

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

March 31, 2019

Element Fleet Management Corp.

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

	As at March 31, 2019	As at December 31, 2018
	\$	\$
ASSETS		
Cash	43,860	21,999
Restricted funds (note 7)	568,524	504,454
Finance receivables (notes 3 and 16)	12,606,855	13,203,588
Equipment under operating leases (note 4)	2,200,786	2,161,663
Accounts receivable and other assets	259,964	270,997
Notes receivable (note 16)	12,566	13,698
Derivative financial instruments (note 16)	33,253	34,752
Property, equipment and leasehold improvements, net	117,483	60,969
Investments (notes 5 and 16)	119,759	124,353
Intangible assets, net	832,447	854,433
Deferred tax assets	404,727	410,864
Goodwill	1,276,711	1,302,236
	18,476,935	18,964,006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	783,777	706,720
Derivative financial instruments (note 16)	59,450	68,467
Secured borrowings (notes 7 and 16)	12,721,176	13,270,780
Convertible debentures (notes 8 and 16)	903,024	897,435
Deferred tax liabilities	53,956	45,119
	14,521,383	14,988,521
Shareholders' equity (note 9)	3,955,552	3,975,485
	18,476,935	18,964,006

See accompanying notes

On behalf of the Board:



Director



Director

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

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

	Three-month period ended March 31, 2019	Three-month period ended March 31, 2018
	\$	\$
NET REVENUE		
Interest income, net (note 11)	167,208	153,356
Rental revenue and other (note 11)	191,353	140,640
Depreciation of equipment under operating leases (note 4)	(122,545)	(96,853)
	236,016	197,143
Interest expense	129,129	101,513
Net financing revenue	106,887	95,630
Fleet service revenue (note 11)	129,904	125,763
Direct costs of fixed rate service contracts (note 11)	(11,776)	(11,064)
Servicing income, net	118,128	114,699
Syndication revenue, net (note 11)	17,212	1,014
Net revenue	242,227	211,343
OPERATING EXPENSES		
Salaries, wages and benefits	80,115	82,265
General and administrative expenses	29,798	33,840
Depreciation and amortization (note 15)	10,360	5,280
Amortization of convertible debenture discount (note 8)	3,655	3,424
Share-based compensation (note 10)	5,170	4,547
	129,098	129,356
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	9,176	11,871
Restructuring and transformation costs (note 17)	6,738	40,811
	15,914	52,682
Loss on investments (note 5)	1,330	10,304
Income before income taxes from operations	95,885	19,001
Provision for (recovery of) income taxes	15,412	(2,758)
Net income for the period	80,473	21,759
Basic earnings per share (note 12)	\$ 0.16	\$ 0.03
Diluted earnings per share (note 12)	\$ 0.16	\$ 0.03

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended March 31, 2019	Three-month period ended March 31, 2018
	\$	\$
Net income for the period	80,473	21,759
OTHER COMPREHENSIVE (LOSS) INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	49	4,873
Net unrealized foreign exchange (loss) gain	(77,813)	140,350
	(77,764)	145,223
(Recovery of) provision for income taxes	(1,301)	1,257
Total other comprehensive (loss) income	(76,463)	143,966
Comprehensive income for the period	4,010	165,725

See accompanying notes

Element Fleet Management Corp.

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

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	3,092,010	680,412	46,200	75,805	(175,426)	256,484	3,975,485
Impact on adopting IFRS 16 (notes 2 and 15)	—	—	—	—	1,958	—	1,958
Restated opening balance under IFRS 16	3,092,010	680,412	46,200	75,805	(173,468)	256,484	3,977,443
Comprehensive income (loss) for the period	—	—	—	—	80,473	(76,463)	4,010
Dividends - Preferred shares (note 9)	—	—	—	—	(11,164)	—	(11,164)
Dividends - Common shares (note 9)	—	—	—	—	(19,494)	—	(19,494)
Net taxes on dividends paid	—	—	—	—	(302)	—	(302)
Options exercised (notes 9 and 10)	8,638	—	—	(5,943)	—	—	2,695
Issuance of shares, net of share issue costs (note 9)	1,386	—	—	—	—	—	1,386
Employee stock option expense (note 10)	—	—	—	978	—	—	978
Balance, March 31, 2019	3,102,034	680,412	46,200	70,840	(123,955)	180,021	3,955,552
Balance, December 31, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083
Impact on adopting IFRS 9	—	—	—	—	(65,304)	—	(65,304)
Restated opening balance under IFRS 9	2,755,536	680,412	46,200	69,450	183,539	(60,358)	3,674,779
Comprehensive income for the period	—	—	—	—	21,759	143,966	165,725
Dividends - Preferred shares (note 9)	—	—	—	—	(11,068)	—	(11,068)
Dividends - Common shares (note 9)	—	—	—	—	(28,527)	—	(28,527)
Net taxes on dividends paid	—	—	—	—	(299)	—	(299)
Employee stock option expense (note 10)	—	—	—	1,856	—	—	1,856
Balance, March 31, 2018	2,755,536	680,412	46,200	71,306	165,404	83,608	3,802,466

