Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2021

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

	As at June 30, 2021 $	As at December 31, 2020 $
ASSETS		
Cash	**21,550**	8,789
Restricted funds (note 6)	**371,240**	388,978
Finance receivables (note 3 and 16)	**8,167,862**	9,561,622
Equipment under operating leases (note 4)	**2,153,502**	2,157,227
Accounts receivable and other assets	**210,894**	226,952
Derivative financial instruments (note 16)	**31,250**	53,629
Property, equipment and leasehold improvements, net	**99,591**	112,352
Intangible assets, net	**807,875**	814,378
Deferred tax assets	**425,464**	444,120
Goodwill	**1,194,392**	1,223,341
	13,483,620	14,991,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**1,138,017**	1,062,610
Derivative financial instruments (note 16)	**38,891**	68,282
Borrowings (note 6)	**8,529,975**	9,864,336
Convertible debentures (note 7 and 16)	**156,631**	154,267
Deferred tax liabilities	**73,634**	57,776
	9,937,148	11,207,271
Shareholders' equity (note 8)	**3,546,472**	3,784,117
	13,483,620	14,991,388

See accompanying notes

On behalf of the Board:

Director Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2020
	$	$
NET REVENUE		
Interest income, net (note 10)	**93,100**	140,708
Rental revenue and other (note 10)	**173,430**	147,997
Depreciation of equipment under operating leases (note 4)	**(109,653)**	(99,371)
	156,877	189,334
Interest expense	**47,525**	88,679
Net financing revenue	**109,352**	100,655
Fleet service revenue (note 10)	**122,675**	124,418
Direct costs of fixed rate service contracts (note 10)	**(9,490)**	(9,903)
Servicing income, net	**113,185**	114,515
Syndication revenue, net (note 10)	**12,865**	10,333
Net revenue	**235,402**	225,503
OPERATING EXPENSES		
Salaries, wages and benefits	**72,654**	74,859
General and administrative expenses	**25,826**	28,590
Depreciation and amortization (note 15)	**10,410**	10,910
Amortization of convertible debenture discount (note 7)	**887**	2,003
Share-based compensation (note 9)	**7,511**	4,427
	117,288	120,789
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 5)	**—**	38,580
Loss on sale of assets (note 5)	**—**	(52,442)
Net loss on disposition	**—**	(13,862)
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	**8,674**	9,660
Restructuring and transformation costs (note 17)	**—**	18,663
Gain on investments	**(637)**	(3)
Income before income taxes from operations	**110,077**	62,532
Provision for income taxes (note 11)	**29,205**	3,938
Net income for the period	**80,872**	58,594
Basic earnings per share (note 12)	**$ 0.17**	$ 0.11
Diluted earnings per share (note 12)	**$ 0.17**	$ 0.11

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands of Canadian dollars, except for per share amounts)

	Six-month period ended June 30, 2021	Six-month period ended June 30, 2020
	$	$
NET REVENUE		
Interest income, net (note 10)	**197,211**	281,390
Rental revenue and other (note 10)	**346,425**	322,452
Depreciation of equipment under operating leases (notes 4)	**(221,545)**	(214,191)
	322,091	389,651
Interest expense	**101,719**	193,691
Net financing revenue	**220,372**	195,960
Fleet service revenue (note 10)	**248,489**	260,739
Direct costs of fixed rate service contracts (note 10)	**(20,815)**	(20,377)
Servicing income, net	**227,674**	240,362
Syndication revenue, net (note 10)	**35,954**	36,420
Net revenue	**484,000**	472,742
OPERATING EXPENSES		
Salaries, wages and benefits	**146,279**	150,329
General and administrative expenses	**52,972**	60,381
Depreciation and amortization (note 15)	**20,936**	21,566
Amortization of convertible debenture discount (note 7)	**1,759**	4,558
Share-based compensation (note 9)	**12,751**	9,864
	234,697	246,698
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 5)	—	38,580
Loss on sale of assets (note 5)	—	(52,442)
Net loss on disposition	—	(13,862)
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	**17,580**	19,883
Restructuring and transformation costs (note 17)	—	33,658
(Gain) loss on investments	**(3,438)**	54
Income before income taxes from operations	**235,161**	158,587
Provision for income taxes (note 11)	**58,760**	20,635
Net income for the period	**176,401**	137,952
Basic earnings per share (note 12)	**$ 0.37**	$ 0.27
Diluted earnings per share (note 12)	**$ 0.36**	$ 0.26

