Element Fleet Management Corp.

Management Discussion and Analysis

March 31, 2021

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 three-month period ended March 31, 2021 and should be read in conjunction with the Company's unaudited interim condensed financial statements as at and for the three-month period ended March 31, 2021 and the audited consolidated financial statements and accompanying notes 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 "Q1 2021", "this quarter", or "the quarter" are to the quarter ended March 31, 2021 and references to "Q4 2020" and "Q1 2020" are to the quarters ended December 31, 2020 and March 31, 2020, 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 MAY 11, 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 business-to-business 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 $15.0 billion in assets under management and over 1 million vehicles under management serving more than 5,500 clients.

The fleet management industry took shape over 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 solid sustainable 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 $4 billion of committed, undrawn liquidity; and meaningfully improved profitability.

The rapid and successful transformation program 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, we completed Element's transformation in 2020 and 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.

Select Q1 2021 Results

Net revenue	Earnings / share	After-tax adjusted operating income / share	Free cash flow / share
$ 249 M	$ 0.20	$ 0.22	$ 0.23
Average net earning assets	**Assets under management**	**Return on common equity[2]**	**Pre-tax return on common equity[3]**
$ 10.1 B	$ 15.0 B	8.0 %	14.3 %

Income Summary

(in $000's for stated values, except per share amounts)		**For the three-month period ended March 31, 2021**
Net financing revenue	**$**	**111,020**
Servicing income, net		**114,489**
Syndication revenue, net		**23,089**
Net revenue		**248,598**
Adjusted operating expenses		***111,297***
Total operating expenses		**117,409**
Total other expenses		**6,105**
Net income before taxes		**125,084**
Earnings per share [basic]		**0.20**
Adjusted operating income before taxes		***137,301***
After-tax adjusted operating income per share [basic]	***$***	***0.22***

[2] 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.

[3] Abbreviated "pROcE" for pre-tax return on common equity, the formula 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).

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.

Our new 2021 Global Balanced Scorecard ("Global BSC") is largely consistent with 2020 as the facts and assumptions that underpin our strategy continue to hold true, and – when coupled with the results we have achieved to date – validate the continuation of our strategic direction and priorities.

Included for 2021 are three new strategic objectives and measures, which support our overall ambitions. We raised the bar significantly for Element's performance in 2021 as measured by our balanced scorecard, with many metric targets even well above 2020 results.

Element's Q1 2021 Global Balanced Scorecard results were as follows:

Our continued focus is manifesting itself in improved quarter-over-quarter performance across all four dimensions of our BSC. Q1 results reflect a solid start to the year as we continue to advance our strategy as outlined in our 2021 Global BSC of achieving 4-6% net revenue growth as a focal point for 2021.

Our Clients value the consistent, superior service experience at Element as reflected in our global Net Promoter Score ("NPS") which has improved considerably year-over-year despite falling just shy of our expectations in the quarter; are fulfilled by our transformed operating platform; and are benefiting greatly from our ability to identify $504M of cost savings in 1Q21. A global NPS of 22 – inclusive of a record high score for the U.S. and Canada combined – confirms that we are successfully earning our clients' loyalty.

Our Business continues to attest to the benefits of Transformation and our ongoing commitment to continuous improvement, witnessing strong and enduring operational effectiveness and efficiency performance across all regions in Q1. Our inaugural ESG performance metric and new composite risk metric both confirm an on-target start to the year.

Our People responded well to our "Count Me In" campaign with 77% of our North American employees self-identifying demographics – a boost from 37% previously. Element has clear line-of-sight to meeting its objective of building a more diverse and inclusive workforce in 2021.

Our Investor efforts and outcomes are addressed throughout this document.

Achievements and Initiatives in the Period

Our Clients

Achievements

New and growing client relationships

Our commercial teams in all our geographies are advancing Element's multi-faceted growth strategy, generating early and encouraging results. We closed 55 deals with new clients in the quarter globally, representing nearly 11,000 new vehicles to be brought under Element's management, and over 57,000 service units. (By comparison, we did 42 deals in Q1 2020 for a total of ~6,500 new vehicles and ~16,000 service units; and 39 deals in Q4 2020 for ~4,000 new vehicles and ~10,700 service units.) We were also successful in renewing client relationships and expanding share of wallet in the quarter. Further details are broken out in our Supplementary Information document, available on Element's website.

Deepening client relationships

Amid the opportunities and challenges our clients face as economies gradually re-open in the regions where we operate, we continue to value the chance to work closely and deepen relationships with our clients. We are fortunate to be in the position of a trusted business advisor to our clients in respect of an essential, integral dimension of their business – namely their vehicle fleets.

Our strategic consulting services team has identified $504 million of cost-saving opportunities for our clients so far this year, which we do on a proactive basis. Approximately one fifth of those identified opportunities have been actioned year-to-date, and we expect that proportion to increase as client activity grows. In 2020, clients acted on approximately one quarter of the $1.5 billion in cost savings opportunities we identified over the course of the year.

Earning our clients' loyalty

Our global NPS is a weighted average of trailing-four-quarter NPS's in each of our geographies. In the first month of Q1, we saw our NPS for the U.S. and Canada reach an all-time high as a result of the improvements we have made to deliver a consistent, superior client experience.

Having completed our client-centric Transformation at the end of 2020, the higher NPS reflects the impacts of our focus on much-needed investments, bolstering of our talent roster and automation of processes. The increase in NPS also reflects the agility and efforts of the Client Experience Team to adapt to changing needs, as well as increased engagement with our clients.

Creating compelling value for our clients

One of the ways we have increased client service and satisfaction is through our Request Centre – a digital self-service product in the cloud. Clients submit requests on the platform, which automatically directs the query to the appropriate team to ensure a quick and complete response. This enables faster follow-up in the right product area.

Request Centre was launched in Q4 2020 and usage is ramping up steadily since implementation. The product, which replaces heavily manual processes, is scalable and provides a digital platform for growth. The increased use of digital tools has contributed to positive engagement from clients and has also led to outperforming cycle times.

Initiatives

End-to-end client experience and solutions team

The aforementioned gain in NPS set a new benchmark; however, there are still improvements we can make. With Transformation over, we are focusing our full attention on being proactive and consultative to drive client satisfaction even higher.

We are creating an end-to-end Client Experience and Solutions Team that will bring together Fleet Partnership Solutions, Client and Driver Experience, Product Strategy, Xcelerate, and Connected Solutions (digitization solutions through telematics) under one umbrella. By encompassing client experience and solutions on one team, we will create a wing-to-wing journey for our clients that will nurture the success of existing client relationships and drive retention.

We have augmented our team with a new vice president who is leading these changes and will oversee the new end-to-end Client Experience and Solutions Team.