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Three-month period ended	Three-month period ended
	March 31, 2019	March 31, 2018
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	80,473	21,759
Items not affecting cash		
Share-based compensation (note 10)	978	1,856
Depreciation of property, equipment and leasehold improvements	6,679	3,467
Amortization of intangible assets, including from acquisitions	12,857	13,683
Amortization of deferred lease costs	6,828	5,498
Amortization of deferred financing costs	14,044	10,731
Depreciation of equipment under operating leases (note 4)	122,545	96,853
Amortization of convertible debenture synthetic discount and deferred costs (note 8)	5,589	5,255
Loss on investments	1,330	10,289
Share of earnings from other equity accounted investments	—	706
Provision for credit losses	1,261	284
	252,584	170,381
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(1,378,775)	(1,307,545)
Repayments of finance receivables	1,165,907	1,209,198
Investment in equipment under operating leases	(333,925)	(162,252)
Proceeds on disposal of equipment under operating leases	114,216	69,411
Syndications of finance receivables	487,813	48,178
Other non-cash operating assets and liabilities	2,404	(57,112)
Cash provided by (used in) operating activities	310,224	(29,741)
INVESTING ACTIVITIES		
Investments	395	(12,950)
Purchase of property, equipment and leasehold improvements	(6,824)	(2,232)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	21,099	1,486
Purchase of intangible assets	(6,947)	(9,622)
Decrease (increase) in notes receivable	1,132	(122)
Cash provided by (used in) investing activities	8,855	(23,440)
FINANCING ACTIVITIES		
Cash payments for principle portion of lease liability	(616)	—
Cash payments for interest portion of lease liability	(593)	—
Decrease in restricted funds	(73,858)	(57,506)
Increase in deferred financing costs	(10,867)	(121)
Issuance of share capital, net	4,081	—
Issuance of secured borrowings, net	(183,974)	159,088
Dividends paid	(30,658)	(39,595)
Cash (used in) provided by financing activities	(296,485)	61,866
Effects of foreign exchange rates on cash	(733)	834
Net increase in cash during the period	21,861	9,519
Cash, beginning of the period	21,999	76,637
Cash, end of the period	43,860	86,156
Supplemental cash flow information:		
Cash taxes paid	9,888	5,944
Cash interest paid	117,622	79,681

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with approximately \$18.5 billion in assets and operations in the US, Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 4,000 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018, which includes information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 7, 2019.

Accounting policies

These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2018, except as discussed below.

Syndication

The Company periodically syndicates certain finance receivables to third party financial institutions. At the time the finance receivables are syndicated, the net book value of the asset is removed from the statement of financial position and the associated revenue and expenses are recognized immediately in the statement of operations within the Syndication revenue, net line item.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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Recently adopted accounting standards

IFRS 16, *Leases* ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16, issued by the IASB, using the modified retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings. This adoption methodology does not require restatement of prior periods. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification and allowed the use of hindsight to determine the lease term for existing leases. In the application of hindsight, the Company evaluated its current real estate strategies, which resulted in the determination that certain renewal terms would likely be exercised and were therefore included in the expected lease term when calculating the lease liability and right of use asset. As a result, the recorded lease liability at adoption was higher than the lease commitments disclosed in the Company's December 31, 2018 audited annual financial statements.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments. This resulted in the recording of additional lease assets and lease liabilities of approximately \$79,700 as of January 1, 2019. Lessor accounting under the new standard was mostly left unchanged and did not impact the Company's vehicle leases with its clients. The adoption of this standard did not materially impact the Company's condensed consolidated operations and had no impact on cash flows.

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

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. 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.

Changes in the presentation of the interim condensed consolidated statements of operations and geographic location

During the current period, the Company modified the presentation and classification of the Net revenue section within the interim condensed consolidated statements of operations with the overarching principle of disaggregating revenue into three distinct revenue streams: 1) financing revenue, 2) syndication revenue, and 3) servicing revenue.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The primary reclassifications are as follows:

- Reclassification of gain on sale of disposition of equipment under operating leases from Service revenue and other to Rental revenue and other,
- Reclassification of syndication revenue from Service revenue and other to its own line item,
- Reclassification of certain US financing leases to Equipment under operating leases, and
- Reclassification of certain contract costs from Interest income, net to Servicing income, net.

Additionally, the Company modified its geographic locations from the US, Canada, and Other to the US and Canada, Australia and New Zealand, and Mexico to align with how management operates and evaluates the business.

The changes in presentation have been applied retrospectively to the 2018 comparative amounts in the interim condensed consolidated statements of financial position, operations, and cash flows and the geographic locations disclosed in the following notes to the interim condensed consolidated financial statements.

The following tables illustrate the reclassifications of the Company's financial statements for the periods noted.

Interim condensed consolidated statement of operations

	Three months ended March 31, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
Interest income, net	153,168	188	153,356
Rental revenue and other	125,859	14,781	140,640
Depreciation of equipment under operating leases	(95,303)	(1,550)	(96,853)
	183,724	13,419	197,143
Interest expense	101,513	—	101,513
Net financing revenue	82,211	13,419	95,630
Fleet service revenue	140,196	(14,433)	125,763
Direct costs of fixed rate service contracts	(11,064)	—	(11,064)
Servicing income, net	129,132	(14,433)	114,699
Syndication revenue, net	—	1,014	1,014
Net revenue	211,343	—	211,343

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Interim condensed consolidated statement of financial position

	As at December 31, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
Finance receivables	13,231,146	(27,558)	13,203,588
Equipment under operating leases	2,134,105	27,558	2,161,663