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands of Canadian dollars)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2020
	$	$
Net income for the period	**80,872**	58,594
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	**2,126**	829
Net unrealized foreign exchange loss	**(7,297)**	(100,387)
	(5,171)	(99,558)
Provision for income taxes	**550**	153
Total other comprehensive loss	**(5,721)**	(99,711)
Comprehensive income (loss) for the period	**75,151**	(41,117)

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

	Six-month period ended June 30, 2021	Six-month period ended June 30, 2020
	$	$
Net income for the period	**176,401**	137,952
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss)	**11,624**	(41,638)
Net unrealized foreign exchange (loss) gain	**(83,892)**	7,125
	(72,268)	(34,513)
Provision for (recovery of) income taxes	**3,060**	(11,112)
Total other comprehensive loss	**(75,328)**	(23,401)
Comprehensive income for the period	**101,073**	114,551

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in thousands of Canadian dollars)

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus (deficit)	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	$	$	$	$	$	$	$
Balance, December 31, 2020	**3,180,379**	**511,869**	**59,603**	**51,788**	**(64,057)**	**44,535**	**3,784,117**
Comprehensive income (loss) for the period	—	—	—	—	**176,401**	**(75,328)**	**101,073**
Dividends - Preferred shares (note 8)	—	—	—	—	**(16,206)**	—	**(16,206)**
Dividends - Common shares (note 8)	—	—	—	—	**(55,680)**	—	**(55,680)**
Options exercised (notes 8 and 9)	**40,484**	—	—	**(13,607)**	—	—	**26,877**
Shares repurchased for cancellation (note 8)	**(155,021)**	—	—	**(38,403)**	**(100,507)**	—	**(293,931)**
Employee stock option expense (note 9)	—	—	—	**222**	—	—	**222**
Balance, June 30, 2021	**3,065,842**	**511,869**	**59,603**	—	**(60,049)**	**(30,793)**	**3,546,472**
Balance, December 31, 2019	3,127,714	680,412	59,603	68,754	(217,900)	94,062	3,812,645
Comprehensive income (loss) for the period	—	—	—	—	137,952	(23,401)	114,551
Dividends - Preferred shares (note 8)	—	—	—	—	(21,812)	—	(21,812)
Dividends - Common shares (note 8)	—	—	—	—	(39,767)	—	(39,767)
Options exercised (notes 8 and 9)	10,545	—	—	(4,285)	—	—	6,260
Issuance of shares, net of share issue costs (note 8)	6,356	—	—	—	—	—	6,356
Employee stock option expense (note 9)	—	—	—	621	—	—	621
Balance, June 30, 2020	3,144,615	680,412	59,603	65,090	(141,527)	70,661	3,878,854

