despite the unprecedented challenges, Element's actions reinforced the commitment we have to our people resulting in an overall employee engagement score of 86% - up 7 points from 2019.

Resilience of our people

Element's commitment to our people throughout 2020 was underpinned by our duty of care to support the safety and wellness of our entire workforce throughout the pandemic. Following public health directives closely, we mobilized 97% of our people to work remotely within weeks of the pandemic's onset while also ensuring essential workers were able to continue their duties on behalf of our clients in a safe environment. With everything in place to work safely and productively, we will continue to work largely from home until at least the fall of 2021, with the exception of our colleagues in Australia and New Zealand.

While this year challenged the resilience of our people, it has also provided countless learnings on how to successfully adapt and thrive in times of challenge. Our internal committee dedicated to resumption has

closely followed the evolving needs of our people across different regions to provide seven new wellness programs in addition to our already comprehensive benefits. To better support balance in our work days, we also introduced "Focus Fridays" and asked people to adhere to core meeting hours wherever possible.

Element’s agility through the pandemic has not stopped us from continuing to attract talent with ~400 external hires in 2020, 75% of whom were onboarded through the pandemic. We also forged ahead with efforts to optimize our real estate footprint closing 10 regional offices by either sub-leasing or exiting the locations.

Employee experience

The employee experience in 2020 was elevated at Element by the maturation of both our systems and our culture with important developments taking place through the summer.

The delivery of a consistent and superior employee experience was firmly established through our HR technology transformation by streamlining and automating many of our manual processes. Following through on our commitment to transparency, these new systems created direct access for our people to see their own personal details related to pay, performance, benefits, recognition, and careers. For managers, it provided the tools to quickly gain access to critical information about their teams in one place allowing them to support and recruit talent seamlessly.

The further enrichment of our employee culture was catalyzed by deep social unrest beginning in June, 2020 where we observed and acknowledged systemic racism in our society. These events marked the formal beginning of Element’s own Diversity and Inclusion journey. We started by putting a public stake in the ground committing to our people, our clients and all our stakeholders that Element would lead by example in the fleet industry as an inclusive and diverse company.

Progress has been swift. Within months we had completed a company-wide education program helping our people recognize and understand the importance of conscious inclusion. We also completed a comprehensive diagnostic of Element’s maturity as a diverse and inclusive organization and installed a new Head of Diversity and Inclusion reporting directly to our Chief People Officer.

For our clients, we solidified our commitment to leadership by connecting them to our own diverse supplier network. With over 3,800 diverse suppliers and the only fleet company member of the National Minority Supplier Development Council and member of the Canadian Aboriginal and Minority Supplier Council, our clients can proudly partner with Element.

CFO succession

On January 11th, Element announced the forthcoming appointment of Frank Ruperto as Chief Financial Officer. Mr. Ruperto joined Element on January 25th as EVP Finance and assumes the CFO role effective March 5th, in accordance with the Company's previously announced CFO succession plan.

Mr. Ruperto brings to Element 30 years of experience in business and finance, with deep expertise as a public-company CFO. His proven capabilities also span strategic planning, investor relations, commercial and operations leadership and enterprise risk management. He served as Chief Financial Officer and Senior Vice President of Finance and Strategy at Rayonier Advanced Materials Inc. (NYSE: RYAM), a producer of cellulose products, from 2014 to 2019. In 2019, RYAM named him Executive Vice President in charge of its core high purity cellulose business unit, with responsibility for executing RYAM’s cellulose specialties commercial strategy in that approximately $1 billion (U.S.) revenue business.

Prior to joining RYAM, Mr. Ruperto spent over 20 years in investment banking, most recently at Bank of America Merrill Lynch. He holds a Bachelor of Arts with a concentration in Economics from Harvard University and a Master of Business Administration from The Wharton School at the University of Pennsylvania.

Connecting pay to performance

Despite encountering a significant reduction in client activity levels, Element chose not to furlough or lay off a single employee as a result of the pandemic – and this remains our plan for 2021. In turn, the commitment of our people resulted in Element meeting or exceeding all but two of our Global Balanced Scorecard metrics.

Given that backdrop, we are allocating our 2021 salary budget in a more targeted way, to address legacy pay practices across our global footprint. We are harmonizing annual bonus targets so employees in the same job have the same annual bonus opportunity, and we are adjusting salaries that are well below the market relative to their role. These decisions address the commitment we made to our people in 2019 to resolve legacy pay practices due to multiple acquisitions across our global footprint.

As we close 2020, Element's Board of Directors will continue to use the Global Balanced Scorecard results to determine the annual short term incentive compensation of each named executive officer with a minimum determinative weighting of 50% on Element's financial performance. The Company believes that this compensation plan will continue to forge a tight alignment between performance against strategic objectives and executive pay outcomes. Full details of the impact on incentive compensation are available in Element's Management Information Circular dated April 3, 2020 which has been filed on SEDAR at www.sedar.com.

Our Investors

Achievements

Sub-6.0x tangible leverage and return of capital

We achieved our year-end target of a sub-6.0 tangible leverage ratio in 2020, measuring 5.74x at December 31st having repurchased 762,100 common shares of Element for cancellation that month pursuant to our NCIB.

Syndication revenue recovery

We continue to enjoy robust demand for our products in the syndication market, which - as expected - continued its recovery in Q4 2020 from the economic dislocation of Q2 this year. Syndication investor hurdle rates have returned to normal levels, and we increased our quarter-over-quarter syndication revenue by 57% in Q4 - to $23.9 million - on $619 million of assets syndicated, which is only 3% more volume than prior quarter.

These significant improvements - in (i) absolute syndication revenue and (ii) syndication revenue as a percentage of assets syndicated - are not only attributable to healthier markets but also our expanding investor base.

We will maintain a significant presence in the syndication market and grow demand for our assets in support of a capital-light*er* business model that enhances return on equity. We continued to transact with new investors in Q4, bringing our full-year 2020 total to 11 first-time buyers of Element's syndicated assets, to whom we sold $264 million of volume in 2020.

Strong, stable collections and credit performance

Element's collections and credit performance remained impressive in the fourth quarter.

Although our aggregate reported delinquencies at quarter-end increased by $3.9 million quarter-over-quarter - from $10.5 million to $14.4 million, which remains in line with pre-COVID-19 levels - two of these delinquent accounts were repaid on January 8, 2021, bringing delinquencies down below $10 million.

Our impaired receivables balance stood at $25 million at year-end, which is a 26% or $9 million further improvement from Q3 2020, and significantly below pre-COVID-19 impairment levels.

We provide further details and discussion under "Delinquencies and impaired receivables" below, and in section 10.0 of our Supplementary Information document.

Resilient financial and operating results

While not unscathed by the economic consequences of the COVID-19 pandemic, Element generated resilient financial and operating results in 2020.

Our global footprint – with over 5,500 clients spread across 700+ industries and five sizable geographies – diversifies and stabilizes our business. Moreover, the largely blue-chip credit profile of our clients supports both their ability and propensity to remain current with Element. Contractual delinquency was lower at year-end 2020 than year-end 2019, and impaired receivables were more than halved on the same comparative basis.

Our 2020 servicing income was only 2% lower than in 2019, evidencing the essential nature of fleet vehicles to our clients' operations, and the integral role our service offerings play to ensure clients can keep those vehicles performing productively. We provide further insight into the durability of this revenue stream in our annual operating results commentary below.

Net financing revenue grew 3% year-over-year for 2020 when adjusted for the impacts of both 19th Capital and provisions for credit losses in each of 2019 and 2020. We achieved this growth despite shrinking our earning asset base by 11% (predominantly as a result of syndication in support of our de-leveraging strategy).

And syndication market demand for Element assets was consistently robust throughout 2020. We syndicated virtually the same volume of assets as in 2019, with the uncertainty in Q2 2020 resulting in lower syndication revenue as a percentage of volume syndicated (*aka*. 'yield') than targeted. In fact, Q4 2020 syndication yield was the highest of the last 8 quarters as a result of continued improvement in pricing conditions for investment grade assets, asset mix and stronger demand trends.

Largely through the delivery of Transformation savings initiatives, we reduced 2020 adjusted operating expenses by 4% year-over-year.

In sum, adjusted operating income for the year 2020 was only 2.4% lower than in 2019 despite the headwinds introduced by the pandemic.

Maturing capital structure

In 2020, Element successfully took a number of significant steps in maturing its capital structure.

In Q4, we strategically right-sized certain revolving facilities, including winding down the final US$400 million ($509 million) of Element's non-recourse funding facility dedicated to Armada. Moreover, learnings from the global cash management office's comprehensive series of stress-tests informed right-sizing a senior unsecured credit facility by US$500 million ($636 million) and a vehicle management asset-backed revolving facility by US$1 billion ($1.3 billion).

In Q3, we redeemed the Series G preferred shares in full, eliminating our most expensive series of preferred shares. With the redemption, we have cumulatively eliminated or replaced over $1 billion of high-cost hybrid instruments from Element's capital structure since April 2019, simplifying and strengthening the Company's investment-grade balance sheet and materially reducing the cost of funding (which has, in turn, grown Net Financing Revenue).

In Q2, we took the first step to becoming a programmatic issuer in the U.S. debt capital markets with our inaugural issuance of $400 million U.S. dollar 5-year 3.85% senior unsecured investment-grade notes. The proceeds of the inaugural bond issuance were used, together with cash on hand, to retire Element's $567 million of 4.25% convertible debentures scheduled to mature June 30, 2020.

All told, we reduced Element's liabilities by over $2.4 billion in 2020 while maintaining shareholders' equity essentially flat.

Sold 19th Capital

In the second quarter of 2020, Element fulfilled one of the three chief strategic ambitions we set out in October 2018 by selling the assets of 19th Capital and settling third party debt at a discount.

Initiatives

Return of capital

Our most important investor initiative in 2020 was the announcement of Element's return of capital strategy and the beginnings of executing same.

Given

- the absolute fulfillment of our 2018 strategic ambitions,
- the scalability of Element's transformed operating platform,
- the strength of our burgeoning syndication program,
- enhanced clarity in the Company's relationship with Armada,
- the growth opportunities across our global footprint and
- our outlook for strong prospective earnings and cash flow growth,

Element is at a point where the highest potential for additional value creation lies in the return of capital – in excess of that required to maintain our sub-6.0 tangible leverage ratio – to common shareholders by way of dividends and share buybacks.

In Q4 2020, we announced:

- a 44% increase to the Company's common dividend, from $0.18 to $0.26 annually per share, effective immediately and reflected in the common dividend paid in respect of Q4 2020 on January 15, 2021;
    - With this increase, Element's common dividend represents approximately 30% of the Company's last twelve months' adjusted earnings per share, which is the mid-point of the 25% to 35% payout range we plan to maintain going forward; and
- the establishment of a normal course issuer bid to repurchase up to 10% of Element's common shares over the ensuing 12 months – the first year of what is envisioned to be a regular, ongoing program by the Company.

Change in Reporting Presentation - Elimination of "Non Core"

Following the sale of 19th Capital on May 1, 2020, Element's operations are exclusively focused on providing services and financing solutions for commercial vehicle fleets, and "Non Core" segment reporting is no longer necessary.

Since Q2 2020, Element's results of operations and financial position have been presented as a single business and comparative periods reflect the same.

We continue to break out certain information by geographic location with no change.

The tables below set out key financial metrics that show operating results together with related per share figures.