Our Business

Achievements

Electric vehicle ("EV") offerings

As previously disclosed, Custom Fleet reached an agreement with Origin Energy, a leading energy retailer in Australia, to provide Origin's business clients with fully managed electric fleet vehicles and accompanying services through a new offering called Origin 360 EV Fleet. These will be bundled with Origin's charging infrastructure, carbon offsets and energy solutions.

The partnership demonstrates Element's leadership in the region; in New Zealand, the Company's EV+ offering is the only integrated end-to-end EV solution available from a fleet management company.

The complexity of EV adoption fits Element's ability to "make the complex simple" for our clients across all of our geographies. Element's unsurpassed ability to build service and fueling networks, as well as the Company's strong balance sheet to finance EV adoption, position Element to be the long-term winner once that adoption begins to accelerate.

Element also reached an agreement with AYRO, a designer and manufacturer of light-duty, short-haul, and last-mile delivery electric vehicles, to support the deployment of large fleets of AYRO electric delivery vehicles over the next four years. The partnership will offer management services that span the vehicle lifestyle.

Through the partnership, Element will provide AYRO clients with strategic consulting to help select, finance, and optimize their fleets for cost savings, driver safety, and reduced environmental impact, and access to its industry-leading service partner network to ensure client satisfaction and real-time support. In doing so, Element will support AYRO clients through the gradual electrification of automotive fleets over the next decade.

The partnership will initially serve clients in the U.S. and Canada over the next four years but the supply chain capabilities and resources of the two companies can also be leveraged to meet potential future demand across global markets.

Fostering positive environmental and social outcomes and maintaining good governance

In 2020 we built our ESG strategy, aligned to our balanced scorecard and informed by leading ESG reporting frameworks. In Q1 2021, we produced our Inaugural ESG report, which is available on our website.

To inform our strategy, we engaged leading external resources to help us understand the ESG landscape, and we talked to investors to gain a deeper understanding of their priorities. We also discussed with clients the ESG solutions most important to them and encouraged our people to continuously improve.

We worked with our executive team and the internal 'owners' of each of the four ESG pillars we are emphasizing to understand what work was already underway, what we wanted to accomplish and how we could best measure success.

The result is a focused and actionable ESG strategy that we believe is the right one for Element and all our stakeholders, and that we can build on for years to come.

The strategy is based on four key pillars:

- Sustainability: Our core objective is to reduce carbon emissions, focusing on expanding our EV offerings and offering consulting services to help our clients optimize the efficiency of their fleets.

- Diversity & Inclusion (D&I): We are committed to doing more – to being an organization wherein mutual respect and mutual trust are absolute and where each of us is respected and has an equal opportunity to thrive.

- Satisfaction & Safety: We have set meaningful targets for Safety & Satisfaction for our clients and employees. Our goals include fostering higher enrollment in safety programs, reducing accidents by clients, maintaining a Global Employee Engagement Score of 86% and targeting a Global NPS of 23 in 2021.

- Governance: We will continue to evolve our board composition and our ESG reporting to maintain the continued high-standing we have become known for.

Prudently managing our risks

With the launch of the 2021 global balanced scorecard, we introduced Element's first Enterprise Composite Risk Index ("ECRI"). The ECRI will create a more risk-aware organization, leading to more-informed, better decision-making.

Beginning last year, we undertook a comprehensive examination of enterprise risks with a view to replacing the existing enterprise risk management process. In line with best practices and through over 50 workshops, interviews and executive alignment sessions facilitated by a leading global professional services firm with distinct risk management expertise, Element has:

- defined and refined the risk universe and key risks,

- developed detailed Risk Appetite Statements (RAS) for the 6 key risk types,

- developed RAS metrics with thresholds and

- refined and developed our risk index methodology: the ERCI.

Year to date, the ERCI is on target as reported in our global balanced scorecard above.

While the ERCI is functioning as planned, further refinements will take shape as we continue to deepen our understanding of our risk universe and the interconnectivity of risks. The ERCI is also allowing us to build stronger risk awareness within the organization, helping us move from a siloed and binary view of risk to a more transversal / interconnected set of perspectives.

Continuous improvement

Our Transformation program 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.

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. One example of such programs is Continuous Improvement in Action, which is focused on continuous improvement development opportunities that will help employees action and achieve our growth objectives.

In Q1 2021, the Continuous Improvement Group made progress against three key priorities:

i. We assembled a team of dedicated resources to drive Continuous Improvement at Element:

   - The Continuous Improvement Group is staffed with 12 experienced black belts.
   - We developed a 24-month rotational assignment for Element employees to gain black belt certification while working on high priority projects. The first position will be filled in the second quarter.
   - We have launched two new yellow belt certification cohorts in North America and Mexico which allow candidates to develop Lean Six Sigma skills in a four-month program. We expect to graduate 80-100 participants in 2021.
   - We have deployed three new online Microlearnings which teach data-based problem solving skills such as process mapping and using data to make decisions. The Microlearnings are available to all Element employees.

ii. We implemented a scoring model to evaluate where and how black belt staffers will be deployed to different projects across Canada and the U.S. We use the model to score and track the percentage of projects that are considered high-value, indicating that deployment to the area will deliver meaningful improvements in service and lower cost. Our goal for 2021 is to have had at least 70% of our projects score above the high-value threshold.

iii. We developed and implemented a total of 12 automation solutions by leveraging RPA (Robotic Process Automation) “bots” and other light-touch tools. Our total library of automations now contain 87 solutions accounting for over 500,000 transactions processed and 12,000 hours saved for our employees in Q1 2021 alone. These automation solutions decrease cycle times and provide increased accuracy, leading to a superior employee and customer experience.

Initiatives

Evolving Operations leadership

In the first quarter, we evolved the Operations leadership structure to ensure continued success by elevating growth, encouraging curiosity and developing a continuous improvement mindset. As part of this evolution, we stood up a team focused primarily on Ordering and Collateral Services – to ensure a consistent, superior client experience with those related processes – and we made changes to our Operational Excellence team, increasing the size and ensuring this work receives the dedicated resources it needs to grow.

Our People

Achievements

A strong kick-off to 2021

Element kicked off 2021 with our people through a series of dynamic, virtual events centered around our rallying cry “Driven for Growth”. Beginning with our leaders and cascading to the rest of our company, we dedicated time in January to preparing our people to take advantage of the unprecedented window of opportunity we have in 2021.

Connecting pay to performance

With an established pay-for-performance culture, Element’s BSC serves as the foundation for how we prioritize and resource work across our organization. Our 2021 Global BSC is cascaded throughout the organization, and further enabled by 8 functional and 3 regional scorecards that guide our teams to focus on the work that matters most and track performance.