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Six-month period ended	
	June 30, 2021	June 30, 2020
	$	$
OPERATING ACTIVITIES		
Net income for the period	**176,401**	137,952
Items not affecting cash		
Share-based compensation (note 9)	**222**	621
Depreciation of property, equipment and leasehold improvements	**12,259**	14,670
Amortization of intangible assets, including from acquisitions	**26,258**	26,778
Amortization of deferred lease costs	**13,788**	13,438
Amortization of deferred financing costs	**11,387**	20,667
Depreciation of equipment under operating leases (note 4)	**221,545**	214,191
Amortization of convertible debenture discount and deferred costs (note 7)	**2,364**	7,385
(Gain) loss on investments	**(3,438)**	54
Loss on disposal of 19th Capital, excluding fees	**—**	7,504
Provision for credit losses	**(5,012)**	13,112
	455,774	456,372
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(2,172,684)**	(2,926,770)
Repayments of finance receivables	**1,877,207**	2,392,928
Investment in equipment under operating leases	**(436,277)**	(428,469)
Proceeds on disposal of equipment under operating leases	**136,394**	135,853
Syndications of finance receivables	**1,664,270**	1,622,859
Cash payments for interest portion of lease liability	**(1,162)**	(1,485)
Other non-cash operating assets and liabilities	**(36,523)**	(40,592)
Cash provided by operating activities	**1,486,999**	1,210,696
INVESTING ACTIVITIES		
Investments	**(270)**	(532)
Sale of 19th Capital Group LLC (note 5)	**—**	63,283
Purchase of property, equipment and leasehold improvements	**(2,799)**	(2,206)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	**677**	814
Purchase of intangible assets, including computer software	**(38,116)**	(32,473)
Decrease in notes receivable	**94**	1,146
Cash (used in) provided by investing activities	**(40,414)**	30,032
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	**(4,160)**	(5,833)
Decrease (increase) in restricted funds	**5,932**	(118,857)
Increase in deferred financing costs	**(10,916)**	(14,651)
Issuance of share capital, net	**26,877**	6,260
Shares repurchased (note 8)	**(290,135)**	—
Repayments of borrowings, net	**(1,762,502)**	(945,855)
Settlement of 19th Capital Group LLC debt (note 5)	**—**	(59,479)
Dividends paid (note 8)	**(73,097)**	(55,036)
Issuance of senior notes (note 6)	**628,750**	550,520
Repayment of 2015 convertible debenture	**—**	(567,200)
Cash used in financing activities	**(1,479,251)**	(1,210,131)
Effects of foreign exchange rates on cash	**45,427**	8,844
Net increase in cash during the period	**12,761**	39,441
Cash, beginning of the period	**8,789**	24,224
Cash, end of the period	**21,550**	63,665
Supplemental cash flow information:		
Cash taxes paid	**31,878**	14,395
Cash interest paid	**90,106**	175,765

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with approximately $13.5 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, reaching 50 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 5,500 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020, which include information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these unaudited interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on July 27, 2021.

Accounting policies

These unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting polices disclosed in the consolidated financial statements for the year ended December 31, 2020, except as discussed below.

COVID-19

The extent and duration of the impact of COVID-19 on communities and the economy continues to remain unclear. In the preparation of these unaudited interim condensed consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as at June 30, 2021. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the estimate of any expected credit losses on its net investment in finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

Cash flow hedges

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

Fair value hedges

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

Interest rate benchmark reform exposure

The following table shows the Company's exposure at June 30, 2021 to IBOR subject to reform that have yet to transition to Secured Overnight Financing Rates. These exposures will remain outstanding as of June 30, 2023 until IBOR ceases and will therefore transition in the future:

	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount[(1)]
	$	$	$
USD LIBOR (1 month)	**2,200,819**	—	**2,864,296**
USD LIBOR (3 month)	**668,597**	—	—
	2,869,416	—	**2,864,296**

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").