Selected Annual Financial Information

	As at and for the years ended		
(in $000's for stated values, except per share amounts)	**December 31, 2020**	December 31, 2019	December 31, 2018
	$	$	$
Net revenue	**963,093**	994,102	873,519
Net income (loss)	**287,092**	97,701	(199,104)
Total assets	**14,991,388**	17,429,603	18,964,006
Total debt	**10,018,603**	12,604,652	14,168,215
After tax adjusted operating income	**413,905**	420,131	319,922
Earnings (loss) per share			
Basic	**0.56**	0.12	(0.62)
Diluted	**0.56**	0.12	(0.62)
After tax adjusted operating income per share(1)			
Basic	**0.85**	0.86	0.70
Pro forma Diluted	**0.84**	0.83	0.69
Dividends declared, per share			
Common share	**0.200000**	0.180000	0.270000
Preferred Shares, Series A	**1.733252**	1.733250	1.650000
Preferred Shares, Series C	**1.552520**	1.588760	1.625000
Preferred Shares, Series E	**1.475752**	1.568938	1.600000
Preferred Shares, Series G	**1.218750**	1.625000	1.625000
Preferred Shares, Series I	**1.437500**	1.437500	1.437500

Selected Quarterly Financial Information

	As at and for the three-month periods ended		
(in $000's for stated values, except per share amounts)	**December 31, 2020**	September 30, 2020	December 31, 2019
	$	$	$
Net revenue	**247,099**	243,252	256,509
Net income (loss)	**78,362**	70,778	(116,978)
Total assets	**14,991,388**	15,711,869	17,429,603
Total debt	**10,018,603**	10,888,398	12,604,652
After tax adjusted operating income(1)	**108,089**	107,058	112,797
Earnings (loss) per share			
Basic	**0.16**	0.14	(0.29)
Diluted	**0.16**	0.14	(0.29)
After tax adjusted operating income per share(1)			
Basic	**0.23**	0.22	0.23
Pro forma Diluted	**0.22**	0.22	0.22
Dividends declared, per share			
Common share	**0.065000**	0.045000	0.045000
Preferred Shares, Series A	**0.433313**	0.433313	0.433313
Preferred Shares, Series C	**0.388130**	0.388130	0.388130
Preferred Shares, Series E	**0.368938**	0.368938	0.368938
Preferred Shares, Series G	**—**	0.406250	0.406250
Preferred Shares, Series I	**0.359375**	0.359375	0.359375

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

Annual Results of Operations

(in $000's for stated values, except per share amounts)	For the year ended **December 31, 2020** **$**	 December 31, 2019 $
Net revenue		
Net interest income and rental revenue	**741,898**	908,701
Interest expense	**336,211**	497,521
Net financing revenue	**405,687**	411,180
Servicing income, net	**481,854**	493,345
Syndication revenue, net	**75,552**	89,577
Net revenue	**963,093**	994,102
Operating expenses		
Salaries, wages and benefits	**302,757**	322,628
General and administration expenses	**116,336**	115,256
Depreciation and amortization	**42,491**	42,252
Adjusted operating expenses	**461,584**	480,136
Amortization of convertible debenture discount	**6,259**	13,185
Share-based compensation	**35,033**	18,871
Operating expenses	**502,876**	512,192
Disposition of 19th Capital		
Gain on settlement of debt	**38,580**	—
Loss on sale of assets	**(52,442)**	—
Net loss on disposition	**(13,862)**	—
Other expenses		
Amortization of intangible assets from acquisition	**38,291**	36,859
Restructuring and transformation costs	**77,508**	91,413
Impairment on 19th Capital	**—**	260,000
(Gain) loss on investments	**(2,497)**	1,599
Other expenses	**113,302**	389,871
Net income before taxes	**333,053**	92,039
Income tax expense (recovery)	**45,961**	(5,662)
Net income for the year	**287,092**	97,701
Weighted average number of shares outstanding [basic]	**438,561**	434,812
Earnings per share [basic]	**0.56**	0.12

We discuss the components of our net revenue - net financing revenue, servicing income, and syndication revenue - as well as our adjusted operating expenses, in the sub-section below titled "Adjusted Operating Results".

Net income for the year ended December 31, 2020 was $287.1 million, a $189.4 million increase from net income of $97.7 million in 2019. The year-over-year improvement was driven by the

i. $260.0 million impairment on 19th Capital assets in 2019;

ii. $62.5 million of additional net revenue growth and operating expense reductions enabled by transformation in 2020; and

iii. $13.9 million reduction in restructuring and transformation costs in 2020

offset somewhat by the

a. $13.9 million net loss on disposition of 19th Capital in 2020, and

b. COVID-19 headwinds to net revenue in 2020.

In addition to salaries, wages and benefits, general and administration expenses, and depreciation and amortization (the components of adjusted operating expenses, discussed below under "Adjusted Operating Results"), we incurred the following operating expenses in 2020:

- amortization of the convertible debenture discount, which reflects the accrual of the balance sheet liability back to its face value due at maturity; and
- share-based compensation, which increased from $18.9 million in 2019 to $35.0 million in 2020 recognizing better-than-target performance of certain 2018 and 2019 performance stock units, and additional performance stock unit amortization.

The amortization of intangibles acquired as part of past transactions was $38.3 million for the year ended December 31, 2020, up from $36.9 million for the year ended December 31, 2019 primarily related to changes in the FX rate during the year.

During the year ended December 31, 2020, in support of our Transformation program, the Company recorded $77.5 million of one-time operating investments. These costs consist primarily of professional fees and severance-related expenditures. With our Transformation now complete, there will be no further restructuring and transformation costs.

The effective income tax rate on adjusted operating income was 17.2% for the year ended December 31, 2020, compared with 18.3% for the year ended December 31, 2019. The 2020 effective tax rate is slightly lower than 2019, reflecting year-over-year variances in pre-tax net income and other tax-related adjustments.

Adjusted Operating Results

	For the year ended	
(in $000's for stated values, except per share amounts)	**December 31, 2020**	December 31, 2019
	$	$
Originations	**6,003,847**	7,851,876
Assets under management [(1)]	**15,652,493**	16,710,402
Net financing revenue	**405,687**	411,180
Servicing income, net	**481,854**	493,345
Syndication revenue, net	**75,552**	89,577
Net revenue	**963,093**	994,102
Salaries, wages and benefits	**302,757**	322,628
General and administrative expenses	**116,336**	115,256
Depreciation and amortization	**42,491**	42,252
Adjusted operating expenses	**461,584**	480,136
Adjusted operating income	**501,509**	513,966
Provision for taxes applicable to adjusted operating income	**87,604**	93,835
Cumulative preferred share dividends	**40,820**	44,424
After-tax adjusted operating income attributable to common shareholders[(1)]	**373,085**	375,707
Weighted average number of shares outstanding [basic]	**438,561**	434,812
After-tax adjusted operating income per share [basic] [(1)]	**0.85**	0.86

(1) For additional information, see "Glossary of Terms" section.

Element's net revenue declined 3.1% or $31.0 million year-over-year in 2020 due primarily to the impacts of COVID-19 on portions of our client base and the temporary dislocation of economics in the U.S. syndication market. These headwinds to net revenue were partially offset by the contributions to net revenue made by our Transformation program.

Transformation was also the primary driver of the $18.6 million or 3.9% year-over-year decline in adjusted operating expenses.

Element's adjusted operating income ("AOI") for the year ended December 31, 2020 was $501.5 million, amounting to $0.85 on a per share basis; 2.4%, $12.5 million or $0.01 per share less than the $514.0 million of AOI generated for the year ended December 31, 2019.

Originations

We originated $6.0 billion of assets in 2020 - $1.8 billion or 24% less than in 2019. The primary drivers of the difference were:

- the tail-off in Armada originations in the second half of 2020 – which was in keeping with our 2019/2020 Armada fleet launch plan,
- the impact of OEM production facility and dealership closures and capacity reductions, and thus vehicle availability
  - in ANZ in the first half of 2020, and
  - in the U.S. and Canada beginning in Q2 2020 and continuing to various extents throughout the year;
- the knock-on impacts of OEM production facility and dealership closures on our clients' thinking around fleet vehicle replacement; and
- the impact of the economic consequences of COVID-19 on our clients' decisions to replace their fleet vehicles.

Notwithstanding all of the foregoing, 2020 originations in Mexico grew by $47.1 million or 8.4% (18% on an FX-neutral basis) over 2019 volumes, demonstrating the resilience of demand for our services and opportunity in that region.

Assets under management

Our assets under management ("AUM") at year-end totaled $15.7 billion – down $1.1 billion or 6.3% year-over-year. As set out in our Supplementary Information document (available on our website), the year-over-year decrease reflects the impacts of lower origination volumes in 2020, plus amortization, dispositions and FX. On a constant currency basis, AUM declined $860 million or 5.2% year-over-year.

Servicing income, net

We earned $481.9 million of servicing income in 2020, down 2.3% or $11.5 million from 2019. This revenue stream demonstrated resilience throughout the year and in spite of the pandemic's impact on traffic levels at large. Element's servicing income – which is driven by our clients' vehicle usage – is predictably durable. There are four overarching reasons for its durability:

- Our clients represent a broad spectrum of enterprise- and mid-market-scale businesses, a large number of which continue to operate despite COVID-19. As section 8.1 of our Supplementary Information document depicts, Element's U.S. and Canadian clients' vehicle usage declined notably less by some measures than average vehicle usage in the U.S. from mid-March to the end of December 2020. Our clients include frontline service providers and many are essential services. Some clients' businesses are operating at less than full capacity amid COVID-19 and other clients' activity levels have increased dramatically. The latter category includes companies such as medical services businesses, telecommunication companies and businesses with online retail presence.
- All the vehicles we lease are essential to our clients' ability to generate and sustain revenue, so the vast majority have been active in some capacity during the pandemic. However, we have seen less decline in the activity levels of service fleet vehicles (which make up approximately 80% of our leases) than we have seen in sales fleet vehicles (which make up the other approximately 20% of our leases). Service fleet vehicles are transporting service personnel and equipment to job sites, ferrying assets between locations and delivering products to consumers sheltering-in-place.
- Not only have service fleet vehicles been more active than sales fleet vehicles amid COVID-19, but service fleets tend to consume more Element services than sales fleets; for instance, approximately 5x the maintenance, 2.5x the accident services and 4.5x the fuel (on average) over any given period.

  Taking the month of April 2020 as an example - when Element's U.S. and Canadian clients' vehicle usage was at its lowest (see section 8.1 of our Supplementary Information document) - maintenance,

accident services and fuel usage by such clients declined from average levels by materially more among sales fleet than service fleet vehicles:

Element services consumption declines in the month of April 2020	Maintenance	Accident	Fuel
Sales fleet vehicles	58%	60%	68%
Service fleet vehicles	32%	49%	28%

This data – combined with the fact that service fleet vehicles tend to consume more Element services on average than sales fleet vehicles, regardless of COVID-19 – illustrates the strength of service fleet vehicles' contribution to our servicing income. And service fleets make up approximately 80% of our leases.

- Approximately one-third of our servicing income is derived from client subscriptions for services, which make predictable contributions to quarterly revenue independent of client vehicle activity.

Section 8.2 of our Supplementary Information document (available on our website) provides datapoints on servicing income contributors throughout most of 2020.

Net financing revenue

Net financing revenue of $405.7 million in 2020 represents a 1.3% or $5.5 million decline year-over-year.