Interim condensed consolidated statement of cash flows

	Three months ended March 31, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
OPERATING ACTIVITIES			
Items not affecting cash			
Depreciation of equipment under operating leases	95,303	1,550	96,853
Changes in non-cash operating assets and liabilities			
Investment in finance receivables	(1,318,482)	10,937	(1,307,545)
Repayments of finance receivables	1,212,451	(3,253)	1,209,198
Investment in equipment under operating leases	(153,018)	(9,234)	(162,252)
Proceeds on disposal of equipment under operating leases	60,619	8,792	69,411
Syndications of finance receivables	56,970	(8,792)	48,178

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

3. FINANCE RECEIVABLES

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

	March 31, 2019			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	11,652,864	260,534	109,791	12,023,189
Unguaranteed residual values	1,043	66,998	—	68,041
Gross investment	11,653,907	327,532	109,791	12,091,230
Unearned income	(1,107,616)	(43,127)	—	(1,150,743)
Net investment	10,546,291	284,405	109,791	10,940,487
Net realizable value of impaired receivables	60,882	14,571	—	75,453
Unamortized deferred costs and subsidies	(105,860)	—	—	(105,860)
Prepaid lease payments and security deposits	(24,219)	(210)	(28,818)	(53,247)
Interim fundings	796,422	—	66,753	863,175
Fleet management service receivables	616,773	32,698	13,926	663,397
Other receivables	114,286	78,981	40,279	233,546
Allowance for credit losses (Subsection C)	(7,029)	(2,343)	(724)	(10,096)
Total finance receivables	11,997,546	408,102	201,207	12,606,855

	December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	12,228,537	258,052	109,587	12,596,176
Unguaranteed residual values	4,704	72,435	—	77,139
Gross investment	12,233,241	330,487	109,587	12,673,315
Unearned income	(1,128,602)	(43,555)	—	(1,172,157)
Net investment	11,104,639	286,932	109,587	11,501,158
Net realizable value of impaired receivables	8,064	25,263	—	33,327
Unamortized deferred costs and subsidies	(106,178)	—	—	(106,178)
Prepaid lease payments and security deposits	(42,167)	(236)	(26,936)	(69,339)
Interim fundings	770,542	—	100,266	870,808
Fleet management service receivables	718,297	32,176	15,245	765,718
Other receivables	109,286	83,485	24,655	217,426
Allowance for credit losses (Subsection C)	(6,667)	(2,039)	(626)	(9,332)
Total finance receivables	12,555,816	425,581	222,191	13,203,588

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

A) Delinquency status of net investment in finance receivables

The following table presents the delinquency status of the net investment in finance receivables, by contract balance:

	March 31, 2019 ⁽¹⁾		December 31, 2018 ⁽¹⁾	
	\$	%	\$	%
31-60 days past due	12,037	0.11	5,349	0.05
61-90 days past due	1,633	0.01	6,080	0.05
Greater than 90 days past due	1,036	0.01	4,286	0.04
Total past due	14,706	0.13	15,715	0.14
Current	10,925,781	99.87	11,485,443	99.86
Total net investment	10,940,487	100.00	11,501,158	100.00

1. As at March 31, 2019, \$717 (December 31, 2018 - \$1,157) of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover losses.

B) Interest rate characteristics of net investment in finance receivables

	March 31, 2019		December 31, 2018	
	Leases	Loans	Leases	Loans
Net investment	\$ 10,834,745	\$ 105,742	\$ 11,387,535	\$ 113,623
Weighted average fixed interest rate	4.70%	8.86%	4.57%	8.77%
Weighted average floating interest rate	4.99%	5.96%	5.04%	8.13%
Percentage of portfolio with fixed interest rate	49.13%	96.79%	48.35%	98.56%

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

C) Allowance for credit losses

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

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	3	207	213	423
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	—	—	—
Loan originations	—	—	—	—
Changes in models and inputs, derecognition, and repayments	3	166	(169)	—
Total	6	373	44	423
Charge-offs, net of recoveries	—	—	—	—
Foreign exchange	—	9	—	9
Balance at March 31, 2019	6	382	44	432

Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	—	8,556	322	8,878
Transfer to Stage 2	—	2	(2)	—
Transfer to Stage 3	—	(544)	544	—
Lease originations	—	2,720	—	2,720
Changes in models and inputs, derecognition, and repayments	—	(1,336)	(112)	(1,448)
Total	—	9,398	752	10,150
Charge-offs, net of recoveries	—	(147)	—	(147)
Foreign exchange	—	(348)	3	(345)
Balance at March 31, 2019	—	8,903	755	9,658

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	—	19	12	31
Provision for credit losses	—	—	(11)	(11)
Charge-offs, net of recoveries	—	(14)	—	(14)
Foreign exchange	—	—	—	—
Balance at March 31, 2019	—	5	1	6

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	22	65,193	340	65,555
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	(65,060)	65,060	—
Loan originations	—	—	—	—
Changes in models and inputs, derecognition, and repayments	(19)	15	479,622	479,618
Total	3	148	545,022	545,173
Charge-offs, net of recoveries ⁽¹⁾	—	—	(552,500)	(552,500)
Foreign exchange	—	59	7,691	7,750
Balance at December 31, 2018	3	207	213	423

Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	—	7,544	39	7,583
Transfer to Stage 2	—	31	(31)	—
Transfer to Stage 3	—	(325)	325	—
Lease originations	—	9,136	—	9,136
Changes in models and inputs, derecognition, and repayments	—	(6,850)	(5)	(6,855)
Total	—	9,536	328	9,864
Charge-offs, net of recoveries	—	(1,398)	—	(1,398)
Foreign exchange	—	418	(6)	412
Balance at December 31, 2018	—	8,556	322	8,878

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	—	7	13	20
Provision for credit losses	—	13	1	14
Charge-offs, net of recoveries	—	(1)	(2)	(3)
Foreign exchange	—	—	—	—
Balance at December 31, 2018	—	19	12	31

1. On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital (note 6). At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position at the acquisition-date fair value.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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

Allowance for credit losses	Three-month period ended	Year ended
	March 31, 2019	December 31, 2018
	\$	\$
Allowance for credit losses, beginning of period	9,332	4,304
IFRS 9 adjustment	—	68,854
Provision for credit losses	1,261	1,913
Provision for 19 th Capital	—	480,000
Charge-offs, net of recoveries ⁽¹⁾	(161)	(553,901)
Impact of foreign exchange rates	(336)	8,162
Allowance for credit losses, end of period	10,096	9,332
Allowance as a percentage of finance receivables	0.08%	0.07%
Finance receivables in arrears (90 days and over)	\$ —	\$ 4,285
Arrears (90 days and over) as a percentage of net investment in finance receivables	—%	0.04%

1. On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital (note 6). At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position at the acquisition-date fair value.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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D) Credit risk exposure

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at March 31, 2019:

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	12	13,834	—	13,846
Medium	37,618	9,140	—	46,758
High	—	7,757	—	7,757
Not rated	—	37,382	—	37,382
Impaired	—	—	717	717
	37,630	68,113	717	106,460
Allowance for credit losses	(6)	(382)	(44)	(432)
Net carrying value	37,624	67,731	673	106,028
Finance leases				
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	7,103,480	—	7,103,480
Medium	—	3,394,804	—	3,394,804
High	—	264,050	—	264,050
Not rated	—	72,410	—	72,410
Other finance receivables	—	233,546	—	233,546
Impaired	—	—	74,736	74,736
	—	11,068,290	74,736	11,143,026
Allowance for credit losses	—	(8,903)	(755)	(9,658)
Net carrying value	—	11,059,387	73,981	11,133,368
Fleet management service receivables				
	\$	\$	\$	\$
Not rated	—	658,988	4,409	663,397
Allowance for credit losses	—	(5)	(1)	(6)
Net carrying value	—	658,983	4,408	663,391

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at December 31, 2018:

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	15	13,558	—	13,573
Medium	39,688	9,742	—	49,430
High	—	11,922	—	11,922
Not rated	—	38,698	—	38,698
Impaired	—	—	1,157	1,157
	39,703	73,920	1,157	114,780
Allowance for credit losses	(3)	(207)	(213)	(423)
Net carrying value	39,700	73,713	944	114,357
<hr/>				
Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	7,318,012	—	7,318,012
Medium	—	3,713,739	—	3,713,739
High	—	284,895	—	284,895
Not rated	—	70,889	—	70,889
Other finance receivables	—	217,426	—	217,426
Impaired	—	—	32,170	32,170
	—	11,604,961	32,170	11,637,131
Allowance for credit losses	—	(8,556)	(322)	(8,878)
Net carrying value	—	11,596,405	31,848	11,628,253
<hr/>				
Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Not rated	—	763,636	2,082	765,718
Allowance for credit losses	—	(19)	(12)	(31)
Net carrying value	—	763,617	2,070	765,687

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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

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

4. EQUIPMENT UNDER OPERATING LEASES

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

	March 31, 2019	December 31, 2018
	\$	\$
Cost	2,829,462	2,922,965
Accumulated depreciation	628,676	761,302
Net carrying amount	2,200,786	2,161,663

5. INVESTMENTS

	December 31, 2018	Acquisition or (disposal)	(Loss) income	Foreign exchange loss	March 31, 2019
	\$	\$	\$	\$	\$
Equity accounted investments					
Amerit Fleet Holdings, LLC	15,215	—	(1,430)	(321)	13,464
Fair value through profit/loss accounted investments ("FVTPL")					
ECAF I Holdings Ltd.	99,590	(262)	—	(2,127)	97,201
AutoTech Fund I, LP	3,370	167	100	(72)	3,565
DMG Blockchain Solutions Inc.	2,110	(562)	—	—	1,548
Parking Warrior, LP	2,705	—	—	(58)	2,647
Work Truck Solutions, Inc.	1,363	—	—	(29)	1,334
Net investments	124,353	(657)	(1,330)	(2,607)	119,759

Subsequent to March 31, 2019, the Company sold its interest in ECAF I Holdings Ltd. Refer to note 19 for additional details.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

6. 19TH CAPITAL GROUP LLC

On October 19, 2018, the Company purchased the equity interest held by its joint venture partner for \$5,220, (USD \$4,000) thereby obtaining 100% ownership and control over 19th Capital Group LLC ("19th Capital"). At the time of acquisition, the loans receivable from, and the investments in, 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded in the Company's consolidated statement of financial position at the acquisition-date fair value. As at March 31, 2019 and December 31, 2018 and for the periods then ended, all assets, liabilities, and operations of 19th Capital subsequent to acquisition are fully consolidated in the financial statements of the Company.

7. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	March 31, 2019			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	5,950,025	2.69	6,438,112	64,807
Term notes, in revolving period	1,867,180	3.07	2,020,347	19,232
Variable-funding notes	2,579,549	3.16	2,722,843	33,324
Other	227,629	4.86	227,552	—
Vehicle management asset-backed debt	10,624,383	2.92	11,408,854	117,363
Term senior credit facility ⁽²⁾	2,153,786	3.56	—	—
	12,778,169	3.03	11,408,854	117,363
Deferred financing costs	(56,993)			
Total secured borrowings	12,721,176			
	December 31, 2018			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	5,390,660	2.52	5,569,745	58,277
Term notes, in revolving period	1,907,920	3.23	1,971,304	19,652
Variable-funding notes	3,380,147	3.28	3,560,286	27,301
Other	246,036	4.86	246,035	—
Vehicle management asset-backed debt	10,924,763	2.93	11,347,370	105,230
Term senior credit facility ⁽²⁾	2,406,195	3.54	—	—
	13,330,958	3.04	11,347,370	105,230
Deferred financing costs	(60,178)			
Total secured borrowings	13,270,780			

1. Represents the weighted average stated interest rate of outstanding debt at period-end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.
2. The revolving senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The Company was in compliance with all financial and reporting covenants with all of its lenders at March 31, 2019.

Vehicle management asset-backed debt

During the three-month period ended March 31, 2019, USD \$1,000,000 of revolving notes were converted into amortizing term notes.

During the three-month period ended March 31, 2019, the Company issued USD \$1,000,000 of revolving term notes. The proceeds from this issuance were used to pay down variable funding notes.

As at March 31, 2019, the Company has available capacity in variable-funding notes and other of \$4,579,701 (December 31, 2018 – \$3,894,043) under its vehicle management asset-backed debt facilities.

Term senior credit facility

As at March 31, 2019, the Company had access to an additional \$1,847,314 (December 31, 2018 - \$1,682,205) of available financing from the term senior credit facility.

Restricted funds

As at March 31, 2019, restricted funds include (i) cash reserves of \$117,363 (December 31, 2018 - \$105,230), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$430,541 (December 31, 2018 - \$367,094), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates; and (iii) cash provided to counter-parties as collateral against derivatives liabilities of \$20,620 (December 31, 2018 - \$32,130).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

8. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

March 31, 2019							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
June 18, 2014	June 30, 2019	13.06	5.125	345,000	(667)	(2,023)	342,310
May 29, 2015	June 30, 2020	17.41	4.250	575,000	(6,182)	(8,104)	560,714
				920,000	(6,849)	(10,127)	903,024

December 31, 2018							
Issue Date	Final maturity date	Conversion price per share	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
June 18, 2014	June 30, 2019	13.13	5.125	345,000	(1,324)	(4,009)	339,667
May 29, 2015	June 30, 2020	17.51	4.250	575,000	(7,459)	(9,773)	557,768
				920,000	(8,783)	(13,782)	897,435

1. The conversion price was adjusted on March 29, 2019, the ex-dividend date for dividends to be paid on April 12, 2019, to \$13.05956 for the June 18, 2014 issuance and \$17.41275 for the May 29, 2015 issuance.

2. Stated interest rate on principal face value.

Subsequent to March 31, 2019, the Company completed its offering of \$172,500 convertible unsecured subordinated debentures. Refer to note 19 for additional details.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

9. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2018	433,204,448	3,092,010
Share issuance	186,059	1,386
Exercise of options	931,986	8,638
Balance, March 31, 2019	434,322,493	3,102,034
Balance, December 31, 2017	380,355,836	2,755,536
Share issuance	52,325,000	333,849
Exercise of options	523,612	2,625
Balance, December 31, 2018	433,204,448	3,092,010

Common share dividends

During the three-month period ended March 31, 2019, the Company paid \$19,494 in common share dividends or \$0.045 per common share (three-month period ended March 31, 2018 - \$28,527 or \$0.075 per common share).

As at March 31, 2019, un-accrued common share dividends were \$19,545 or \$0.045 per common share (December 31, 2018 - \$19,494 or \$0.045 per common share).

On October 1, 2018, Element Fleet announced the adoption of a dividend reinvestment plan ("DRIP"). The DRIP provides eligible shareholders an opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX, which discount may be changed or eliminated by the Board of Element Fleet from time to time. To be eligible to participate in the DRIP, shareholders must be resident in Canada. Shareholders residing outside of Canada are not eligible to participate in the DRIP. There were no common shares issued under the DRIP during the year ended December 31, 2018. An aggregate of 186,059 common shares were issued under the DRIP during the first quarter of 2019.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Preferred shares

	As at March 31, 2019	
	Shares	Amount
	#	\$
Preferred Shares, Series A	4,600,000	110,375
Preferred Shares, Series C	5,126,400	124,744
Preferred Shares, Series E	5,321,900	129,994
Preferred Shares, Series G	6,900,000	168,543
Preferred Shares, Series I	6,000,000	146,756

During the three-month period ended March 31, 2019, the Company paid \$11,164 in preferred share dividends (three-month period ended March 31, 2018 – \$11,068).