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

3. FINANCE RECEIVABLES

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

	As at June 30, 2021			
	US and Canada	**Australia and New Zealand**	**Mexico**	**Total**
	$	**$**	**$**	**$**
Minimum lease payments	**6,494,796**	**254,219**	**414,439**	**7,163,454**
Unguaranteed residual values	—	**59,591**	—	**59,591**
Gross investment	**6,494,796**	**313,810**	**414,439**	**7,223,045**
Unearned income	**(393,744)**	**(35,753)**	**(56,484)**	**(485,981)**
Net investment	**6,101,052**	**278,057**	**357,955**	**6,737,064**
Net realizable value of impaired receivables	**2,487**	**757**	—	**3,244**
Unamortized deferred costs and subsidies	**(59,924)**	—	—	**(59,924)**
Prepaid lease payments and security deposits	**(14,338)**	—	**(25,560)**	**(39,898)**
Interim funding	**469,871**	—	**48,791**	**518,662**
Fleet management receivables	**390,287**	**38,958**	**24,551**	**453,796**
Other receivables	**424,121**	**83,577**	**58,617**	**566,315**
Allowance for credit losses (Subsection B)	**(8,872)**	**(1,368)**	**(1,157)**	**(11,397)**
Total finance receivables	**7,304,684**	**399,981**	**463,197**	**8,167,862**

	As at December 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total
	$	$	$	$
Minimum lease payments	8,223,841	268,465	376,170	8,868,476
Unguaranteed residual values	3,178	61,964	—	65,142
Gross investment	8,227,019	330,429	376,170	8,933,618
Unearned income	(529,040)	(39,082)	(56,740)	(624,862)
Net investment	7,697,979	291,347	319,430	8,308,756
Net realizable value of impaired receivables	19,116	6,347	—	25,463
Unamortized deferred costs and subsidies	(78,396)	—	—	(78,396)
Prepaid lease payments and security deposits	(62,475)	—	(22,550)	(85,025)
Interim funding	512,381	—	113,397	625,778
Fleet management receivables	447,089	38,872	19,545	505,506
Other receivables	153,014	76,140	48,104	277,258
Allowance for credit losses (Subsection B)	(13,007)	(2,438)	(2,273)	(17,718)
Total finance receivables	8,675,701	410,268	475,653	9,561,622

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

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

	As at June 30, 2021		As at December 31, 2020	
	Leases	**Loans**	Leases	Loans
Net investment	**$ 6,630,592**	**$ 106,472**	$ 8,207,238	$ 101,518
Weighted average fixed interest rate	**4.70 %**	**9.49 %**	4.68 %	8.93 %
Weighted average floating interest rate	**2.72 %**	**3.40 %**	2.75 %	4.68 %
Percentage of portfolio with fixed interest rate	**44.40 %**	**99.94 %**	45.64 %	99.97 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the expected credit loss ("ECL") model to ensure it appropriately reflects current market conditions in light of the global outbreak of COVID-19 and information available to the Company as at June 30, 2021.

The Company evaluates its credit risk exposure broadly in line with Standard & Poor’s and Moody’s ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company’s evaluation of the probability of default ("PD") as at June 30, 2021, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

The Company’s lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Additionally, used vehicle pricing remained strong throughout the second quarter of 2021, maintaining continued low loss given default ("LGD") levels as at June 30, 2021. The Company expects the used vehicle market will remain strong through the balance of the year due to supply/demand imbalance. Drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles) in the aftermath of the pandemic, reducing the supply in the used car market and increasing prices. The microchip shortage remains a vehicle manufacturing industry challenge which continues to impact most OEMs as they are being forced to either slow down or suspend new vehicle production. This impacts new vehicle deliveries, and some of the consumer demand has shifted towards the used vehicle market, further increasing demand and price for used vehicles.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information in light of COVID-19 such as the impact that potential upward or downward trends in Gross Domestic Product ("GDP") and default rates might have on the Company’s lease and loan portfolio. The Company has also evaluated multiple scenarios related to COVID-19, including expected time periods of market slow-down and recovery as a whole and as it pertains to specific industries hit hardest by the pandemic. Despite the continued uncertainty of the pandemic, namely as it relates to new strains of the virus and the pace of vaccinations, the resilience of our clients, the favorable evolution of our portfolio, and improved forward-looking macroeconomic expectations resulted in a reduction of the Company's allowance for credit losses to $11,397 as at June 30, 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

The Company's evaluation of the above inputs to its model resulted in a benefit of $1,496 and $5,012 in the provision for credit losses through the unaudited interim condensed consolidated statement of operations for the three- and six-month periods ended June 30, 2021, respectively.