Ensuring a strong connection between pay and performance (as indicated by our BSC) is a cornerstone of the Element employee experience and requires strong leadership. To foster that, we also launched new senior leadership capabilities for our company Vice Presidents in Q1. Designed as an extension of our Ways of Working, our new VP capabilities include curiosity, talent development, leading strategically, influencing others and driving results. Our leaders will be coached and measured on these behaviors as part of their career development and performance assessment.

With our balanced scorecard forging tight alignment between our strategy and performance and our leaders well equipped, our people are focused on clear goals to drive a successful 2021.

Initiatives

Diversity and Inclusion: Counting our people in

Diversity and Inclusion ("D&I") has continued its rise to the top of our collective agenda at Element. In 2021, it has also been noticeably elevated in our internal communications where we are encouraging more conversations, greater awareness and – ultimately – more action to ensure real progress is made in building the diverse and inclusive Element we envision.

As we often say at Element, 'what gets measured, gets done' and like we did through Transformation, this applies to our D&I strategic objective, which is now featured on our 2021 Global BSC. Our Q1 measure for D&I overall landed at 77 which sits just below our target of 80. Our Global Diversity representation showed strong improvement in BIPOC hires in the U.S. and Canada with women hires not far behind. Thanks to a strong March, we expect to see an improvement in this measure next quarter.

In the spirit of further measurement, we also launched our first ever "Count Me In" campaign to better understand the diversity of our people today: our ethnicity, working and thinking styles, sexual orientation, and abilities.

This voluntary and confidential self-identification campaign ran for our Canada, U.S., and Mexico employees. With 77% of our people participating, these results will be used to inform our future D&I strategies with a focus on attraction and development of talent to build a diverse Element.

Employee experience

The Element employee experience is the value proposition for our talent and the road map to making this a great place to work. It is manifested in the way we work and the environment we foster through our approach to major initiatives impacting the careers and well- being of our people.

While we continue to learn from our experiences and plan for the future, we put in place some mission-critical initiatives that will help ensure a safe re-entry to our workplaces.

A foundational dimension of a safe return to the office is vaccinations. At Element, we openly recognize vaccinations as a safe and recommended approach to the effective prevention of COVID-19 and the spread of mild or severe illness. And, we share the view of our public health authorities that they are the best opportunity at ending this pandemic. It is for this reason we are advocating, educating and facilitating vaccinations for our people by encouraging those who can safely be vaccinated to do so – and ensuring people have the time off to attend to their vaccination.

As always, we continue to ask our people to adhere to public health recommendations in their personal lives by continuing to wear a mask, maintain social distancing, wash their hands frequently, avoid large crowds, and stay informed on the latest news and updates on the pandemic.

In addition to promoting public health measures, we are enacting our own Element system to facilitate an eventual safe return to a hybrid working environment. Using technology to remain agile, connected and transparent about the health and safety of our people, we launched a new Element Emergency Alert System ("EEAS"). Launched in March, EEAS is a critical tool in ensuring a safe return to office. This custom designed application is now a mandatory download for our employee's phones. It includes a health assessment for use in daily screenings before entering a work site and features an emergency notification tool to quickly inform people about potential exposures, or changes to the status of working conditions.

Our Investors

Achievements

Return of capital to shareholders

We returned $104.5 million in cash to Element shareholders in the quarter by repurchasing 7,844,886 common shares for cancellation pursuant to our normal course issuer bid (NCIB). Subsequent to quarter-end, we returned an additional $50.0 million to common shareholders by way of 3,486,300 more shares repurchased in the month of April.

The NCIB allows us to repurchase up to 31,836,308[4] more of Element's common shares before November 9, 2021 – the end of the first year of what we envision to be a regular, ongoing return of capital strategy through share buybacks and growing common dividends.

U.S. senior unsecured and ABS term note issuances

As previously communicated, we intend Element to be a programmatic issuer in the U.S. debt capital markets so as to maintain ready access to ample, cost-efficient liquidity and to mature our capital structure. In the first quarter, we priced the Company's sophomore issuance in those markets (which closed subsequent to quarter-end): US $500 million of 3-year 1.60% senior unsecured notes – a notably tighter spread than our inaugural U.S. senior unsecured issuance in June 2020.

Further, Element securitized US $750 million of finance receivables in Q1 under our Chesapeake vehicle management asset-backed debt facility – at record low pricing – and used the proceeds to pay down variable funding notes outstanding.

The vehicle funding cost savings that will result from these issuances will continue to buoy Element's net financing revenue yield throughout 2021.

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.

[4] As of April 30, 2021

Selected Quarterly Financial Information

(in $000's for stated values, except per share amounts)	March 31, 2021	December 31, 2020	March 31, 2020
	As at and for the three-month periods ended		
	$	$	$
Net revenue	**248,598**	247,099	247,239
Net income	**95,529**	78,362	79,358
Total assets	**14,033,707**	14,991,388	18,220,355
Total debt	**9,259,492**	10,018,603	13,115,461
After tax adjusted operating income(1)	**105,173**	108,089	105,397
Earnings per share			
Basic	**0.20**	0.16	0.16
Diluted	**0.20**	0.16	0.16
After tax adjusted operating income per share(1)			
Basic	**0.22**	0.23	0.22
Pro forma Diluted	**0.22**	0.22	0.21
Dividends declared, per share			
Common share	**0.065000**	0.065000	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
Preferred Shares, Series I	**0.359375**	0.359375	0.359375

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

Quarterly Results of Operations

(in $000's for stated values, except per share amounts)	For the three-month periods ended **March 31, 2021** **$**	December 31, 2020 $	March 31, 2020 $
Net revenue			
Net interest income and rental revenue	**165,214**	175,674	200,317
Interest expense	**54,194**	69,219	105,012
Net financing revenue	**111,020**	106,455	95,305
Servicing income, net	**114,489**	116,758	125,847
Syndication revenue, net	**23,089**	23,886	26,087
Net revenue	**248,598**	247,099	247,239
Operating expenses			
Salaries, wages and benefits	**73,625**	77,518	75,470
General and administrative expenses	**27,146**	27,166	31,791
Depreciation and amortization	**10,526**	10,357	10,656
Adjusted operating expenses	**111,297**	115,041	117,917
Amortization of convertible debenture discount	**872**	858	2,555
Share-based compensation	**5,240**	19,578	5,437
Total operating expenses	**117,409**	135,477	125,909
Other expenses			
Amortization of intangible assets from acquisition	**8,906**	9,070	10,223
Restructuring and transformation costs	**—**	19,637	14,995
(Gain) loss on investments	**(2,801)**	(3,261)	57
Total other expenses	**6,105**	25,446	25,275
Net income before taxes	**125,084**	86,176	96,055
Income tax expense	**29,555**	7,814	16,697
Net income for the period	**95,529**	78,362	79,358
Weighted average number of shares outstanding [basic]	**438,503**	440,243	437,299
Earnings per share [basic]	**0.20**	0.16	0.16

Element earned net income of $95.5 million in the first quarter, a 21.9% or $17.2 million improvement over Q4 2020 and 20.4% or $16.2 million improvement over Q1 2020.