However, excluding the impacts of our non-core 19th Capital business on net financing revenue in 2019 (a $5.7 million positive contribution) and Q1 2020 (a $2.0 million net financing revenue loss prior to the sale of 19th Capital), net financing revenue from ‘core’ fleet management services in 2020 increased by $2.2 million.

Further adjusting both years' results for provisions for credit loss ($2.1 million in 2019 and $11.7 million in 2020), net financing revenue grew $11.8 million or 2.9% year-over-year.

All of the foregoing represents resilient net financing revenue performance, given that net earning assets declined 11% over the course of 2020 as a result of (i) syndication activity and (ii) postponed and delayed originations.

We also materially optimized our cost of funding in 2020, reducing our interest expense as a percentage of average net earning assets by 88 basis points (from 3.86% in 2019 to 2.98% in 2020) and our average cost of debt by 99 basis points (from 3.78% in 2019 to 2.79% in 2020).

Net financing revenue yield on average net earning assets

	For the year ended	
(in $000’s for stated values)	**December 31, 2020**	December 31, 2019
Average net earning assets	**$ 11,274,225**	$ 12,877,638
Net interest income and rental revenue	**6.58 %**	7.05 %
Interest expense	**2.98 %**	3.86 %
Net financing revenue yield on average net earning assets	**3.60 %**	3.19 %
Average debt outstanding	**$ 12,048,215**	$ 13,146,830
Average cost of debt (Interest expense / average debt)	**2.79 %**	3.78 %
Average 1-Month LIBOR rates	**0.52 %**	2.22 %

Syndication revenue, net

We syndicated $2.8 billion of assets in 2020 - $87 million less than in 2019 - and generated $75.6 million of revenue - $14.0 million less than in 2019. The lower revenue yield on syndicated assets this year was predominantly attributable to the significant tightening of prices (higher hurdle rates) in the second quarter, which recovered in the second half of 2020. Syndication was the major contributor to our significant and successful balance sheet de-leveraging in 2020.

Adjusted operating expenses

Adjusted operating expenses of $461.6 million in 2020 were $18.6 million or 3.9% lower than 2019 – savings driven predominantly by delivery on Transformation initiatives.

Quarterly Results of Operations

	For the three-month periods ended		
(in $000's for stated values, except per share amounts)	**December 31, 2020**	September 30, 2020	December 31, 2019
	$	$	$
Net revenue			
Net interest income and rental revenue	**175,674**	176,573	218,267
Interest expense	**69,219**	73,301	118,050
Net financing revenue	**106,455**	103,272	100,217
Servicing income, net	**116,758**	124,734	128,754
Syndication revenue, net	**23,886**	15,246	27,538
Net revenue	**247,099**	243,252	256,509
Operating expenses			
Salaries, wages and benefits	**77,518**	74,910	78,077
General and administrative expenses	**27,166**	28,789	29,101
Depreciation and amortization	**10,357**	10,568	10,945
Adjusted operating expenses	**115,041**	114,267	118,123
Amortization of convertible debenture discount	**858**	843	2,534
Share-based compensation	**19,578**	5,591	3,931
Total operating expenses	**135,477**	120,701	124,588
Other expenses			
Amortization of intangible assets from acquisition	**9,070**	9,338	9,623
Restructuring and transformation costs	**19,637**	24,213	28,671
Impairment on 19th Capital	**—**	—	260,000
(Gain) loss on investments	**(3,261)**	710	267
Total other expenses	**25,446**	34,261	298,561
Net income (loss) before taxes	**86,176**	88,290	(166,640)
Income tax expense (recovery)	**7,814**	17,512	(49,662)
Net income (loss) for the period	**78,362**	70,778	(116,978)
Weighted average number of shares outstanding [basic]	**440,243**	438,842	435,774
Earnings (loss) per share [basic]	**0.16**	0.14	(0.29)

Element earned net income for the fourth quarter of $78.4 million; a 10.7% or $7.6 million improvement over Q3 2020. Net income improved $195.3 million year-over-year as Q4 2019 included the $260 million impairment on 19th Capital assets.

Quarter-over-quarter improvement was a function of:

- strong operating performance ($3.1 million net positive impact):
  - increases in syndication revenue ($8.6 million) and net financing revenue ($3.2 million), offset by a decrease in servicing income ($8.0 million) and a slight increase in operating expenses ($0.8 million). The decrease in servicing income was largely expected, as discussed in last quarter's MD&A and further explained below;
- lower (by $4.6 million) restructuring and transformation costs;
- a $4.0 million quarter-over-quarter gain on investments resulting from the sale of the Company's non-core interest in Amerit Fleet Solutions LLC; and
- lower (by $9.7 million) provision for income taxes,

- offset by $14.0 million higher share-based compensation recognizing better-than-target performance of certain 2018 and 2019 performance stock units, and additional performance stock unit amortization.

Quarterly Adjusted Operating Results

(in $000's for stated values, except per share amounts)	For the three-month periods ended		
	December 31, 2020	September 30, 2020	December 31, 2019
	$	$	$
Originations	**1,386,792**	1,279,263	2,225,909
Assets under management [1]	**15,652,493**	16,148,812	16,710,402
Net financing revenue	**106,455**	103,272	100,217
Servicing income, net	**116,758**	124,734	128,754
Syndication revenue, net	**23,886**	15,246	27,538
Net revenue	**247,099**	243,252	256,509
Salaries, wages and benefits	**77,518**	74,910	78,077
General and administrative expenses	**27,166**	28,789	29,101
Depreciation and amortization	**10,357**	10,568	10,945
Adjusted operating expenses [1]	**115,041**	114,267	118,123
Adjusted operating income [1]	**132,058**	128,985	138,386
Provision for taxes applicable to adjusted operating income	**23,969**	21,927	25,589
Cumulative preferred share dividends	**8,103**	10,875	11,025
After-tax adjusted operating income attributable to common shareholders [1]	**99,986**	96,183	101,772
Weighted average number of shares outstanding [basic]	**440,243**	438,842	435,774
After-tax adjusted operating income per share [1] [basic]	**0.23**	0.22	0.23

(1) For additional information, see "Glossary of Terms" section.

Element's adjusted operating income ("AOI") for the quarter was $132.1 million (equivalent to $0.23 on a per share basis), which is a 2.4% or $3.1 million increase over Q3 2020 results and a 4.6% or $6.3 million decrease from Q4 2019.

The quarter-over-quarter AOI improvement was driven by increases in net financing revenue and syndication revenue, offset partially by lower servicing income and slightly higher adjusted operating expenses compared to prior period. Q3 2020 servicing income benefited from one-time accelerated Armada income of $8.8 million. Removing the $8.8 million from the Q3 servicing income total, recurring servicing income showed modest quarter-over-quarter growth in Q4.

The 4.6% year-over-year decline in AOI stemmed from pandemic-related declines in net revenue that were largely offset by lower adjusted operating expenses. We address all of these results in more detail below.

Originations

We originated approximately $1.4 billion of assets in the quarter, an increase of $107.5 million or 8.4% quarter-over-quarter.

U.S. and Canadian originations increased by 4.7% quarter-over-quarter. This growth was, in part, driven by unfilled orders and pent up demand tracing back to Q2 2020, when certain OEM production facilities experienced closures.

Although Q4 2020 origination volumes in the U.S. and Canada do not yet represent a full "catch-up" on origination volumes delayed and deferred by the consequences of COVID-19, we are trending in the right direction:

- Q2 2020 originations in the U.S. and Canada were ~44% lower than in the same quarter of 2019 – excluding Armada volume from both quarterly figures.
- By comparison, Q4 2020 originations in the U.S. and Canada were only ~10% lower than in Q4 2019 – again, excluding Armada volume from both figures.

ANZ origination volumes increased 4.7% quarter-over-quarter as Custom Fleet continues its swift recovery from the impacts of COVID-19 and wildfires in the region. We are also beginning to see the positive impacts of our global growth strategy being executed in ANZ, where our commercial efforts are 6-9 months ahead of those in the U.S. and Canada.

As discussed last quarter, while the economic impact of COVID-19 was more muted in the first half, Mexico - and Element Mexico - experienced setbacks in the third quarter. As expected, originations in Mexico recovered in Q4, increasing 46.7% quarter-over-quarter. On a year-over-year basis, fourth quarter originations were 13.5% higher in 2020, 31.0% on an FX-adjusted basis. Mexico's relentless, resilient growth also portends well for the impacts of our global growth strategy in all of ANZ, the U.S. and Canada because a key 'plank' of the strategy – how to convert self-managed fleets into Element clients – was conceived of and pioneered by Element Mexico.

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

(in $000's for stated values)	**December 31, 2020**		September 30, 2020		December 31, 2019	
	$	**%**	$	%	$	%
United States and Canada	**1,080,626**	**77.92**	1,032,225	80.69	1,944,671	87.37
Mexico	**166,020**	**11.97**	113,173	8.85	146,267	6.57
Australia and New Zealand	**140,146**	**10.11**	133,865	10.46	134,971	6.06
Total	**1,386,792**	100.00	1,279,263	100.00	2,225,909	100.00

Importantly, there has been no increase quarter-over-quarter in the number of instances of de-fleeting year-to-date. "De-fleeting" is when a client decides to materially reduce the size of their fleet more or less permanently. The cases of de-fleeting we have on record in 2020 remain restricted to specific industries going through down cycles independent of COVID-19 – oil and gas being the prime example – and otherwise a few individual clients paring back on unit counts in response to the economic consequences of COVID-19 on their specific business.

Assets under management

Our assets under management ("AUM") at quarter-end totaled $15.7 billion, down 3.1% or $0.5 billion quarter-over-quarter given lower than normal origination volumes in our largest market - such originations delayed and deferred by the consequences of COVID-19, and now gradually improving. As set out in our Supplementary Information document, modest quarter-over-quarter originations growth was offset by the impacts of amortization, dispositions and FX on AUM. On a constant currency basis, AUM was essentially flat quarter-over-quarter.

Servicing income, net

Servicing income declined 6.4% or $8.0 million from Q3 2020 and 9.3% or $12.0 million from Q4 2019. Excluding the $8.8 million one-time accelerated Armada servicing income in Q3 2020, servicing income grew $0.8 million quarter-over-quarter.

The main contributor to the $0.8 million organic servicing income growth was clients' use of maintenance services, with most other service usage levels relatively flat. Fourth quarter maintenance activity also grew year-over-year, although overall vehicle usage levels remained lower in Q4 2020 relative to Q4 2019, resulting in the 9.3% year-over-year servicing income decline for the quarter.

That said, we continue to generate relatively stable recurring revenues across the entirety of our portfolio of client services and solutions. Approximately one-third of our servicing income is subscription-based and therefore less variable, with the balance being driven by clients' vehicle usage.

Section 8.2 of our Supplementary Information document (available on our website) provides further datapoints on servicing income contributors in the period.

Net financing revenue

Net financing revenue increased 3.1%, or $3.2 million quarter-over-quarter despite a 2.1% reduction of net

earning assets via syndication (in support of deleveraging to maintain our target tangible leverage ratio). The primary driver of the net financing revenue increase is interest expense management: interest expense decreased $4.1 million quarter-over-quarter, more than offsetting the $0.9 million decrease in net interest income and rental revenue (as we syndicate leases that earn net interest income).

Net financing revenue increased $6.2 million year-over-year, which represents particularly strong performance given net earning assets decreased by 14% over the same period. The net financing revenue increase is due largely to:

- Lower cost of funding, as we substantially reduced liabilities (by $2.4 billion in 2020) and lowered the cost of financing the remaining indebtedness; and
- Growth in net earning assets in Mexico.