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

Finance receivables	**Performing**	**Impaired**	**Total**
	$	**$**	**$**
Balance as at January 1, 2021	**17,457**	**261**	**17,718**
Transfer to Performing	**184**	**(184)**	**—**
Transfer to Impaired	**(2)**	**2**	**—**
Lease originations	**5,046**	**—**	**5,046**
Changes in models and inputs, derecognition, and repayments	**(10,051)**	**(7)**	**(10,058)**
Total	**12,634**	**72**	**12,706**
Charge-offs, net of recoveries	**(872)**	**—**	**(872)**
Foreign exchange	**(397)**	**(40)**	**(437)**
Balance as at June 30, 2021	**11,365**	**32**	**11,397**

Finance receivables	Performing	Impaired	Total
	$	$	$
Balance as at January 1, 2020	7,857	575	8,432
Transfer to Performing	495	(495)	—
Transfer to Impaired	(225)	225	—
Lease originations	16,575	—	16,575
Changes in models and inputs, derecognition, and repayments	(4,933)	10	(4,923)
Total	19,769	315	20,084
Charge-offs, net of recoveries	(1,581)	(48)	(1,629)
Foreign exchange	(731)	(6)	(737)
Balance as at December 31, 2020	17,457	261	17,718

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Allowance for credit losses	**Six-month period ended June 30, 2021**	Year ended December 31, 2020
	$	$
Allowance for credit losses, beginning of the period	**17,718**	8,432
(Recovery of) provision for credit losses	**(5,012)**	11,652
Charge-offs, net of recoveries	**(872)**	(1,629)
Impact of foreign exchange rates	**(437)**	(737)
Allowance for credit losses, end of the period	**11,397**	17,718
Allowance as a percentage of total finance receivables before allowance	**0.14 %**	0.18%

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C) Credit risk exposure

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

	As at June 30, 2021		
Finance receivables	**Performing**	**Impaired**	**Total**
	$	**$**	**$**
Internal risk rating grade [1]			
Low	**4,216,186**	**—**	**4,216,186**
Medium	**2,328,361**	**—**	**2,328,361**
High	**192,517**	**—**	**192,517**
Fleet management receivables	**453,541**	**255**	**453,796**
Other finance receivables	**566,315**	**—**	**566,315**
Impaired	**—**	**3,244**	**3,244**
	7,756,920	**3,499**	**7,760,419**
Allowance for credit losses	**(11,365)**	**(32)**	**(11,397)**
Net carrying value	**7,745,555**	**3,467**	**7,749,022**

1. Loan balances of $8,089, $98,152 and $155 are included in the Performing category in internal risk rating grade high, medium and low, respectively, and $76 in Impaired.

	As at December 31, 2020		
Finance receivables	Performing	Impaired	Total
	$	$	$
Internal risk rating grade [2]			
Low	4,964,294	—	4,964,294
Medium	3,028,747	—	3,028,747
High	315,715	—	315,715
Fleet management receivables	504,005	1,501	505,506
Other finance receivables	277,258	—	277,258
Impaired	—	25,463	25,463
	9,090,019	26,964	9,116,983
Allowance for credit losses	(17,457)	(261)	(17,718)
Net carrying value	9,072,562	26,703	9,099,265

2. Loan balances of $14,098, $86,612 and $809 are included in the Performing category in internal risk rating grade high, medium and low, respectively, and $25 in Impaired.