Quarter-over-quarter improvement was a function of:

- Net revenue growth (of $1.5 million), which was driven by higher net financing revenue (by $4.6 million) partially offset by lower servicing income (down $2.3 million);
- Favourable adjusted operating expenses (down $3.7 million) led by lower salaries, wages and benefits;
- Lower share-based compensation (by $14.3 million), with Q4 2020 having reflected better-than-target performance of certain 2018 and 2019 performance stock units; and
- No restructuring and transformation costs ($19.6 million in Q4 2020) given the successful completion of transformation at year-end 2020, partially offset by
- a $21.7 million increase in the provision for income taxes reflecting the increase in net income before taxes and a higher effective tax rate.

Year-over-year net income improvement was driven by:

- Net revenue growth (of $1.4 million), which included:
    - Net financing revenue improvement of $15.7 million largely arising from changes in the Allowance for Credit Losses, partly offset by
    - Lower servicing income ($11.4 million due to COVID-19) and syndication revenue (down $3.0 million);
- Reduced adjusted operating expenses (down $6.6 million) as a result of the transformation program; and
- The absence of restructuring and transformation costs ($15.0 million in Q1 2020) given the completion of same in 2020, partially offset by
- a $12.9 million increase in the provision for income taxes reflecting the increase in net income before taxes and a higher effective tax rate.

Quarterly Adjusted Operating Results

	For the three-month periods ended		
(in $000's for stated values, except per share amounts)	**March 31, 2021**	December 31, 2020	March 31, 2020
	$	$	$
Originations	**1,286,506**	1,386,792	2,030,988
Assets under management (1)	**15,045,231**	15,652,493	17,780,139
Net financing revenue	**111,020**	106,455	95,305
Servicing income, net	**114,489**	116,758	125,847
Syndication revenue, net	**23,089**	23,886	26,087
Net revenue	**248,598**	247,099	247,239
Salaries, wages and benefits	**73,625**	77,518	75,470
General and administrative expenses	**27,146**	27,166	31,791
Depreciation and amortization	**10,526**	10,357	10,656
Adjusted operating expenses (1)	**111,297**	115,041	117,917
Adjusted operating income (1)	**137,301**	132,058	129,322
Provision for taxes applicable to adjusted operating income	**32,128**	23,969	23,925
Cumulative preferred share dividends	**8,103**	8,103	10,906
After-tax adjusted operating income attributable to common shareholders (1)	**97,070**	99,986	94,491
Weighted average number of shares outstanding [basic]	**438,503**	440,243	437,299
After-tax adjusted operating income per share (1) [basic]	**0.22**	0.23	0.22

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

Element's adjusted operating income ("AOI") for the quarter was $137.3 million (equivalent to $0.22 on a per share basis), which is a $5.2 million or 4% increase from Q4 2020 and an $8 million or 6.2% increase over Q1 2020.

The quarter-over-quarter AOI improvement was driven by increased net financing revenue and lower adjusted operating expenses, offset partially by lower servicing income and syndication revenue. The year-over-year increase in AOI stemmed from higher net financing revenues and lower adjusted operating expenses, offset partially by pandemic-related declines in servicing income. We address these results in more detail below.

Originations

We originated $1.3 billion of assets in the quarter – a $100 million or 7.2% decline quarter-over-quarter and $744 million or 36.7% decline year-over-year.

Historically, Q1 originations have been lower than the immediately preceding Q4, and Q1 originations tend to be low points for the year. Further, Q1 2021 global originations were impacted by client order deferrals in 2020 resulting from COVID-19, which translated into lower originations in the quarter. The strengthening of the Canadian dollar against the U.S. dollar and Mexican peso also softened reported origination volumes in Q1 compared to Q4 2020 and Q1 2020.

As previously disclosed, we received record numbers of orders in Q1 2021, which will be reflected in Q2 and subsequent quarters' origination results. The global shortage of microchips may further stretch the order-to-origination timeframe and is being monitored by our teams daily.

The year-over-year originations comparison for Q1 is impacted by the timing of Armada origination volumes this year – virtually none in Q1 2021 – and the aforementioned strengthening of the Canadian dollar against both the USD and Mexican peso, which had an even greater impact year-over-year than quarter-over-quarter. With a strong Armada order book for 2021, the absence of originations in Q1 will translate into higher originations for this client in the remaining three quarters.

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)	**March 31, 2021**		December 31, 2020		March 31, 2020	
	$	**%**	$	%	$	%
United States and Canada	**1,000,042**	**77.73**	1,080,626	77.92	1,742,215	85.78
Mexico	**172,893**	**13.44**	166,020	11.97	184,176	9.07
Australia and New Zealand	**113,571**	**8.83**	140,146	10.11	104,597	5.15
Total	**1,286,506**	**100.00**	1,386,792	100.00	2,030,988	100.00

Assets under management

Our assets under management ("AUM") at quarter-end totaled $15.0 billion, down 3.9% or $0.6 billion quarter-over-quarter given decreased origination volumes as discussed above. As set out in our Supplementary Information document, amortization, dispositions and FX lowered quarter-end AUM by over $0.6 billion.

Servicing income, net

Servicing income decreased 1.9% or $2.3 million from Q4 2020 and 9.0% or $11.4 million from Q1 2020.

On a quarter-over-quarter basis, strong service revenue growth in ANZ (up 20%) and Mexico (up 28%) was offset by:

- modestly lower service revenue in the U.S. and Canada;
    - Historically, service revenue has been higher in fourth quarters (driven by vehicle maintenance in preparation for North American winter) than the immediately subsequent first quarters; and
- the strengthening of the Canadian dollar.

Controlling for FX globally, Q1 2021 servicing income was up 0.1% or $0.1 million from Q4 2020.

On a year-over-year basis, the 9% ($11.4 million) decline in servicing income was largely driven by two factors:

- lower vehicle usage due to COVID-19 , although we saw vehicle usage rates improve over the course of the quarter and that trend has continued post-quarter-end, and
- FX.

Controlling for FX globally, Q1 2021 servicing income was down 5.2% or $6.2 million compared to Q1 2020.