Net financing revenue yield on average net earning assets

	For the three-month periods ended		
(in $000's for stated values)	**December 31, 2020**	September 30, 2020	December 31, 2019
Average net earning assets	**$ 10,664,938**	$ 10,895,388	$ 12,371,416
Net interest income and rental revenue	**6.59 %**	6.48 %	7.06 %
Interest expense	**2.60 %**	2.69 %	3.82 %
Net financing revenue yield on average net earning assets	**3.99 %**	3.79 %	3.24 %
Average debt outstanding	**$ 10,426,959**	$ 11,715,194	$ 12,914,664
Average cost of debt (Interest expense / average debt)	**2.66 %**	2.50 %	3.66 %
Average 1-Month LIBOR rates	**0.15 %**	0.16 %	1.85 %

Average net earning assets decreased 2.1% or $230.5 million quarter-over-quarter and 13.8% or $1.7 billion year-over-year as a result of syndication activity and, in the case of the year-over-year decline, the impact of lower originations through 2020 for the reasons discussed above. Earning asset changes are broken down in our Supplementary Information document.

Net financing revenue yield on average net earning assets improved 75 basis points year-over-year and 20 basis points quarter-over-quarter, reflecting

- lower levels of debt as we strengthened the balance sheet,
- lower cost of funding as we improved our financing mix,
- improving price realization, and
- the shifting mix of assets held on balance sheet.

Syndication revenue, net

We syndicated $619 million of assets in Q4, resulting in $23.9 million of syndication revenue and a material contribution to our balance sheet de-leveraging in the quarter.

Syndication revenue grew 57% or $8.6 million quarter-over-quarter in Q4 and declined 13.3% or $3.7 million year-over-year. 'Yield' improvement was the most significant driver of the quarter-over-quarter revenue growth, and yield also improved year-over-year for the quarter - albeit on a lower volume of syndicated assets in Q4 2020.

Syndication revenue benefited quarter-over-quarter from an improved rate environment (lowering investor hurdle rates over the course of the quarter) and increasing demand for our assets.

Adjusted operating expenses

Adjusted operating expenses of $115.0 million represent an increase of 0.7% or $0.8 million quarter-over-quarter and a decrease of 2.6% or $3.1 million year-over-year. The decrease over Q4 2019 is primarily driven by Transformation savings on salaries and general and administrative expenses. We have exercised diligent cost controls in the COVID-19 environment and continued with planned Transformation initiatives, which

include operating expense reduction measures, while the stability, resilience and natural defensiveness of our business model has preserved healthy operating margins (53.4% for Q4 2020 versus 53.9% for Q4 2019).

Summary of Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended December 31, 2020. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

(in $ 000's for stated values, except per share amounts and ratios)	**Q4 2020**	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net revenue	**247,099**	243,252	225,503	247,239	256,509	245,796	249,570	242,227
Adjusted operating income (1)	**132,058**	128,985	111,144	129,322	138,386	127,650	125,976	121,954
After-tax adjusted operating income (1)	**108,089**	107,058	93,361	105,397	112,797	105,311	101,411	100,612
Net income (loss)	**78,362**	70,778	58,594	79,358	(116,978)	70,145	64,061	80,473
Earnings (loss) per share, basic	**0.16**	0.14	0.11	0.16	(0.29)	0.14	0.12	0.16
Earnings (loss) per share, diluted	**0.16**	0.14	0.11	0.16	(0.29)	0.13	0.12	0.16
Adjusted operating income per share, basic (1)	**0.28**	0.27	0.23	0.27	0.29	0.27	0.26	0.26
After-tax adjusted operating income per share, basic(1)	**0.23**	0.22	0.19	0.22	0.23	0.22	0.21	0.21
After-tax pro forma diluted adjusted operating income per share (1)	**0.22**	0.22	0.19	0.21	0.22	0.21	0.22	0.20
Net earning assets	**10,465,983**	10,750,218	11,025,581	11,999,636	11,783,853	12,388,224	12,714,943	13,141,273
Loan and lease originations	**1,386,792**	1,279,263	1,306,804	2,030,988	2,225,909	2,106,603	1,806,515	1,712,849
Allowance for credit losses	**17,718**	18,829	20,000	20,000	8,432	7,810	8,183	10,096
As a % of total finance receivables before allowance	**0.18**	0.19	0.18	0.16	0.07	0.06	0.07	0.08
Senior revolving credit facilities	**1,551,939**	1,354,470	1,774,086	1,869,919	1,703,507	1,824,014	2,372,370	2,153,786
Borrowings	**8,312,397**	9,380,815	9,984,649	10,529,564	10,189,354	10,329,638	9,828,447	10,567,390
Convertible debentures	**154,267**	153,113	151,976	715,978	711,791	715,399	711,305	903,024

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

Effect of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where, as at December 31, 2020, 11.0%, 4.7%, 10.6% and 60.9% of the net finance receivables and equipment under operating leases were located, respectively. While Element has certain designated hedges that partially mitigate the effects of FX exposure, our assets, liabilities, and foreign operating results do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar.

During the fourth quarter, adjusted operating income was not materially impacted by the change in average exchange rates of the Company's operating currencies against the Canadian dollar compared to adjusted operating income for the quarters ended September 30, 2020 and December 31, 2019.

The following table sets forth a summary of the Company's results on a **constant currency** basis:

	For the three-month periods ended			For the year ended	
(in $000's for stated values)	**December 31, 2020**	September 30, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
	$	$	$	**$**	$
Interest income, net	**119,295**	120,431	152,698	**511,444**	635,675
Rental revenue and other	**165,744**	163,093	186,653	**658,892**	736,902
Depreciation of equipment under operating leases	**(109,365)**	(107,385)	(121,440)	**(436,486)**	(476,852)
	175,674	176,139	217,911	**733,850**	895,725
Interest expense	**69,219**	73,070	118,811	**331,761**	491,750
Net financing revenue	**106,455**	103,069	99,100	**402,089**	403,975
Fleet service revenue	**128,179**	133,442	139,165	**516,422**	532,892
Direct costs of fixed rate service contract	**(11,421)**	(10,808)	(11,232)	**(43,766)**	(45,714)
Servicing income, net	**116,758**	122,634	127,933	**472,656**	487,178
Syndication revenue, net	**23,886**	14,919	27,184	**73,807**	88,017
Net revenue	**247,099**	240,622	254,217	**948,552**	979,170
Salaries, wages and benefits	**77,518**	74,137	77,680	**298,312**	318,231
General and administrative expenses	**27,166**	28,375	28,931	**114,449**	113,928
Depreciation and amortization	**10,357**	10,450	10,843	**41,983**	41,807
Adjusted operating expenses	**115,041**	112,962	117,454	**454,744**	473,966
Adjusted operating income	**132,058**	127,660	136,763	**493,808**	505,204
After-tax adjusted operating income	**108,089**	105,958	111,463	**408,824**	412,970
Net earning assets	**10,465,983**	10,556,158	11,671,658	**10,465,983**	11,671,658
Average net earning assets	**10,664,938**	10,694,259	12,538,616	**11,000,365**	12,690,847

Financial Position

In keeping with our strategic priority – established in October 2018 – to strengthen and de-leverage Element's investment grade balance sheet, we reduced our liabilities by over $2.4 billion in 2020, while maintaining shareholders' equity essentially flat.

We lowered tangible leverage from 7.11x at year-end 2019 to 5.74x at year-end 2020 – maturing and improving our capital structure in the process, and materially lowering our cost of funds.

In Q4 2020, we strategically right-sized certain revolving facilities as discussed below under "Liquidity – Credit and Debt Facilities".

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

(in $000's for stated values)	**December 31, 2020**	September 30, 2020	December 31, 2019
	$	$	$
ASSETS			
Cash	**8,789**	75,633	24,224
Restricted funds	**388,978**	488,250	434,128
Finance receivables	**9,561,622**	10,145,518	11,986,974
Equipment under operating leases	**2,157,227**	2,022,871	2,101,367
Accounts receivable and other current assets	**226,952**	208,161	219,676
Derivative financial instruments	**53,629**	63,665	41,396
Property, equipment and leasehold improvements	**112,352**	121,978	141,626
Intangible assets	**814,378**	825,089	793,279
Deferred tax assets	**444,120**	485,269	440,952
Goodwill	**1,223,341**	1,275,435	1,245,981
	14,991,388	15,711,869	17,429,603
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**1,062,610**	911,719	924,936
Derivative financial instruments	**68,282**	88,962	39,145
Borrowings	**9,864,336**	10,735,285	11,892,861
Convertible debentures	**154,267**	153,113	711,791
Deferred tax liabilities	**57,776**	88,233	48,225
	11,207,271	11,977,312	13,616,958
Shareholders' equity	**3,784,117**	3,734,557	3,812,645
	14,991,388	15,711,869	17,429,603

Total assets and liabilities decreased by $720 million and $770 million, respectively, over Q3 2020. 64% of Element's assets are U.S. dollar-denominated, as a result of which movements in the value of the U.S. compared to the Canadian dollar have an impact on our balance sheet. We also have assets denominated in Mexican pesos and Australian and New Zealand dollars, although these are smaller tranches of our portfolio. In Q4 2020, the quarter-over-quarter decrease in total assets and liabilities was driven by a strengthening Canadian dollar against the U.S. dollar as well as a decrease in net earning assets. The net impact of all currency variations flows through to Shareholders' Equity as Other Comprehensive Income.

Portfolio Details

Total finance receivables

The following table breaks down the Company's total finance receivables, which were $2.4 billion lower on December 31, 2020 compared to December 31, 2019, driven by the cumulative impact of syndication and below average origination volumes in Q2, Q3 and Q4 this year. Total finance receivables decreased by $0.6 billion quarter-over-quarter due to syndication, amortization, and below average originations.

(in $000's for stated values, except ratios)	**December 31, 2020**	September 30, 2020	December 31, 2019
	$	$	$
Net investment in finance receivables	**8,308,756**	8,727,347	9,682,486
Impaired receivables - at net realizable value	**25,463**	34,307	53,532
	8,334,219	8,761,654	9,736,018
Unamortized origination costs and subsidies	**(78,396)**	(101,585)	(107,257)
Net finance receivables	**8,255,823**	8,660,069	9,628,761
Prepaid lease payments and Security deposits	**(85,025)**	(41,643)	(66,867)
Interim funding	**625,778**	808,910	1,421,607
Fleet management service receivables	**505,506**	399,619	691,908
Other	**277,258**	337,392	319,997
	9,579,340	10,164,347	11,995,406
Allowance for credit losses	**17,718**	18,829	8,432
Total finance receivables	**9,561,622**	10,145,518	11,986,974

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

Credit losses and provisions as at and for the year ended December 31, 2020 and December 31, 2019 are as follows. Element achieved a noteworthy 27% reduction from 2019 in charge-offs (net of recoveries) for 2020, which were less than 2 basis points as a percentage of year-end total finance receivables.

(in $000's for stated values, except ratios)	**December 31, 2020**	December 31, 2019
	$	$
Allowance for credit losses, beginning of period	**8,432**	9,332
Provision for credit losses	**11,652**	2,082
Charge-offs, net of recoveries	**(1,629)**	(2,227)
Impact of foreign exchange rates	**(737)**	(755)
Allowance for credit losses, end of period	**17,718**	8,432
Ratios		
Charge-offs, net of recoveries, as a % of total finance receivables	**0.02 %**	0.02 %
Allowance for credit losses, as a % of total finance receivables before allowance	**0.18 %**	0.07 %

Element's policy is to assess the credit risk of specific client defaults by performing detailed assessments of the value of the underlying security, and the client's financial condition and ability to service the debt, both at loan inception and throughout the term of the loan.