As at March 31, 2019, the un-accrued cumulative preferred share dividends were \$122 (December 31, 2018 – \$122).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

10. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the three month period ended March 31:

	2019	2018
	\$	\$
(a) Stock options	978	1,856
(b) Deferred share units	249	(408)
(c) Performance share units	(205)	2,917
(d) Restricted share units	4,148	182
	5,170	4,547

(a) Stock options

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

	Number of options #	Weighted average exercise price \$
Outstanding, December 31, 2017	21,368,293	10.92
Granted ⁽¹⁾	5,949,443	6.04
Forfeited	(670,368)	11.94
Expired	(430,424)	10.82
Exercised ⁽²⁾	(888,334)	3.79
Outstanding, December 31, 2018	25,328,610	10.01
Forfeited	(151,601)	7.52
Expired	(563,591)	12.30
Exercised ⁽²⁾	(2,153,334)	5.61
Outstanding, March 31, 2019	22,460,084	10.39

1. 4,100,000 options granted during 2018 contain performance vesting criteria; an additional 1,849,443 options granted during 2018 vest as described in each tranche of the award.
2. Weighted average share price of options exercised during the three-month period ended March 31, 2019 was \$7.67 (year ended December 31, 2018 – \$6.51).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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

	Deferred share units	Performance share units	Restricted share units
	#	#	#
Outstanding, December 31, 2017	1,393,987	268,934	1,255,415
Granted	360,185	606,247	2,210,714
Forfeited	—	(24,538)	(106,925)
Redeemed	(972,535)	(468,304)	(1,255,471)
Outstanding, December 31, 2018	781,637	382,339	2,103,733
Granted	66,332	1,096,646	751,409
Forfeited	—	—	(38,524)
Redeemed	(119,340)	—	(179,267)
Outstanding, March 31, 2019	728,629	1,478,985	2,637,351

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

11. REVENUE

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

	March 31, 2019		
	Fleet Management	Non-Core	Total
	\$	\$	\$
Major service lines			
Interest income, net	166,238	970	167,208
Rental revenue	145,872	32,200	178,072
Gain on sale of equipment under operating leases	10,761	2,520	13,281
Depreciation of equipment under operating leases	(106,228)	(16,317)	(122,545)
Financing revenue before interest expense	216,643	19,373	236,016
Other service revenue, net	90,968	169	91,137
Vehicle sales and end of contract fees	26,991	—	26,991
Service and other revenue, net	117,959	169	118,128
Syndication revenue, net	17,212	—	17,212
Net revenue before interest expense	351,814	19,542	371,356
Primary geographical markets			
US and Canada	285,475	19,498	304,973
Australia and New Zealand	43,943	44	43,987
Mexico	22,396	—	22,396
Net revenue before interest expense	351,814	19,542	371,356
Timing of revenue recognition			
Revenue earned at a point in time	102,437	—	102,437
Revenue earned over time	249,377	19,542	268,919
Net revenue before interest expense	351,814	19,542	371,356

Revenue earned at a point in time includes accident, fuel, and title and registration fees, and vendor commissions. Revenue earned over time includes interest income, fleet management fees, including maintenance fees, and telematics services.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	March 31, 2018		
	Fleet Management	Non-Core	Total
	\$	\$	\$
Major service lines			
Interest income, net	140,490	12,866	153,356
Rental revenue	128,716	—	128,716
Gain on sale of equipment under operating leases	11,924	—	11,924
Depreciation of equipment under operating leases	(96,853)	—	(96,853)
Financing revenue before interest expense	184,277	12,866	197,143
Other service revenue, net	90,889	652	91,541
Vehicle sales and end of contract fees	23,158	—	23,158
Service and other revenue, net	114,047	652	114,699
Syndication revenue, net	1,014	—	1,014
Net revenue before interest expense	299,338	13,518	312,856
Primary geographical markets			
US and Canada	237,282	12,277	249,559
Australia and New Zealand	46,818	1,241	48,059
Mexico	15,238	—	15,238
Net revenue before interest expense	299,338	13,518	312,856
Timing of revenue recognition			
Revenue earned at a point in time	71,737	—	71,737
Revenue earned over time	227,601	13,518	241,119
Net revenue before interest expense	299,338	13,518	312,856

(A) Contract balances

	March 31, 2019 \$	December 31, 2018 \$
Contract assets	40,524	41,876

Contract assets represent the costs the Company incurs to enter into contracts with customers including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3.

B) Performance obligations

Fixed-fee Service Contracts. The Company provides separately priced and contracted service contracts to our fleet clients that range from fuel cards, accident management services, and maintenance services. These service contracts generally have open-ended terms and can be in place as long as the client uses the underlying

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

vehicle that is being serviced. Fees are billed monthly and revenue is recognized over the term of the agreement proportionally over the passage of time.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

12. EARNINGS PER SHARE

Basic earnings per share are as follows for the three-month period ended March 31:

	2019	2018
	\$	\$
Net income attributable to shareholders	80,473	21,759
Cumulative dividends on preferred shares	(11,164)	(11,068)
Net income available to common shareholders	69,309	10,691
Weighted average number of common shares outstanding – basic (number)	433,607,223	380,355,836
Basic earnings per share	\$ 0.16	\$ 0.03

Diluted earnings per share is as follows for the three-month period ended March 31:

	2019	2018
	\$	\$
Net income available to common shareholders adjusted for the effects of dilution	69,309	10,691
Weighted average number of common shares outstanding – basic (number)	433,607,223	380,355,836
Dilutive stock options and warrants (number)	266,282	651,630
Weighted average number of common shares outstanding – diluted (number)	433,873,505	381,007,466
Diluted earnings per share	\$ 0.16	\$ 0.03

Instruments outstanding as at March 31, 2019 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 15,478,986 stock options for the year ended March 31, 2019 (three-month period ended March 31, 2018 – 17,504,321 stock options).