Net financing revenue

Net financing revenue increased by $4.6 million or 4.3% quarter-over-quarter despite a 4.8% reduction in average net earning assets resulting from syndication. This growth was primarily driven by:

- lower interest expense (which includes funding costs in addition to pure interest expenses) which decreased $15 million quarter-over-quarter, more than offsetting the $10.5 million decrease in net interest income and rental revenue (as we syndicate leases that earn net interest income to further our capital-lighter business model), and
- the Q1 2021 release of $3.5 million in the provision for credit losses ("PCL"), offset by
- FX headwinds arising from a strong Canadian dollar.

Excluding global FX impacts, net financing revenue increased by $5.6 million or 5.4% quarter-over-quarter.

Net financing revenue increased $15.7 million year-over-year, largely on account of our PCL:

- We recorded a $12.1 million PCL in Q1 2020 based on the impact of the COVID-19 pandemic on our credit loss risk models; and
- We released $3.5 million of this provision in the quarter based on the strong credit and collections performance of the portfolio over the last twelve months (as described further in note 3 of our Q1 2021 Financial Statements).

Controlling for FX globally, net financing revenue grew $18.3 million (19.7%).

Net financing revenue yield on average net earning assets

	For the three-month periods ended		
(in $000's for stated values)	**March 31, 2021**	December 31, 2020	March 31, 2020
Average net earning assets	**$ 10,148,697**	$ 10,664,938	$ 11,909,612
Net interest income and rental revenue	**6.52 %**	6.59 %	6.73 %
Interest expense	**2.14 %**	2.60 %	3.53 %
Net financing revenue yield on average net earning assets	**4.38 %**	3.99 %	3.20 %
Average debt outstanding	**$ 9,777,382**	$ 10,426,959	$ 13,056,159
Average cost of debt (Interest expense / average debt)	**2.22 %**	2.66 %	3.22 %
Average 1-Month LIBOR rates	**0.12 %**	0.15 %	1.41 %

Average net earning assets decreased 4.8% or $516.2 million quarter-over-quarter and 14.8% or $1.8 billion year-over-year.

At the same time, net financing revenue yield on average net earning assets has improved 118 basis points year-over-year and 39 basis points quarter-over-quarter, reflecting:

- Lower interest expenses, as we have substantially deleveraged our balance sheet and lowered the costs of funding the remaining indebtedness;
- The growth of net earning assets in Mexico and ANZ as a percentage of total net earning assets; and
- Strong gain on sale performance in ANZ.

Syndication revenue, net

We syndicated $1,016 million of assets in the quarter – $397 million more than in Q4 2020 and $182 million more than in Q1 2020 – and generated $23.1 million of syndication revenue; a $0.8 million or 3.3% decrease quarter-over-quarter and $3.0 million or 11.5% decrease year-over-year. Q1 2021 syndication revenue is likely to be the quarterly high-point for this revenue line item this year as we took advantage of a strong match of supply and demand in the marketplace to bring forward syndication volume.

Syndication revenue yield on asset volumes syndicated was lower in Q1 2021 than both prior quarter and same quarter prior year as a result of:

- Unusually strong Q4 2020 yield, driven by the release of pent-up demand caused by ultra-low interest rates in Q2 and Q3 2020, which constrained syndication buyers in those earlier quarters of 2020; and

- A lower level of Armada assets in Q1 2021 syndication volumes, whereas materially higher volumes of Armada assets formed part of both Q4 2020 and Q1 2020 syndications.

As previously communicated, we continue to expect syndication revenue yield to vary quarter to quarter based on the mix (client credit rating, remaining lease term, etc.) of assets syndicated in the period. However, we believe the Q1 2021 result represents a relatively normalized yield for the balance of this year, all else equal.

Adjusted operating expenses

Adjusted operating expenses of $111.3 million amount to a $3.7 million or 3.3% decrease quarter-over-quarter and a $6.6 million or 5.6% decrease year-over-year. The quarter-over-quarter improvement is largely driven by the strengthening of the Canadian dollar and our ability to scale our platform without a commensurate increase in operating costs. The year-over-year improvement is a combination of Transformation, the diligent cost controls put into place as a result of the COVID-19 environment, and even more favourable FX ($2.8 million).

Operating margin for the quarter expanded 179 basis points quarter-over-quarter and 292 basis points year-over-year to 55.2% due in part to the favorable evolution in our PCL. While we expect year-over-year expansion of operating margins, the increase we saw in the first quarter likely resulted in a high-point for 2021.

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 March 31, 2021. 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)	**Q1 2021**	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net revenue	**248,598**	247,099	243,252	225,503	247,239	256,509	245,796	249,570
Adjusted operating income (1)	**137,301**	132,058	128,985	111,144	129,322	138,386	127,650	125,976
After-tax adjusted operating income (1)	**105,173**	108,089	107,058	93,361	105,397	112,797	105,311	101,411
Net income (loss)	**95,529**	78,362	70,778	58,594	79,358	(116,978)	70,145	64,061
Earnings (loss) per share, basic	**0.20**	0.16	0.14	0.11	0.16	(0.29)	0.14	0.12
Earnings (loss) per share, diluted	**0.20**	0.16	0.14	0.11	0.16	(0.29)	0.13	0.12
Adjusted operating income per share, basic (1)	**0.29**	0.28	0.27	0.23	0.27	0.29	0.27	0.26
After-tax adjusted operating income per share, basic (1)	**0.22**	0.23	0.22	0.19	0.22	0.23	0.22	0.21
After-tax pro forma diluted adjusted operating income per share (1)	**0.22**	0.22	0.22	0.19	0.21	0.22	0.21	0.22
Net earning assets	**9,426,863**	10,465,983	10,750,218	11,025,581	11,999,636	11,783,853	12,388,224	12,714,943
Loan and lease originations	**1,286,506**	1,386,792	1,279,263	1,306,804	2,030,988	2,225,909	2,106,603	1,806,515
Allowance for credit losses	**13,676**	17,718	18,829	20,000	20,000	8,432	7,810	8,183
As a % of total finance receivables before allowance	**0.16**	0.18	0.19	0.18	0.16	0.07	0.06	0.07
Senior revolving credit facilities	**1,250,957**	1,551,939	1,354,470	1,774,086	1,869,919	1,703,507	1,824,014	2,372,370
Borrowings	**7,853,095**	8,312,397	9,380,815	9,984,649	10,529,564	10,189,354	10,329,638	9,828,447
Convertible debentures	**155,440**	154,267	153,113	151,976	715,978	711,791	715,399	711,305

(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 March 31, 2021, 12%, 5%, 12% and 57% 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.

The following table sets forth a summary of the Company's results on a **constant currency** basis. We provide further details in our Supplementary Information document (available on the Company's website) regarding results for the quarter before the impact of changes in FX.