While it is difficult to perform these assessments in the current environment given persistence of the pandemic and its economic impacts, our experience and activity over the last three quarters has been encouraging. We reviewed inputs to our expected credit loss model throughout Q4. There were positive changes to the portfolio and improvement in the amounts likely to be recovered in the event of default. We also consider forward-looking macroeconomic information in light of COVID-19, such as increasing default rates and the impact potential upward or downward trends in GDP would have on our lease and loan portfolio. We have also evaluated multiple scenarios related to COVID-19, including expected time periods of market slow-down and recovery. Given the continued uncertainty of the pandemic, namely as it relates to new strains

of the virus and potential delays in vaccinations and based on forward-looking macroeconomic expectations, we have recorded an allowance for credit losses at $17.7 million at December 31, 2020, a slight decrease from September 30, 2020.

Delinquencies and impaired receivables

Element's collections and credit performance in Q4 and 2020 as a whole was impressive, returning to pre-COVID-19-levels and, in some cases, improving on those levels. This is a testament to the blue-chip nature of our client base as well as the caliber of our internal teams in our credit and collections functions.

The contractual delinquency and impairment of net finance receivables at the end of each reporting period is as follows:

(in $000's for stated values)	**December 31, 2020**		September 30, 2020		December 31, 2019	
	$	**%**	$	%	$	%
Current	**8,215,946**	**99.52**	8,615,256	99.48	9,667,619	99.29
31 to 60 days	**12,280**	**0.15**	8,545	0.10	8,410	0.09
61 to 90 days	**1,857**	**0.02**	1,536	0.02	3,433	0.04
91 to 120 days	**277**	**—**	425	—	3,024	0.03
Impaired receivables	**25,463**	**0.31**	34,307	0.40	53,532	0.55
Total	**8,255,823**	**100.00**	8,660,069	100.00	9,628,761	100.00

Collection of delinquencies

Our aggregate reported delinquencies at quarter-end increased by $3.9 million quarter-over-quarter - from $10.5 million to $14.4 million - which remains in line with pre-COVID-19 levels. Of these delinquent accounts, two had been paid by January 8, 2021, bringing aggregate delinquencies below $10 million and below Q3 levels.

The delinquency values reported in the table above are Element's aggregate net investments in finance receivables (i.e. finance lease receivables and finance loan receivables) attributable to delinquent client accounts - and not the actual amounts in respect of which clients were delinquent. The actual net finance receivable amounts in respect of which clients were delinquent on December 31, 2020 totaled $1.3 million - effectively flat quarter-over-quarter- and an improvement on pre-COVID-19 levels of delinquency. We provide historical context in section 9.2 of our Supplementary Information document, available on the Company's website.

Impaired receivables (Credit)

Total impaired receivables were $25 million on December 31, 2020, which is a $9 million or 26% decrease from September 30, 2020. We remain well below pre-COVID-19 levels of impairment.

Only one client on our watchlist entered bankruptcy in Q4, adding $0.8 million of impaired receivables to the year-end total. The net reduction of impaired receivables in Q4 was driven by contractual payments received from clients notwithstanding their bankruptcy filings, and from the liquidation of certain assets.

We expect two clients that became impaired in 2019 to emerge from restructuring in Q1 2021 without Element having incurred any material credit losses on these accounts.

Please refer to section 10.0 of our Supplementary Information document for further insight.

Classifying receivables as impaired

Accounts over 120 days past due are automatically considered impaired, fully provisioned net of any anticipated recoveries and recorded at their net realizable value.

Accounts that are contractually delinquent less than 120 days may nonetheless be assessed as impaired. Individual impairment is assessed by examining contractual delinquency and the client's financial condition,

such as the identification of an approaching bankruptcy or the client being in the process of legal or collateral repossession proceedings with a debtor. Impairments of this nature are provisioned by applying probability-weighted assumptions consistent with industry standards and our experience with respect to the probability of an identified account resulting in a client default.

We believe the impaired receivables figure in the table above appropriately reflects the net realizable value of the finance receivables before any allowance for credit losses.

Portfolio Distribution by Geography

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

(in $000's for stated values)	**December 31, 2020**		September 30, 2020		December 31, 2019	
	$	**%**	$	%	$	%
United States and Canada	**7,681,953**	**73.8**	8,156,488	76.4	9,326,874	79.5
Australia and New Zealand	**1,632,065**	**15.7**	1,571,301	14.7	1,557,365	13.2
Mexico	**1,099,032**	**10.5**	955,151	8.9	845,889	7.3
Total	**10,413,050**	**100.0**	10,682,940	100.0	11,730,128	100.0
Allocated as:						
Net finance receivables	**8,255,823**	**79.3**	8,660,069	81.1	9,628,761	82.1
Equipment under operating leases, net	**2,157,227**	**20.7**	2,022,871	18.9	2,101,367	17.9
Total	**10,413,050**	**100.0**	10,682,940	100.0	11,730,128	100.0

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

(in $000's for stated values)	**December 31, 2020**		September 30, 2020		December 31, 2019	
	$	**%**	$	%	$	%
United States and Canada	**12,814,311**	**81.9**	13,613,860	84.3	14,204,159	85.0
Australia and New Zealand	**1,625,718**	**10.4**	1,563,351	9.7	1,550,004	9.3
Mexico	**1,212,464**	**7.7**	971,601	6.0	956,239	5.7
Assets under management	**15,652,493**	**100.0**	16,148,812	100.0	16,710,402	100.0

Liquidity

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

Cash Flow

Daily cash flow / liquidity

As part of our business continuity planning in Q1 2020 - in anticipation of the potential scale and consequences of COVID-19 at the time - we instituted a global cash management office to assess and proactively manage Element's liquidity position by ensuring we have robust controls over every source and use of cash flow. The global cash management office also conducted a comprehensive series of stress-tests to identify early indications, risks and sensitivities in maintaining that cash flow and forward funding capacity, all of which confirmed the stability and sustainability of same.

Learnings from the global cash management office's work informed several strategic right-sizings of our funding facilities in Q4 2020. In aggregate, we reduced the scale of our committed, undrawn liquidity by approximately $2.4 billion, which has and will continue to drive meaningful funding cost savings without compromising our ability to serve our clients.

Notwithstanding our dependable operating cash flows and approximately $3 billion of committed, undrawn capital at year-end, we are working to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Free cash flow

We present our (i.e. management's) view of Element's free cash flow in our Supplementary Information document available on the Company's website.

Statement of cash flows

Cash provided by operating activities for the year ended December 31, 2020 - as presented in our consolidated financial statements - was $2,784.8 million, an increase of $1,745.9 million from the $1,038.9 million provided by operating activities for the year ended December 31, 2019. The increase was primarily the result of lower investments in finance leases and equipment under operating leases resulting from postponed orders and delayed originations driven by COVID-19.

Cash used in investing activities for the year ended December 31, 2020 was $9.6 million compared to the $82.4 million of cash provided by investing activities for the year ended December 31, 2019. The primary reasons for the change are (i) current year-to-date purchases of computer software were greater than in the prior year, (ii) Q2 2019 benefited from cash proceeds from the sale of our Eden Prairie, MN office building and our ECAF I Holdings Ltd. investment offset partially by (iii) the sale of 19th Capital in Q2 2020.

Cash used in financing activities for the year ended December 31, 2020 was $2,834.0 million, compared to $1,117.5 million used in financing activities for the year ended December 31, 2019. The year-over-year increase is primarily due to (i) the settlement of 19th Capital related debt, (ii) the retirement of the 2015 convertible debentures, (iii) the redemption of the Series G preferred shares, (iv) the repurchase of common shares, and (v) an increase in the repayment of borrowings by comparison to the year-ended December 31, 2019, offset by (v) the inaugural issuance of the senior unsecured notes due 2025.

Credit and debt facilities

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

We had $3.0 billion of contractually committed, undrawn liquidity across our revolving unsecured ($1.1 billion) and vehicle management asset-backed ($1.9 billion) facilities at December 31, 2020. Commitments under these facilities are provided by syndicates of leading Canadian, U.S. and international banks.

These sources of financing were as follows:

As at	December 31, 2020			
(in $000's for stated values)	$	%	$	$
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	**2,672,670**	***41.9***	**1,120,731**	**1,551,939**
Senior notes	**509,080**	**—**	**—**	**509,080**
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	**4,005,371**	**—**	**—**	**4,005,371**
Variable funding notes	**5,678,982**	***33.6***	**1,910,587**	**3,768,395**
Other	**44,841**	**—**	**—**	**44,841**
Total vehicle management asset-backed debt	**9,729,194**	***19.6***	**1,910,587**	**7,818,607**
Total cash			**8,789**	
Total capital available for continuing operations			**3,040,107**	

As at	September 30, 2020			
(in $000's for stated values)	$	%	$	$
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	3,463,460	*60.9*	2,108,990	1,354,470
Senior notes	532,840	—	—	532,840
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	4,815,178	—	—	4,815,178
Variable funding notes	7,660,871	*47.7*	3,654,326	4,006,545
Other	44,970	—	—	44,970
Total vehicle management asset-backed debt	12,521,019	*29.2*	3,654,326	8,866,693
Total cash			75,633	
Total capital available for continuing operations			5,838,949	

As at	December 31, 2019			
(in $000's for stated values)	$	%	$	$
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	3,376,100	*49.5*	1,672,593	1,703,507
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	5,697,575	—	—	5,697,575
Variable funding notes	8,236,454	*47.0*	3,872,777	4,363,677
Other	169,485	—	—	169,485
Total vehicle management asset-backed debt	14,103,514	*27.5*	3,872,777	10,230,737
Total cash			24,224	
Total capital available for continuing operations			5,569,594	

We believe the $3.0 billion of liquidity available to the Company at December 31, 2020 coupled with our durable operating cash flow is sufficient to fund Element's business throughout 2021, as well as to pay dividends at current rates to all preferred and common shareholders.

We strategically right-sized certain revolving facilities during the fourth quarter 2020. The evolution of our relationship with Armada obviated the necessity of Element's once-US$1 billion ($1.3 billion) non-recourse funding facility dedicated to the client, so we wound down same in its entirety over the course of H2 2020 – the final US$400 million ($509 million) having been wound down in Q4. Moreover, learnings from the global cash management office's comprehensive series of stress-tests informed right-sizing a senior unsecured credit facility by US$500 million ($636 million) and a vehicle management asset-backed revolving facility by US$1 billion ($1.3 billion), also both in Q4 2020.