In addition, the convertible debentures (note 8) were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three months ended March 31, 2019 and 2018.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

13. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value.

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

	March 31, 2019	December 31, 2018
	\$	\$
Secured borrowings	12,721,176	13,270,780
Convertible debentures	903,024	897,435
Total debt	13,624,200	14,168,215
Shareholders' equity	3,955,552	3,975,485
	17,579,752	18,143,700

14. SEGMENTED INFORMATION

Operating segments

The Company operates and reports in two separate segments (a) the Fleet Management segment and, (b) the Non-Core segment, to reflect differing characteristics of assets and operations from core fleet management. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, adjusted operating income, return on tangible equity and leverage.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Segmented operating results

	Three-month period ended March 31, 2019			Three-month period ended March 31, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Net interest income and rental revenue	216,643	19,373	236,016	184,277	12,866	197,143
Interest expense	114,112	15,017	129,129	90,891	10,622	101,513
Net financing revenue	102,531	4,356	106,887	93,386	2,244	95,630
Servicing income, net	117,959	169	118,128	114,047	652	114,699
Syndication revenue, net	17,212	—	17,212	1,014	—	1,014
Net revenue	<u>237,702</u>	<u>4,525</u>	<u>242,227</u>	<u>208,447</u>	<u>2,896</u>	<u>211,343</u>
Operating expenses						
Salaries, wages and benefits	78,221	1,894	80,115	81,535	730	82,265
General and administrative expenses	27,748	2,050	29,798	33,354	486	33,840
Depreciation and amortization	9,740	620	10,360	5,280	—	5,280
	<u>115,709</u>	<u>4,564</u>	<u>120,273</u>	<u>120,169</u>	<u>1,216</u>	<u>121,385</u>
Net segment operating income (loss) (before tax)	<u>121,993</u>	<u>(39)</u>	<u>121,954</u>	<u>88,278</u>	<u>1,680</u>	<u>89,958</u>
Loss on investments	—	1,330	1,330	—	10,304	10,304
Net segment income (loss) (before tax)	<u>121,993</u>	<u>(1,369)</u>	<u>120,624</u>	<u>88,278</u>	<u>(8,624)</u>	<u>79,654</u>
Share-based compensation			5,170			4,547
Amortization of convertible debenture synthetic discount			3,655			3,424
Amortization of intangible assets from acquisitions			9,176			11,871
Restructuring and transformation costs			6,738			40,811
Provision for (recovery of) income taxes			15,412			(2,758)
Net income for the period			<u>80,473</u>			<u>21,759</u>

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Segmented financial position

	As at March 31, 2019			As at December 31, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select condensed consolidated statement of financial position information						
Finance receivables	12,559,671	47,184	12,606,855	13,147,971	55,617	13,203,588
Equipment under operating leases	1,826,915	373,871	2,200,786	1,778,868	382,795	2,161,663
Other investments ⁽¹⁾	—	97,201	97,201	—	99,590	99,590
Goodwill and intangible assets	2,109,158	—	2,109,158	2,156,669	—	2,156,669
Total select segment assets	16,495,744	518,256	17,014,000	17,083,508	538,002	17,621,510
Other assets			1,462,935			1,342,496
Total assets			18,476,935			18,964,006

1. Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., which was accounted for using the effective interest rate method and considered an earning asset. Upon adoption of IFRS 9 on January 1, 2018 by the Company, the investment is accounted for using FVTPL and no longer considered an earning asset.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Geographic information

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

Geographic information is as follows:

For the three months-ended	March 31, 2019				March 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue excluding interest expense	304,973	43,987	22,396	371,356	249,559	48,059	15,238	312,856
Interest expense				(129,129)				(101,513)
Net revenue				242,227				211,343

As at	March 31, 2019				December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	11,997,546	408,102	201,207	12,606,855	12,555,816	425,581	222,191	13,203,588
Equipment under operating leases	403,869	1,298,675	498,242	2,200,786	410,356	1,313,434	437,873	2,161,663
Goodwill and intangible assets	2,076,437	32,721	—	2,109,158	2,123,244	33,425	—	2,156,669
Property, equipment and leasehold improvements	77,921	30,130	9,432	117,483	49,506	8,671	2,792	60,969
	14,555,773	1,769,628	708,881	17,034,282	15,138,922	1,781,111	662,856	17,582,889

Geographic net revenue, excluding interest expense is based on the location of clients, and select assets are based on the location of the assets.

15. LEASES

The Company leases its office space and certain office equipment. Leases with an initial term of 12 months or less are not recorded in the statement of financial position and lease expense is recognized on a straight-line basis over the lease term for these leases. For existing leases as of January 1, 2019 and leases commencing on or after January 1, 2019, the Company accounts for the lease components (fixed payments including rent and variable payments that depend on an index or rate) separately from the non-lease components (e.g. common-area maintenance costs).