	For the three-month periods ended		
(in $000's for stated values)	**March 31, 2021**	December 31, 2020	March 31, 2020
	$	$	$
Interest income, net	**104,111**	116,834	134,186
Rental revenue and other	**172,995**	166,717	175,658
Depreciation of equipment under operating leases	**(111,892)**	(109,913)	(116,116)
	165,214	173,638	193,728
Interest expense	**54,194**	68,260	100,992
Net financing revenue	**111,020**	105,378	92,736
Fleet service revenue	**125,814**	126,081	132,191
Direct costs of fixed rate service contract	**(11,325)**	(11,697)	(11,457)
Servicing income, net	**114,489**	114,384	120,734
Syndication revenue, net	**23,089**	23,216	24,580
Net revenue	**248,598**	242,978	238,050
Salaries, wages and benefits	**73,625**	76,519	72,937
General and administrative expenses	**27,146**	26,664	30,781
Depreciation and amortization	**10,526**	10,117	10,423
Adjusted operating expenses	**111,297**	113,300	114,141
Adjusted operating income	**137,301**	129,678	123,909
After-tax adjusted operating income	**105,173**	103,094	102,262
Net earning assets	**9,426,863**	10,310,715	11,277,769
Average net earning assets	**10,148,697**	10,514,434	11,204,016

Financial Position

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

(in $000's for stated values)	**March 31, 2021**	December 31, 2020	March 31, 2020
	$	$	$
ASSETS			
Cash	**40,537**	8,789	90,845
Restricted funds	**475,982**	388,978	541,948
Finance receivables	**8,560,958**	9,561,622	12,451,057
Equipment under operating leases	**2,129,823**	2,157,227	2,017,498
Accounts receivable and other current assets	**220,874**	226,952	227,605
Derivative financial instruments	**41,951**	53,629	93,966
Property, equipment and leasehold improvements	**105,985**	112,352	145,703
Intangible assets	**812,392**	814,378	847,157
Deferred tax assets	**433,633**	444,120	463,353
Goodwill	**1,211,572**	1,223,341	1,341,223
	14,033,707	14,991,388	18,220,355
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**972,148**	1,062,610	991,607
Derivative financial instruments	**50,376**	68,282	118,763
Borrowings	**9,104,052**	9,864,336	12,399,483
Convertible debentures	**155,440**	154,267	715,978
Deferred tax liabilities	**61,706**	57,776	46,246
	10,343,722	11,207,271	14,272,077
Shareholders' equity	**3,689,985**	3,784,117	3,948,278
	14,033,707	14,991,388	18,220,355

Total assets and liabilities decreased by $957,681 and $863,549, respectively, over December 31, 2020. 62% 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 Q1 2021, the quarter-over-quarter decrease in total assets and liabilities was driven by a strengthening Canadian dollar against the U.S. dollar and Mexican peso as well as a decrease in 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 $1.0 billion lower on March 31, 2021 than on December 31, 2020, driven by the cumulative impact of syndication and below average origination volumes in Q1 2021.

(in $000's for stated values, except ratios)	March 31, 2021 $	December 31, 2020 $
Net investment in finance receivables	**7,297,040**	8,308,756
Impaired receivables - at net realizable value	**16,722**	25,463
	7,313,762	8,334,219
Unamortized origination costs and subsidies	**(67,183)**	(78,396)
Net finance receivables	**7,246,579**	8,255,823
Prepaid lease payments and Security deposits	**(49,441)**	(85,025)
Interim funding	**550,267**	625,778
Fleet management service receivables	**488,278**	505,506
Other	**338,951**	277,258
	8,574,634	9,579,340
Allowance for credit losses	**13,676**	17,718
Total finance receivables	**8,560,958**	9,561,622

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

Credit losses and provisions as at and for the three-month period March 31, 2021 and the year-ended December 31, 2020 are as follows.

(in $000's for stated values, except ratios)	March 31, 2021 $	December 31, 2020 $
Allowance for credit losses, beginning of period	**17,718**	8,432
Provision for credit losses	**(3,516)**	11,652
Charge-offs, net of recoveries	**(263)**	(1,629)
Impact of foreign exchange rates	**(263)**	(737)
Allowance for credit losses, end of period	**13,676**	17,718
Ratios		
Charge-offs, net of recoveries, as a % of total finance receivables	**— %**	0.02 %
Allowance for credit losses, as a % of total finance receivables before allowance	**0.16 %**	0.18 %

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 remains challenging to perform these assessments in the current environment given the persistence of the pandemic, our experience and activity over the last three quarters has been instructive. We reviewed inputs to our expected credit loss model throughout the quarter. 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 overall default rates and the impact potential upward or downward trends in GDP would have on our lease and loan portfolio. 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 maintained an allowance for credit losses of $13.7 million at March 31, 2021; a $4.0 million decrease from December 31, 2020.

Impaired receivables

Total impaired receivables were $17 million on March 31, 2021, which is a $9 million or 34% decrease from December 31, 2020. As anticipated, Element was able to recuperate the outstanding balance on one client account in the quarter that had been impaired since 2019.

No clients newly entered bankruptcy in Q1 2021.

Subsequent to quarter-end, a client that entered bankruptcy in 2020 emerged therefrom and assumed all related liabilities to Element, further reducing our total impaired receivables balance to under $4 million at April 30, 2021 – well below pre-COVID-19 levels of impairment.

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)	**March 31, 2021**		December 31, 2020	
	$	**%**	$	%
United States and Canada	**6,671,808**	**71.2**	7,681,953	73.8
Australia and New Zealand	**1,572,148**	**16.7**	1,632,065	15.7
Mexico	**1,132,446**	**12.1**	1,099,032	10.5
Total	**9,376,402**	**100.0**	10,413,050	100.0
Allocated as:				
Net finance receivables	**7,246,579**	**77.3**	8,255,823	79.3
Equipment under operating leases, net	**2,129,823**	**22.7**	2,157,227	20.7
Total	**9,376,402**	**100.0**	10,413,050	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)	**March 31, 2021**		December 31, 2020	
	$	**%**	$	%
United States and Canada	**12,315,216**	**81.9**	12,814,311	81.9
Australia and New Zealand	**1,571,278**	**10.4**	1,625,718	10.4
Mexico	**1,158,737**	**7.7**	1,212,464	7.7
Assets under management	**15,045,231**	**100.0**	15,652,493	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 during 2020, 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 $4 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 three-month period ended March 31, 2021 - as presented in our unaudited interim condensed consolidated financial statements - was $920.2 million, an increase of $611.8 million from the $308.4 million provided by operating activities for the three-month period ended March 31, 2020. The increase was primarily the result of (i) lower investments in finance leases and equipment under operating leases resulting from postponed orders and delayed originations driven by COVID-19 and (ii) an increase in syndications of finance receivables, offset by (iii) continued syndication of our finance receivables in conjunction with our leverage strategy resulting in lower repayments of finance receivables.