Capital Resources

Capitalization

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

The Company's capitalization is calculated as follows:

As at	**December 31, 2020**	September 30, 2020	December 31, 2019
(in $000's)	**$**	$	$
Cash	**8,789**	75,633	24,224
Unsecured debt			
Senior credit facilities	**1,551,939**	1,354,470	1,703,507
4.250% Convertible Debentures due 2020	**—**	—	562,034
4.250% Convertible Debentures due 2024	**154,267**	153,113	149,757
3.850% Senior Notes due 2025	**509,080**	532,840	—
Vehicle Management Asset-Backed Debt			
Revolving term notes in amortization	**4,005,371**	4,815,178	5,697,575
Variable funding notes	**3,768,395**	4,006,545	4,363,677
Other	**44,841**	44,970	169,485
Deferred financing costs	**(29,911)**	(37,882)	(48,804)
Hedge accounting fair value adjustments	**14,621**	19,164	7,421
Total debt	**10,018,603**	10,888,398	12,604,652
Shareholders' equity			
Common share capital	**3,180,379**	3,160,935	3,127,714
Preferred share capital	**511,869**	511,869	680,412
Other	**91,869**	61,753	4,519
Total Shareholders' Equity	**3,784,117**	3,734,557	3,812,645
Total Capitalization	**13,802,720**	14,622,955	16,417,297

We redeemed the Series G preferred shares in full at Q3 quarter-end, further maturing Element's capital structure by eliminating our most expensive series of preferred shares. Growing profitability, free cash flow and syndication all contribute to the de-leveraging of Element's balance sheet, which created the capacity to execute this $172.5 million redemption. With the redemption, we have cumulatively eliminated or replaced over $1 billion of high-cost hybrid instruments from Element's capital structure since April 2019, simplifying and strengthening the Company's investment-grade balance sheet.

Normal Course Issuer Bid

On November 4, 2020, the TSX approved Element's notice of intention to commence a NCIB. The NCIB allows us to repurchase on the open market (or as otherwise permitted), at the Company's discretion during the period commenced November 10, 2020 and until the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 common shares, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period. Under this bid for the year ended December 31, 2020, 762,100 common shares have been repurchased for cancellation, for approximately $10 million including commission, at a volume weighted average price of $13.14 per share. Element applies trade date accounting in determining the date on which the share repurchase is reflected in our consolidated financial statements. Trade date accounting is the date on which we commit the Company to purchase the shares. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting Element.

Leverage

We view both financial and tangible leverage as key indicators of the strength of Element's financial position. At December 31, 2020, our financial leverage ratio was 2.65:1 and tangible leverage ratio was 5.74:1.

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

As at		**December 31, 2020**	December 31, 2019
(in $000's, except ratios)		**$**	$
Borrowings		**9,864,336**	11,892,861
Convertible debentures		**154,267**	711,791
Total debt	**(a)**	**10,018,603**	12,604,652
Total shareholders' equity	**(b)**	**3,784,117**	3,812,645
		13,802,720	16,417,297
Goodwill and intangible assets	**(c)**	**2,037,719**	2,039,260
Financial leverage	**(a)/(b)**	**2.65**	3.31
Tangible leverage	**(a)/[(b)-(c)]**	**5.74**	7.11

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2020.

Credit ratings

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

Credit Ratings [1] as at December 31, 2020

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

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

Standard & Poor's initiated coverage of Element in October 2019 with a BBB investment-grade credit rating and a stable outlook. This rating was affirmed in October 2020. In September 2020, Fitch Ratings affirmed its stable outlook and BBB+ investment-grade rating of Element, and in October 2020 credit rating agencies DBRS, Inc. and Kroll Bond Rating Agency affirmed their stable outlook and investment-grade ratings for Element: BBB (high) and A-, respectively.

Outlook and Economic Conditions

Having both completed our Transformation and begun Element's pivot to growth in 2020, we are perfectly positioned to focus on our strategic priorities for 2021 and beyond:

- Aggressively pursue organic growth in all our geographies, and demonstrate the scalability of Element's transformed operating platform by magnifying 4-6% annual organic net revenue growth into high single-digit to low double-digit annual operating income growth;
- Advance a capital-light*er* business model by increasing service penetration and strategically syndicating fleet assets, which enhances return on equity; and
- Achieve high single-digit to low double-digit annual free cash flow growth and predictably return excess equity to shareholders by way of dividends and share buybacks.

Notwithstanding the global proliferation of vaccines against COVID-19, it remains hard to predict the speed and specifics of economic recovery from the pandemic, especially in North America.

Fortunately, the near year-long period since the first wave of COVID-19 infections has demonstrated that automotive fleet vehicles will (a) remain essential to our clients' ability to generate and sustain revenue – or, in the case of governments and public service clients, fulfill their obligations to stakeholders – and (b) continue to have significant associated costs, in both cases for the foreseeable future.

As a result, we are confident Element's value proposition – materially reducing our clients' total cost of fleet operations, and eliminating related administrative burden – remains relevant. In fact, we believe the economic consequences of the COVID-19 pandemic make Element's value proposition to new and existing clients even more compelling.

Our clients enjoy:

- the ability to materially reduce their total cost of fleet operations over time. Element has one of the deepest datasets in the automotive industry, based on which we identified over $1.5 billion in fleet-cost-saving strategies and opportunities for our clients in 2020; and
- ready access to cost-efficient capital, diversifying clients' sources of financing.

Transitioning to Element, new clients enjoy the ability to reduce their total cost of fleet operations by approximately 20% compared to the costs of self-managing a fleet, while eliminating the related administrative burden.

- Element is one of the largest buyers of vehicles and other automotive products and services everywhere we operate. We procure on behalf of our 5,500+ clients. We use our scale to negotiate lower prices for our clients.
- Our 2,500+ employees are dedicated to efficiently providing our clients a consistent, superior service experience at every step, allowing clients to focus their time and resources on their businesses' core strengths.

New and existing Element clients that own their fleet vehicles enjoy the option of a sizeable cash infusion from the sale and leaseback of those vehicles to and from Element.

- To the extent current fleet owners, including governments and public service agencies, wish to free-up balance sheet/budgetary capacity, we have the balance sheet capacity to welcome existing fleets onto our platform, and the syndication capabilities to manage any accompanying concentration risk to Element. We also have the liquidity to effect a sale-leaseback transaction with the current fleet owner, and the operating experience to execute a seamless transition of responsibility for their vehicles.

As working from home and social distancing appear to become greater societal norms as a result of COVID-19, we believe competition to serve 'stay at home'-oriented consumers will increase, accelerating prospective Element clients' interest in building "mega fleets" as retailers of all stripes recognize the

attractiveness of being able to offer online shoppers the convenience of proprietary home delivery by the vendor.

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

Risk Management

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

Element may Fail to Execute on its Growth Strategy

While Element expects that it will achieve annual revenue growth of 4-6%, the Company may be unable to achieve such expected growth for a variety of reasons.

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

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

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

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

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

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

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

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

Risk Relating to the Transformation Plan

Although Element’s transformation is complete and has provided benefits to the Company, including operating income improvements and improvements in Element’s earnings profile, certain risks remain. There may be a risk that certain benefits achieved through the transformation may not fully materialize or Element may not be able to fully sustain such benefits indefinitely. If such benefits do not materialize or are not able to be maintained, there could be a material adverse effect on Element’s business, financial condition and/or results of operations. In addition, the steps taken by Element pursuant to the transformation, and the results of such steps, could adversely affect Element's operations, which could be detrimental to Element's business, financial condition, and/or results of operations.

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

Demand for fuel and other vehicle services may be reduced by factors that are beyond Element's control, such as the implementation of fuel efficiency standards and the development by vehicle manufacturers and adoption by Element's clients of vehicles with greater fuel efficiency or alternative fuel sources. To the extent that Element's clients require less fuel, that decline in purchase volume could reduce Element's revenues, limiting Element's profitability and preventing Element from taking on other initiatives.

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

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

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

If Element experiences a decrease in originations or if the credit quality of its originations declines, Element may be unable to meet the requirements of syndication investors. In such a scenario, Element’s syndication volume may decline which could negatively impact Element's business, financial condition and/or results of operations.

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

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

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

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

Ability to Reduce Concentration Risk Through Syndication

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

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

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

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

Adverse economic conditions also may decrease the estimated value of the collateral securing some of Element's loans and leases. Further or prolonged economic slowdowns or recessions, including those caused by catastrophic events as the COVID-19 pandemic, could lead to financial losses in Element's portfolio and a decrease in Element's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Element's business, financial condition and/or results of operations.

Element has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and

regulatory changes in jurisdictions in which Element operates. These factors could negatively affect Element's future results of operations in those markets.

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

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

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

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

Many of the financial institutions that Element competes with for experienced personnel may be able to offer more attractive terms of employment. If any of Element's key origination personnel leave, Element's new equipment finance origination volume from their business contacts may decline or cease. In addition, Element invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them and increases the costs of replacing them. These factors may have a material adverse effect on Element's ability to grow its business.

Loss of Key Personnel May Significantly Harm Element's Business

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

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

Funding Facilities May Limit Element's Operational Flexibility

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

As of December 31, 2020, Element had $9.9 billion in secured and unsecured borrowings and $173 million face value aggregate principal amount of Debentures outstanding, and Element expects this amount may

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

Data Privacy and Information Technology Security Breaches May Negatively Impact Element

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

Element has administrative, technical, and physical security measures in place to protect the privacy of this confidential information as well as policies and procedures to contractually require third parties to whom Element transfers data to implement and maintain appropriate security measures. However, Element cannot ensure that its current security measures will effectively counter security risks, prevent future slowdowns or disruptions, protect against cyber-attacks or address the security and privacy concerns of existing and potential users. If Element's security measures or those of the previously mentioned third parties are inadequate or are breached as a result of cyber-attacks, computer viruses, unauthorized access, employee error, malfeasance, system error, trickery, natural disasters, terrorism, war and telecommunication and electrical failures or otherwise, and, as a result, someone obtains unauthorized access to sensitive information, including personally identifiable information or protected health information, on Element's systems or its partners' systems, Element's reputation and business could be damaged. The deletion or modification of records could cause interruptions in Element's services and operations. Any system failures, slowdowns or disruptions will likely result in unanticipated disruptions in service to Element's users, decreased levels of user satisfaction and significant negative effects on Element's reputation. If the sensitive information is lost or improperly disclosed or threatened to be disclosed, Element could incur significant liability and be subject to regulatory scrutiny and penalties, including costs associated with remediation. Additionally, if Element's own confidential business information were improperly disclosed, Element's business could be materially and adversely affected. To address these matters, Element continues to evolve security safeguards.

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

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

Potential Acquisitions and Investments

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

Technological Change may Challenge Element Business Prospects or Require Significant Investment

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

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

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

Liquidity risk

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

Growth in our lease portfolio will require ongoing availability of secured and unsecured financing and funding lines sufficient to accommodate projected growth objectives. The Company has taken steps to ensure appropriate funding will be in place as required.
The Company believes that its capacity to expand its existing secured and unsecured borrowing facilities and its access to bank term funding will be sufficient to fund its normal operating and capital expenditures as the Company grows.

As at December 31, 2020, the Company had available liquidity of $3,040.1 million compared to $5,569.6 million at December 31, 2019.

Credit Risks

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

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

Credit Ratings and Ratings Outlooks may Change

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

In September 2020, credit rating agency Fitch Ratings affirmed its stable outlook and BBB+ investment-grade rating. In October 2020, credit rating agencies S&P Global Ratings, DBRS, Inc. and Kroll Bond Rating Agency affirmed their stable outlooks and investment-grade ratings for Element: BBB, BBB (high) and A-, respectively.

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

Element's Provision for Credit Losses May Prove Inadequate

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

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

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

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

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

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

Interest Rate Risk

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

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

The Company does experience short-term interest rate risk on finance receivables during the period between fixing the contractual rate under the finance contracts with its clients and the locking of the interest rate under its funding facilities. During this time, an upward movement in Government of Canada or U.S. bond 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 funding arrangements to ensure its finance contracts are appropriately match-funded by its funding arrangements, which reduces the warehouse period and the likelihood that a significant movement in bond rates will negatively impact the spreads on such transactions. The Company also maintains adequate balance sheet liquidity to allow it flexibility in developing a strategy of holding versus securitizing such finance assets.