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or more. The exercise of lease renewal options is at the sole discretion of the Company. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of the Company's leases include

Element Fleet Management Corp.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

		As at January 1, 2019	As at March 31, 2019
		\$	\$
Assets	Classification		
Right-of-use assets	Land and buildings, net of accumulated depreciation ⁽¹⁾	79,688	75,450
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	79,688	75,964

1. As at March 31, 2019, right-of-use assets are recorded net of accumulated amortization of \$3,311.

		Three-month period ended March 31, 2019
		\$
Amortization of leased assets	Depreciation and amortization	3,309
Interest on lease liabilities	Interest expense	632
Net lease cost		3,941

	As at March 31, 2019
	\$
Maturity of lease liabilities	
2019	8,777
2020	12,018
2021	11,815
2022	10,583
2023	9,269
Thereafter	23,502

	As at March 31, 2019
Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	7.6
Weighted-average discount rate	3.11%

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Valuation methods and assumptions

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

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

Convertible debentures

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk.

Derivatives

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

Investments

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

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	As at March 31, 2019				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non-observable market inputs	
	\$	\$	\$	\$	
Financial assets					
Assets held at amortized cost					
<i>Finance lease receivables</i>	12,501,113	—	—	12,501,113	12,501,113
<i>Finance loans receivables</i>	105,742	—	—	105,742	105,742
<i>Notes receivables</i>	12,566	—	—	12,566	12,566
Assets held at fair value					
<i>Derivative financial assets</i>					
<i>Interest rate swaps</i>	29,525	—	29,525	—	29,525
<i>Interest rate caps</i>	3,728	—	3,728	—	3,728
<i>Investments classified as FVTPL</i>	106,295	—	—	106,295	106,295
Total financial assets	12,758,969	—	33,253	12,725,716	12,758,969
Financial liabilities					
Assets held at amortized cost					
<i>Secured borrowings on finance receivables</i>	10,624,383	—	—	10,624,383	10,624,383
<i>Convertible debentures</i>	903,024	—	948,583	—	948,583
Assets held at fair value					
<i>Derivative financial liabilities</i>					
<i>Foreign exchange forwards</i>	12,188	—	12,188	—	12,188
<i>Interest rate swaps</i>	40,758	—	40,758	—	40,758
<i>Equity swaps</i>	6,504	—	6,504	—	6,504
Total financial liabilities	11,586,857	—	1,008,033	10,624,383	11,632,416

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	As at December 31, 2018				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non- observable market inputs	
	\$	\$	\$	\$	
Financial assets					
Assets held at amortized cost					
<i>Finance lease receivables</i>	13,089,965	—	—	13,089,965	13,089,965
<i>Finance loans receivables</i>	113,623	—	—	113,623	113,623
<i>Notes receivables</i>	13,698	—	—	13,698	13,698
Assets held at fair value					
<i>Derivative financial assets</i>					
<i>Interest rate swaps</i>	28,700	—	28,700	—	28,700
<i>Interest rate caps</i>	6,052	—	6,052	—	6,052
<i>Investments classified as FVTPL</i>	109,138	—	—	109,138	109,138
Total financial assets	13,361,176	—	34,752	13,326,424	13,361,176
Financial liabilities					
Assets held at amortized cost					
<i>Secured borrowings on finance receivables</i>	10,924,763	—	—	10,924,763	10,924,763
<i>Convertible debentures</i>	897,435	—	959,065	—	959,065
Assets held at fair value					
<i>Derivative financial liabilities</i>					
<i>Foreign exchange forwards</i>	18,288	—	18,288	—	18,288
<i>Interest rate swaps</i>	39,684	—	39,684	—	39,684
<i>Equity swaps</i>	10,449	—	10,449	—	10,449
Total financial liabilities	11,890,619	—	1,027,486	10,924,763	11,952,249

17. PROVISIONS

During the three months ended March 31, 2019, the Company recorded a restructuring provision of \$6,738 with respect to transformation. All amounts have been incurred and paid or expect to be paid by the end of the second quarter of 2019. During the three months ended March 31, 2018, the Company recorded a restructuring provision of \$40,811 for severance and other termination costs of employees.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The changes in the provisions during the current period were as follows:

Nature of expenses	Q1 2019	Remaining liability
	\$	\$
Severances	589	6,278
Professional fees	7,431	4,322
Other	(1,282)	2,344
Total	6,738	12,944

18. COMPARATIVE FIGURES

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

19. SUBSEQUENT EVENTS

Convertible debenture offering

On April 5, 2019, the Company closed on its offering of \$150,000 aggregate principal amount of convertible unsecured subordinated debentures (the "Offering"), with an interest rate of 4.25% per annum, payable semi annually on the last day of June and December, commencing on December 31, 2019 (the "Debentures"). The Debentures mature on June 30, 2024. On April 8, 2019, the underwriters exercised in full their over-allotment option to purchase an additional \$22,500 aggregate principal amount of Debentures. With the exercise of the over-allotment, the Company has issued a total of \$172,500 aggregate principal amount of Debentures pursuant to the Offering.

The proceeds from this Offering, as well as other funding sources, will be used to repay at maturity the outstanding \$345,000 aggregate principal amount of its 5.125% extendible convertible unsecured subordinated debentures that mature on June 30, 2019.

Sale of ECAF I Holdings Ltd.

On April 12, 2019, the Company sold its 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer, for \$97,178 (USD \$72,864) which approximates the current carrying value of the investment.