Cash used in investing activities for the three-month period ended March 31, 2021 was $20.4 million compared to the $14.8 million of cash provided by investing activities for the three-month period ended March 31, 2020. The primary reason for the change is an increase in current year-to-date purchases of computer software compared to the prior year.

Cash used in financing activities for the three-month period ended March 31, 2021 was $893.0 million, compared to $304.6 million used in financing activities for the three-month period ended March 31, 2020. The year-over-year increase is primarily due to (i) the repurchase of common shares, (ii) an increase in the repayment of borrowings by comparison to the three-month period ended March 31, 2020, and (iii) and an increase in dividends paid from the prior year.

Credit and debt facilities

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

We had $4.0 billion of contractually committed, undrawn liquidity across our revolving unsecured ($1.4 billion) and vehicle management asset-backed ($2.6 billion) facilities at March 31, 2021. 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	March 31, 2021			
(in $000's for stated values)	$	%	$	$
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	**2,644,503**	***52.7***	**1,393,546**	**1,250,957**
Senior notes	**503,715**	**—**	**—**	**503,715**
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	**4,267,287**	**—**	**—**	**4,267,287**
Variable funding notes	**5,626,197**	***45.6***	**2,565,727**	**3,060,470**
Other	**42,826**	**—**	**—**	**42,826**
Total vehicle management asset-backed debt	**9,936,310**	***25.8***	**2,565,727**	**7,370,583**
Total cash			**40,537**	
Total capital available for continuing operations			**3,999,810**	

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	0	0	$ 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	

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

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

These issuances align with our strategic priorities to continue to strengthen Element's investment-grade balance sheet and diversify our access to cost-efficient capital. These issuances also brought our pro-forma, contractually committed, undrawn liquidity to $4.6 billion at April 6, 2021.

We believe the $4.6 billion of liquidity available to the Company as at April 6, 2021 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.

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	**March 31, 2021**	December 31, 2020
(in $000’s)	**$**	$
Cash	**40,537**	8,789
Unsecured debt		
Senior credit facilities	**1,250,957**	1,551,939
4.250% Convertible Debentures due 2024	**155,440**	154,267
3.850% Senior Notes due 2025	**503,715**	509,080
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	**4,267,287**	4,005,371
Variable funding notes	**3,060,470**	3,768,395
Other	**42,826**	44,841
Deferred financing costs	**(31,614)**	(29,911)
Hedge accounting fair value adjustments	**10,411**	14,621
Total debt	**9,259,492**	10,018,603
Shareholders' equity		
Common share capital	**3,152,865**	3,180,379
Preferred share capital	**511,869**	511,869
Other	**25,251**	91,869
Total Shareholders’ Equity	**3,689,985**	3,784,117
Total Capitalization	**12,949,477**	13,802,720

Growing profitability, free cash flow and syndication all contribute to the de-leveraging of Element’s balance sheet, which created the capacity to execute the $172.5 million redemption of Series G preferred shares in full on September 30, 2020. With this 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.

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

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

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 three-month period ended March 31, 2021, 7,844,886 common shares have been repurchased for cancellation, for approximately $104 million including commission, at a volume weighted average price of $13.01 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 indicators of the strength of Element's financial position. At March 31, 2021, our financial leverage ratio was 2.51:1 and tangible leverage ratio was 5.56:1.

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

As at		March 31, 2021	December 31, 2020
(in $000's, except ratios)		**$**	$
Borrowings		**9,104,052**	9,864,336
Convertible debentures		**155,440**	154,267
Total debt	**(a)**	**9,259,492**	10,018,603
Total shareholders' equity	**(b)**	**3,689,985**	3,784,117
		12,949,477	13,802,720
Goodwill and intangible assets	**(c)**	**2,023,964**	2,037,719
Financial leverage	**(a)/(b)**	**2.51**	2.65
Tangible leverage	**(a)/[(b)-(c)]**	**5.56**	5.74

The Company was in compliance with all financial and reporting covenants with all of its lenders at March 31, 2021.

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 March 31, 2021

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

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

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

Outlook and Economic Conditions

Having completed Element's Transformation program and begun the pivot to growth last year, 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;
    - Given the unexpected strengthening of the Canadian dollar (CAD) thus far in 2021, and assuming the forecasts of continued CAD strength through year-end hold true, we are confident in 4-6% net revenue growth year-over-year in 2021 before giving effect to any impact of changes in FX;
- Advance a capital-lighter 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 growing common dividends and share buybacks.

It remains challenging to predict the specifics of economic recovery from the COVID-19 pandemic in North America, as well as the impact of the current global microchip shortage on our OEM partners. The shortage is slowing the ability of some OEMs to convert the significant volume of client orders that we have placed with them into delivery-ready vehicles. Consequently, there is the potential for up to ~$200 million of originations to slip from Q2 to Q3 this year. Notwithstanding, our business remains resilient with client orders at all-time highs and our global footprint driving results that are consistent with our strategy.

We are encouraged by the success of Custom Fleet in Australia and New Zealand last year and this year to date. That region has been fortunate to emerge from the pandemic sooner than much of the world, and the local economy has performed healthily since. We expect to see the same resumption of robust economic activity in North America in due course.

The last 14 months have 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 some of 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

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk. The Company's primary risks have not changed materially from those described in the "Risk Management" section of the Company's 2020 Annual MD&A.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operation are made with reference to the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2021. 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 IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2020 MD&A.

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.

Recently Adopted Accounting Standards

Interest Rate Benchmark Reform

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

The Company adopted *Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16* ("Phase 2 Amendments") effective January 1, 2021. The Phase 2 Amendments include additional disclosure requirements for financial instruments that have yet to transition to an alternative interest rate at the end of the reporting period.

The Company will cease to apply the Amendments and Phase 2 Amendments as IBOR based cash flows transition to new alternative interest rates or when the hedging relationships to which the relief is applied to are discontinued.

On March 5, 2021, the Financial Conduct Authority, LIBOR's regulator and administrator, announced that publication of the one-week and two-month USD LIBOR rates will cease after December 31, 2021, and the remaining USD LIBOR rates, including the 1-month and 3-month USD LIBOR rates, will cease after June 30, 2023, finalizing the end dates of USD LIBOR rates.