As at December 31, 2020, the percentage of the total lease portfolio and the loan portfolio that had fixed interest rates was 45.6% and 100.0%, respectively.

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

Element's Results May Fluctuate

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

- the success of Element's origination activities;
- market acceptance of Element's services, including Xcelerate™ and Connected Data™;
- the increasing penetration of services to its Fleet Management Business clients;
- credit losses and default rates;
- Element's ability to enter into financing arrangements;
- decreases in demand for fleet leasing and fleet management solutions and related service programs;
- competition;
- costs of compliance with regulatory requirements;
- the timing and effect of any future acquisitions;
- personnel changes;
- changes in accounting rules;
- changes in prevailing interest rates and foreign exchange rates;

- general changes to the Canadian, U.S., Mexican, Australian, New Zealand and global economies; and
- political conditions or events.

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

Dependence on Strategic Relationships

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

Disruption in the Operations of Suppliers Could Disrupt Our Business

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

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

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

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

Element Faces Tax Risks in Multiple Jurisdictions

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

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

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

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation includes, among other changes, a reduction in the U.S. federal corporate income tax rate, limitations on interest deductibility, a new tax on base erosion payments, and provisions on hybrid arrangements. Throughout 2019 and 2020 the IRS and the Treasury Department finalized regulations for components of the new tax legislation.

Element Fleet notes that various policy statements have been issued by the Biden administration which could have a material adverse effect on Element's business, financial condition, and results of operations.

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

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

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

Element Could be Exposed to Substantial Tax Liabilities if the Tax-Deferred Spinoff Requirements are Not Met

The tax treatment of the Separation Transaction is dependent on, among other things, the Separation Transaction complying with all of the requirements of the public company "butterfly reorganization" rules in section 55 of the *Income Tax Act* (Canada). Although the Separation Transaction is structured with the intent that it comply with these rules, there are certain requirements of these rules that depend on events occurring after the Separation Transaction is completed or that may not be within the control of Element or that are subject to differing interpretations regarding legal and factual matters (including valuation). If these requirements are not met, Element would recognize a taxable gain in respect of the Separation Transaction. If incurred, tax liabilities could be substantial and could have a material adverse effect on the financial position of Element. No tax ruling has been requested or received from the authorities in Canada in respect of tax consequences of the Separation Transaction. If such requirements are not met due to an act of ECN Capital in breach of its representations and covenants made in connection with the Separation Transaction, then ECN Capital will in certain circumstances be required to indemnify Element. If ECN Capital has to indemnify Element for any substantial obligations, it may not be able to satisfy those obligations, and this may materially adversely affect Element's financial position.

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

If certain of the requirements of the "butterfly reorganization" rules in section 55 of the *Income Tax Act* (Canada), discussed above, are not met due to an act of Element, Element may in certain circumstances be

required to indemnify ECN Capital under the Arrangement Agreement. These indemnification obligations could be significant. If Element has to indemnify ECN Capital for any substantial obligations, this may materially adversely affect Element's financial position.

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

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

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

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

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

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

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

The decision whether or not to pay dividends and the amount of any such dividends are subject to the discretion of the Board, which regularly evaluates proposed dividend payments and the solvency test requirements of the Ontario Business Corporations Act. In addition, the level of dividends per Common Share will be affected by the number of outstanding Common Shares and other securities that may be entitled to receive cash dividends or other payments. Dividends may be increased, reduced or suspended depending on the Corporation’s operational success. For example, as announced on October 1, 2018, in connection with the Transformation Plan the Company's quarterly Common Share dividend was reduced from $0.075 to $0.045. More recently, in Q4 2020 Element increased its quarterly Common Share dividend from $0.045 to $0.065. The market value of Common Shares may deteriorate if Element is unable to meet dividend expectations in the future, and that deterioration may be material.

Foreign Currency Risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk the exchange rates (in particular the U.S. dollar/ Canadian dollar rate) will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2020, the Company did not have a significant un-hedged exposure to this type of foreign currency risk that would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and respective foreign currency exchange rate used to translate the Company's foreign currency denominated net income into the Canadian dollar equivalent during each period. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future net income before transformation costs and income taxes is consistent with the results generated in 2020, 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 before transformation costs and income taxes for the year by approximately $18.7 million in the absence of hedging transactions.

Volatility of Common Share Price

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

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

Market Value of Common Shares and Other Securities

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

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

In recent years, shareholder activists have become involved in numerous public companies. Shareholder activists frequently propose to involve themselves in the governance, strategic direction, and operations of the company. For example, on May 14, 2018 the Corporation entered into Nomination Agreements with some of its significant shareholders. Element may continue to be or may become subject to further shareholder activity and demands in the future. Such demands may disrupt Element's business and divert the attention of Element's management and employees, and any perceived uncertainties as to the Company's future direction resulting from such a situation could result in the loss of potential business opportunities, be exploited by competitors, cause concern to current or potential clients, and make it more difficult to attract and retain qualified personnel and business partners, all of which could adversely affect Element's business. In addition, actions of activist shareholders may cause significant fluctuations in the market price for Common Shares

based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of Element's business.

Dilution from Further Equity Financing and Declining Share Price

If Element raises additional financing through the issuance of equity securities (including securities convertible into or exchangeable for equity securities) or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of Element and reduce the value of their investment. The market price of the Common Shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for Element itself to sell equity securities at a time and price that it deems appropriate.

Issue of Preferred Shares by Element

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

Compliance with Laws and Regulations Affecting Public Companies

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

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

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

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

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

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

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

Public Company Requirements May Strain Resources

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

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

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

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

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

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

Catastrophic Events, Natural Disasters, Severe Weather and Disease

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

While Element engages in emergency preparedness, including business continuity planning, to mitigate risks, such events can evolve very rapidly and their impacts can be difficult to predict. As such, there can be no assurance that in the event of any such catastrophe that Element's operations and ability to carry on business will not be disrupted. Element may still be required to perform its obligations to third parties, notwithstanding

the occurrence of any such events. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the ongoing COVID-19 pandemic, or fear of any of the foregoing, could adversely impact Element by causing operating or supply chain delays and disruptions, labor shortages, expansion project delays, facility shutdowns and other business disruptions, each of which could have a negative impact on Element's ability to conduct its business and could increase its costs. In addition, liquidity and volatility, credit availability and market and financial conditions generally could change at any time as a result. Any of these events in isolation or in combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

COVID-19 Pandemic

Element's business has been and will continue to be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The COVID-19 pandemic has had, and will continue to have, a broad impact across industries and the economy, including by affecting consumer confidence, global financial markets (with global equity markets having experienced significant volatility and weakness), regional and international travel, supply chain distribution of various products for many industries, oil prices, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce. Additionally, the COVID-19 pandemic has led, and may continue to lead, governments around the world to enact measures to combat the spread of the COVID-19 virus, including, but not limited to, the implementation of travel bans, border closings, mandated closure of non-essential services, self-imposed quarantine periods and social and physical distancing policies, which have contributed to the material disruption to businesses globally resulting in a sudden economic slowdown.

The ever-changing and rapidly-evolving effects of the COVID-19 pandemic - the duration, extent and severity of which are currently unknown - on investors, businesses, the economy, society and the financial markets could, among other things, add volatility to the global stock markets, change interest rate environments, and increase lease delinquencies and defaults. Therefore, the COVID-19 pandemic and measures to prevent its spread may negatively impact Element as well as Element's clients, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting local, national or international economies and employment levels, triggering potentially significant inflationary pricing or a recession, affecting Element's clients' and customers' ability to make payments on leases; (ii) adversely affecting the business operations of Element, including access to its funding and financing sources (including securitization and syndication markets); (iii) Element experiencing business interruptions as a result of the strain on existing resources, including information technology systems resulting from senior management and other employees working remotely, an inability to receive required technology or other hardware due to supply chain interruption or lacking necessary staffing needed for daily operations or the completion of extraordinary projects; (iv) disrupting public and private infrastructure, including communications and financial services, which could disrupt Element's or its customers' normal business operations; (v) adversely impacting net financing revenues and liquidity caused by delays in lease payments, changes in levels of lease originations, delays or deferrals in the replacement of vehicles, impact on remarketing of vehicles, client creditworthiness and delinquencies; and (vi) adversely impacting service revenues caused by declines in fleet vehicle mileage and lower fuel, maintenance and other service consumption. Any of these events in isolation or in combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial conditions and results of operations are made with reference to the consolidated financial statements for the year ended December 31, 2020. A summary of the Company's significant accounting policies is presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2020. Some of the Company's accounting policies, as required by International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

Allowance for credit losses

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

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

As at December 31, 2020, the allowance for credit losses as a percentage of outstanding finance receivables was 0.18%.

Deferred income tax assets

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

Share-based compensation

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

Useful lives and residual values of equipment under operating leases

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

Business combinations

Business combinations require management to exercise judgment in measuring the fair value of the assets acquired, equity instrument issued, and liabilities and contingent liabilities incurred or assumed.

The majority of assets acquired in the Company's business combinations are finance receivables. The Company fair values these based on the characteristics of the portfolio acquired and are similar to the judgment used in the assessment of the allowance for credit losses.

Intangible assets valuation - Customer Relationships

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

Goodwill valuation

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

Syndication

The Company periodically syndicates certain finance lease receivables to third-party investors. At the time the finance lease receivables are syndicated, the Company derecognizes the net book value of the asset from the statement of financial position and transfers ownership of the syndicated assets to the third-party investor as well as all contractual rights to future cash flow, credit risk and tax benefits related to the syndicated asset. The Company retains no credit risk after the assets are syndicated. 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. The Company evaluates the possibility of early lease termination for each syndication agreement and defers a portion of the syndication gain and recognize it over a determined period of time into the statement of operations in Syndication revenue, net.

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 may also continue to provide services including accident management services, maintenance services, and fuel cards, which remain unchanged regardless of whether or not the asset is syndicated.

Right-of-use assets

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

Lease liabilities

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

Fair Value Hedges

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

Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) associates, or entities which are controlled or significantly influenced by the Company; (b) key management personnel, which are

comprised of directors and/or officers of the Company and those persons having authority and responsibility for planning, directing and controlling the activities of the Company; and (c) entities controlled by key management personnel.

The Company has issued notes receivables that are loans to certain employees and directors of the Company granted in order to help finance the purchase of the Company's common shares. Such loans have been issued at market conditions, bear interest at 3% and are evidenced by individual promissory notes secured by the shares purchased under the loan arrangements. On March 3, 2017 the Board of Directors approved a plan to discontinue this program on a prospective basis.

Derivatives and Hedging

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

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

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

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

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

As at December 31, 2020, the Company had net derivative liabilities of $14.7 million on notional balances of $8,037.8 million.

For the year ended December 31, 2020, the fair value changes recorded in net income was nil and a gain in other comprehensive income of $31.8 million for derivatives designated as cash flow hedges.

Recently Adopted Accounting Standards

Interest Rate Benchmark Reform

During the first quarter of 2020, 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 will cease to apply these Amendments as IBOR based cash flows transition to new risk-free rates or when the hedging relationships to which the relief is applied are discontinued.

In December 2020, the ICE Benchmark Administration, which compiles and oversees LIBOR, released a consultation paper to extend the publication of overnight, one, three, six, and twelve-month US Dollar LIBOR tenors until June 30, 2023. The Board of Governors of the US Federal Reserve System also issued a statement encouraging financial institutions to stop entering into new USD LIBOR contracts as soon as practicable and no later than December 31, 2021, though noted that extending the publication of certain USD LIBOR tenors until June 30, 2023 would allow most legacy USD LIBOR contracts to mature before LIBOR experiences disruptions. The Company continues to prepare for the IBOR transition by making changes to lease agreements with clients to allow for a switch to non-IBOR based floating rates, inserting fall back language into debt agreements, preparing with derivative counterparties to switch to SOFR based derivatives, and assessing the required system changes.

Hedge Accounting

The Company's accounting policies relating to hedge accounting are described in note 2 and note 19 of the Company's consolidated financial statements for the year ended December 31, 2020. The Company applies hedge accounting when designated hedging instruments are highly effective in offsetting changes in the fair value or cash flows of the hedged items at inception and on an ongoing basis. Retrospective assessments are performed to demonstrate that the relationship has been effective since designation of the hedge and prospective assessments to evaluate whether the hedge is expected to be effective over the remaining term of the hedge. While uncertainty due to IBOR reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in note 19 of the Company's consolidated financial statements for the year ended December 31, 2020, the Reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may occur at different times. This may result in different impacts on the valuation or cash flow variability of hedged items and related hedging instruments.

Cash flow hedges

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

Hedging relationships impacted by interest rate benchmark reform

The following table presents the notional amount of the Company's hedging instruments which reference IBOR that will expire after 2021 and will be affected by the Reform. The notional amounts of the Company's hedging instruments also approximates the extent of the risk exposure the Company manage through hedging relationships:

	As at December 31, 2020 Notional/Principal amount[1] $
Interest rate contracts	
USD LIBOR	**4,675,673**
	4,675,673

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rates jurisdictions, including the Canadian Dollar Offered Rate ("CDOR"), Australian Bank Bill Swap Rates ("BBSW"), and New Zealand Bank Bill Rates ("BBR").

Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Company.

Future Accounting Changes

All accounting standards effective for periods beginning on or after January 1, 2020 have been adopted by the Company. The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements.

In August 2020, the IASB published *Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16* ("Phase 2 Amendments"). The Phase 2 Amendments are effective January 1, 2021. The Company is currently evaluating the impact of the Phase 2 Amendments on its financial reporting in relation to the IBOR Reform.

Internal Control over Disclosure and Financial Reporting

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

The CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of Element's internal control over financial reporting and based on this assessment have concluded that Element's internal control over financial reporting is effective as of December 31, 2020.

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

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

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

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting during the year ended December 31, 2020.

IFRS to Non-IFRS Reconciliations

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

		As at and for the three-month periods ended			As at and for the years ended	
(in $000's for stated values)		**December 31, 2020**	September 30, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Reported and adjusted income measures						
Net income (loss)	A	**78,362**	70,778	(116,978)	**287,092**	97,701
Adjustments:						
Amortization of debenture discount		**858**	843	2,534	**6,259**	13,185
Share-based compensation		**19,578**	5,591	3,931	**35,033**	18,871
Amortization of intangible assets from acquisitions		**9,070**	9,338	9,623	**38,291**	36,859
Restructuring and transformation costs		**19,637**	24,213	28,671	**77,508**	91,413
Net loss on disposition of 19th Capital		**—**	—	—	**13,862**	—
Impairment on 19th Capital		**—**	—	260,000	**—**	260,000
Provision of income taxes		**7,814**	17,512	(49,662)	**45,961**	(5,662)
(Gain) loss on investments		**(3,261)**	710	267	**(2,497)**	1,599
Before-tax adjusted operating income	B	**132,058**	128,985	138,386	**501,509**	513,966
Provision for taxes applicable to adjusted operating income	C	**23,969**	21,927	25,589	**87,604**	93,835
After-tax adjusted operating income	D=B-C	**108,089**	107,058	112,797	**413,905**	420,131
Cumulative preferred share dividends during the period	Y	**8,103**	10,875	11,025	**40,820**	44,424
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**99,986**	96,183	101,772	**373,085**	375,707
Selected statement of financial position amounts						
Total Finance receivables, before allowance for credit losses	E	**9,579,340**	10,164,347	11,995,406	**9,579,340**	11,995,406
Allowance for credit losses	F	**17,718**	18,829	8,432	**17,718**	8,432
Net investment in finance receivable	G	**8,308,756**	8,727,347	9,682,486	**8,308,756**	9,682,486
Equipment under operating leases	H	**2,157,227**	2,022,871	2,101,367	**2,157,227**	2,101,367
Net earning assets	I=G+H	**10,465,983**	10,750,218	11,783,853	**10,465,983**	11,783,853
Average net earning assets	J	**10,664,938**	10,895,388	12,371,416	**11,274,225**	12,877,638
Goodwill and intangible assets	K	**2,037,719**	2,100,524	2,039,260	**2,037,719**	2,039,260
Average goodwill and intangible assets	L	**2,067,491**	2,090,040	2,061,413	**2,106,756**	2,085,956
Borrowings	M	**9,864,336**	10,735,285	11,892,861	**9,864,336**	11,892,861
Unsecured convertible debentures	N	**154,267**	153,113	711,791	**154,267**	711,791
Total debt	O=M+N	**10,018,603**	10,888,398	12,604,652	**10,018,603**	12,604,652
Average debt	P	**10,426,959**	11,715,194	12,914,664	**12,048,215**	13,146,830
Total shareholders' equity	Q	**3,784,117**	3,734,557	3,812,645	**3,784,117**	3,812,645
Preferred shares	R	**511,869**	511,869	680,412	**511,869**	680,412
Common shareholders' equity	S=Q-R	**3,272,248**	3,222,688	3,132,233	**3,272,248**	3,132,233
Average common shareholders' equity	T	**3,311,538**	3,221,760	3,271,359	**3,258,407**	3,274,968
Average total shareholders' equity	U	**3,823,407**	3,845,991	3,951,771	**3,882,637**	3,955,379

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

(in $000's for stated values, except ratios and per share amounts)		As at and for the three-month periods ended December 31, 2020	September 30, 2020	December 31, 2019	As at and for the years ended December 31, 2020	December 31, 2019
Key annualized operating ratios						
Leverage ratios						
Financial leverage ratio	O/Q	**2.65**	2.92	3.31	**2.65**	3.31
Tangible leverage ratio	O/ (Q-K)	**5.74**	6.66	7.11	**5.74**	7.11
Average financial leverage ratio	P/U	**2.73**	3.05	3.27	**3.10**	3.32
Average tangible leverage ratio	P/(U-L)	**5.94**	6.67	6.83	**6.78**	7.03
Other key operating ratios						
Allowance for credit losses as a % of total finance receivables before allowance	F/E	**0.18 %**	0.19 %	0.07 %	**0.18 %**	0.07 %
Adjusted operating income on average net earning assets	B/J	**4.95 %**	4.74 %	4.47 %	**4.45 %**	3.99 %
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	**24.62 %**	24.39 %	23.87 %	**23.31 %**	22.47 %
Per share information						
Number of shares outstanding	V	**440,275**	439,225	436,509	**440,275**	436,509
Weighted average number of shares outstanding [basic]	W	**440,243**	438,842	435,774	**438,561**	434,812
Pro forma diluted average number of shares outstanding	X	**456,405**	454,655	484,298	**453,784**	482,842
Cumulative preferred share dividends during the period	Y	**8,103**	10,875	11,025	**40,820**	44,424
Other effects of dilution on an adjusted operating income basis	Z	**$ 1,743**	$ 1,705	$ 7,053	**$ 7,036**	$ 26,623
Net income (loss) per share [basic]	(A-Y)/W	**$ 0.16**	$ 0.14	$ (0.29)	**$ 0.56**	$ 0.12
Net income (loss) per share [diluted]		**$ 0.16**	$ 0.14	$ (0.29)	**$ 0.56**	$ 0.12
Book value per share	S/V	**$ 7.43**	$ 7.34	$ 7.18	**$ 7.43**	$ 7.18
After-tax adjusted operating income per share [basic]	(D1)/W	**$ 0.23**	$ 0.22	$ 0.23	**$ 0.85**	$ 0.86
After-tax pro forma diluted adjusted operating income per share	(D1+Z)/X	**$ 0.22**	$ 0.22	$ 0.22	**$ 0.84**	$ 0.83

The following table provides a reconciliation of the after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended December 31, 2020:

(in $000's for stated values, except per share amounts)	Amount $	Weighted average number of shares outstanding applicable	Amount per share $
Adjusted operating income before taxes	132,058		0.30
Less:			
Income taxes related to adjusted operating income	(23,969)		(0.05)
Preferred share dividends	(8,103)		(0.02)
After-tax adjusted operating income attributable to common shareholders	99,986	440,242,769	0.23
Dilution items:			
Employee stock option plan	—	1,846,691	—
Convertible debentures (after-tax net interest expense)	1,743	14,315,353	(0.01)
After-tax pro forma diluted adjusted operating income	101,729	456,404,813	0.22

Glossary of Terms

Assets under management

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

Average financial leverage or average financial leverage ratio

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

Average net earning assets

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

Free cash flow per share

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

Pre-tax return on common equity

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

Description of Non-IFRS Measures

Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and the accounting policies we adopted in accordance with IFRS. These consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at December 31, 2020 and December 31, 2019, the results of operations, comprehensive income and cash flows for the year ended December 31, 2020 and December 31, 2019.

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

Adjusted operating expenses

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

Adjusted operating income or Before-tax adjusted operating income

Adjusted operating income reflects net income or loss for the period adjusted for the amortization of debenture discount, share-based compensation, amortization of intangible assets from acquisitions, restructuring and transformation costs, impairment on 19th Capital, disposition of 19th Capital, provision or recovery of income taxes, and loss or income on investments.

Adjusted operating income on average net earning assets

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

After-tax adjusted operating income

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

After-tax adjusted operating income attributable to common shareholders

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

After-tax adjusted operating income per share

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

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

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

After-tax pro forma diluted adjusted operating income per share

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

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

Allowance for credit losses as a percentage of total finance receivables

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

Average cost of borrowing or average cost of debt

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

Average debt outstanding

Average debt outstanding is calculated as the sum of monthly average borrowings outstanding under all of the Company's borrowings facilities and the convertible debentures outstanding throughout the period.

Average common shareholders' equity

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

Average goodwill and intangible assets

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

Average shareholders' equity

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

Average tangible leverage ratio

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

Common shareholders' equity

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

Finance assets or total finance assets

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

Financial leverage or financial leverage ratio

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

Net earning assets

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

Net financing revenue yield on average net earning assets

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

Net interest and rental revenue

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

Other earning assets

Other earning assets are other yield generating assets that are not finance receivables or equipment under operating leases.

Other effects of dilution adjusted operating income basis

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

Pro forma diluted average number of shares outstanding

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

Return on common equity

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

Tangible leverage ratio

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

Tangible leverage ratio excluding non-recourse warehouse credit facility

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

Updated Share Information

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

As at March 3, 2021, the Company had 437,939,971 common shares issued and outstanding. In addition, 9,438,333 options were issued and outstanding under the Company's stock option plan as at March 3, 2021. These convertible securities are convertible into, or exercisable for common shares of the Company of which 9,493,033 are exercisable at December 31, 2020 for proceeds to the Company upon exercise of $98.6 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,315,353 common shares.

As at March 3, 2021, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C, 5,321,900 Preferred Shares, Series E and 6,000,000 Preferred Shares, Series I issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on March 3, 2021.