To manage the IBOR transition, the Company has established a cross functional initiative with dedicated work streams to evaluate and address the key areas of impact on the Company's leases, services, systems, documents, processes, models, funding and liquidity planning, risk management frameworks, and financial reporting with the intention of managing the impact through appropriate mitigating actions. The Company is progressing on its transition plan and incorporating market developments as they arise.

Hedge Accounting

The Company's accounting policies relating to hedge accounting are described in note 2 and note 20 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 the IBOR Reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in note 20 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 the IBOR Reform exists, the Company applies the relief provided by the Amendments that the IBOR benchmarks, on which the highly probable hedged cash flows are based, are not altered as a result of the Reform. In addition, associated cash flow hedge reserves are not recycled into net income solely due to changes related to the transition from IBOR to new risk-free rates.

Hedging relationships impacted by interest rate benchmark reform

The following table shows the Company's exposure at March 31, 2021 to IBOR subject to reform that have yet to transition to Secured Overnight Financing Rates. These exposures will remain outstanding until IBOR ceases and will therefore transition in the future:

	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Notional/Principal amount(1)
	$	$	$
USD LIBOR (1 month)	**2,188,528**	**—**	**2,467,935**
USD LIBOR (3 month)	**664,991**	**—**	**—**
	2,853,519	**—**	**2,467,935**

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

Future Accounting Changes

All accounting standards effective for periods beginning on or after January 1, 2021 have been adopted by the Company.

Internal Control over Disclosure and Financial Reporting

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

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.

IFRS to Non-IFRS Reconciliations

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

(in $000's for stated values)		March 31, 2021	December 31, 2020	March 31, 2020
		As at and for the three-month periods ended		
Reported and adjusted income measures				
Net income	A	**95,529**	78,362	79,358
Adjustments:				
Amortization of debenture discount		**872**	858	2,555
Share-based compensation		**5,240**	19,578	5,437
Amortization of intangible assets from acquisitions		**8,906**	9,070	10,223
Restructuring and transformation costs		**—**	19,637	14,995
Provision of income taxes		**29,555**	7,814	16,697
(Gain) loss on investments		**(2,801)**	(3,261)	57
Before-tax adjusted operating income	B	**137,301**	132,058	129,322
Provision for taxes applicable to adjusted operating income	C	**32,128**	23,969	23,925
After-tax adjusted operating income	D=B-C	**105,173**	108,089	105,397
Cumulative preferred share dividends during the period	Y	**8,103**	8,103	10,906
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**97,070**	99,986	94,491
Selected statement of financial position amounts				
Total Finance receivables, before allowance for credit losses	E	**8,574,634**	9,579,340	12,471,057
Allowance for credit losses	F	**13,676**	17,718	20,000
Net investment in finance receivable	G	**7,297,040**	8,308,756	9,982,138
Equipment under operating leases	H	**2,129,823**	2,157,227	2,017,498
Net earning assets	I=G+H	**9,426,863**	10,465,983	11,999,636
Average net earning assets	J	**10,148,697**	10,664,938	11,909,612
Goodwill and intangible assets	K	**2,023,964**	2,037,719	2,188,380
Average goodwill and intangible assets	L	**2,036,773**	2,067,491	2,118,833
Borrowings	M	**9,104,052**	9,864,336	12,399,483
Unsecured convertible debentures	N	**155,440**	154,267	715,978
Total debt	O=M+N	**9,259,492**	10,018,603	13,115,461
Average debt	P	**9,777,382**	10,426,959	13,056,159
Total shareholders' equity	Q	**3,689,985**	3,784,117	3,948,278
Preferred shares	R	**511,869**	511,869	680,412
Common shareholders' equity	S=Q-R	**3,178,116**	3,272,248	3,267,866
Average common shareholders' equity	T	**3,239,665**	3,311,538	3,254,520
Average total shareholders' equity	U	**3,751,533**	3,823,407	3,934,931

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

(in $000's for stated values, except ratios and per share amounts)		As at and for the three-month periods ended March 31, 2021	December 31, 2020	March 31, 2020
Key annualized operating ratios				
Leverage ratios				
Financial leverage ratio	O/Q	**2.51**	2.65	3.32
Tangible leverage ratio	O/ (Q-K)	**5.56**	5.74	7.45
Average financial leverage ratio	P/U	**2.61**	2.73	3.32
Average tangible leverage ratio	P/(U-L)	**5.70**	5.94	7.19
Other key operating ratios				
Allowance for credit losses as a % of total finance receivables before allowance	F/E	**0.16 %**	0.18 %	0.16 %
Adjusted operating income on average net earning assets	B/J	**5.41 %**	4.95 %	4.34 %
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	**24.53 %**	24.62 %	23.21 %
Per share information				
Number of shares outstanding	V	**434,169**	440,275	437,682
Weighted average number of shares outstanding [basic]	W	**438,503**	440,243	437,299
Pro forma diluted average number of shares outstanding	X	**454,908**	456,405	485,662
Cumulative preferred share dividends during the period	Y	**8,103**	8,103	10,906
Other effects of dilution on an adjusted operating income basis	Z	**$ 1,634**	$ 1,743	$ 7,735
Net income per share [basic]	(A-Y)/W	**$ 0.20**	$ 0.16	$ 0.16
Net income per share [diluted]		**$ 0.20**	$ 0.16	$ 0.16
Book value per share	S/V	**$ 7.32**	$ 7.43	$ 7.47
After-tax adjusted operating income per share [basic]	(D1)/W	**$ 0.22**	$ 0.23	$ 0.22
After-tax pro forma diluted adjusted operating income per share	(D1+Z)/X	**$ 0.22**	$ 0.22	$ 0.21

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 March 31, 2021:

(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	**137,301**		**0.31**
Less:			
Income taxes related to adjusted operating income	**(32,128)**		**(0.07)**
Preferred share dividends	**(8,103)**		**(0.02)**
After-tax adjusted operating income attributable to common shareholders	**97,070**	**438,502,648**	**0.22**
Dilution items:			
Employee stock option plan	**—**	**2,089,723**	**—**
Convertible debentures (after-tax net interest expense)	**1,634**	**14,315,353**	**—**
After-tax pro forma diluted adjusted operating income	**98,704**	**454,907,724**	**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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at March 31, 2021 and December 31, 2020, the results of operations, comprehensive income and cash flows for the three-month period ended March 31, 2021 and March 31, 2020.

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 May 11, 2021, the Company had 430,472,185 common shares issued and outstanding. In addition, 7,561,018 options were issued and outstanding under the Company's stock option plan as at May 11, 2021. These convertible securities are convertible into, or exercisable for common shares of the Company of which 7,582,873 are exercisable at March 31, 2021 for proceeds to the Company upon exercise of $72.3 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,315,353 common shares.

As at May 11, 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 May 11, 2021.