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

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

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

4. EQUIPMENT UNDER OPERATING LEASES

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

	As at June 30, 2021	As at December 31, 2020
	$	$
Cost	**3,098,526**	3,067,363
Accumulated depreciation	**945,024**	910,136
Net carrying amount	**2,153,502**	2,157,227

5. 19^{TH} CAPITAL

During the second quarter of 2020, the Company continued to shift its efforts to accelerate the run-off of 19^{th} Capital, including ramping-up the pace of liquidation of the entity's assets, immediately reducing the scale of 19^{th} Capital operations. On May 1, 2020, the Company sold the equipment under operating leases and certain other assets of 19^{th} Capital and will have no continuing involvement in the operations, results or cash flows of 19^{th} Capital.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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6 . BORROWINGS

The Company's outstanding borrowings were as follows:

	As at June 30, 2021			
	Balance outstanding	**Weighted average interest rate[1]**	**Pledged finance receivables and equipment under operating leases**	**Cash reserves**
	$	**%**	**$**	**$**
Revolving term notes in amortization	**3,430,246**	**1.77**	**3,638,607**	**36,376**
Variable funding notes	**2,958,584**	**1.07**	**3,225,939**	**19,645**
Other	**40,764**	**4.48**	**39,932**	**—**
Vehicle management asset-backed debt	**6,429,594**	**1.47**	**6,904,478**	**56,021**
Revolving senior credit facilities	**1,006,473**	**1.52**	**—**	**—**
Senior notes	**1,115,730**	**2.60**	**—**	**—**
	8,551,797	**1.62**	**6,904,478**	**56,021**
Deferred financing costs	**(28,987)**			
Hedge accounting fair value adjustments	**7,165**			
Total borrowings	**8,529,975**			

	As at December 31, 2020			
	Balance outstanding	Weighted average interest rate[1]	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Revolving term notes in amortization	4,005,371	2.25	4,097,274	48,365
Variable funding notes	3,768,395	1.25	3,974,534	27,667
Other	44,841	4.50	44,406	—
Vehicle management asset-backed debt	7,818,607	1.78	8,116,214	76,032
Revolving senior credit facilities	1,551,939	1.41	—	—
Senior notes	509,080	3.85	—	—
	9,879,626	1.83	8,116,214	76,032
Deferred financing costs	(29,911)			
Hedge accounting fair value adjustments	14,621			
Total borrowings	9,864,336			

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

The Company was in compliance with all financial and reporting covenants with all of its lenders at June 30, 2021.

Vehicle management asset-backed debt

As at June 30, 2021, the Company had available capacity in variable funding notes and other of $2,499,988 (December 31, 2020 – $1,910,587) under its vehicle management asset-backed debt facilities.

On March 23, 2021, the Company issued $944,470 (US $750,004) of amortizing term notes at an initial weighted average interest rate of 0.51%. The proceeds from this issuance were used to pay down variable funding notes.

Revolving senior credit facilities

As at June 30, 2021, the Company had access to $1,596,897 (December 31, 2020 - $1,120,731) of available financing under the revolving senior credit facilities.

Senior notes

As at June 30, 2021, the Company had $1,115,730 (US $900,000) in outstanding senior unsecured notes (December 31, 2020 - $509,080 (US $400,000)).

On April 6, 2021, the Company issued $629,644 (US $500,000) in aggregate principal amount of 1.60% senior unsecured notes due April 6, 2024. The senior unsecured notes were priced at $99.883 per $100 principal amount for an effective yield of 1.64%. Interest is paid semi-annually in arrears on April 6 and October 6, commencing on October 6, 2021. The proceeds received at the time of closing will be used for working capital and general corporate purposes.

Restricted funds

As at June 30, 2021, restricted funds include (i) cash reserves of $56,021 (December 31, 2020 - $76,032), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of $312,286 (December 31, 2020 - $297,373), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions; and (iii) cash of $2,933 (December 31, 2020 - $15,573) provided to counter-parties as collateral against derivative liabilities.

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June 30, 2021

7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	As at June 30, 2021						
Issue Date	**Final maturity date**	**Conversion price per share[1]**	**Interest rate[2]**	**Face value**	**Deferred costs**	**Discount**	**Net carrying value**
		$	**%**	**$**	**$**	**$**	**$**
April 5, 2019	**June 30, 2024**	**12.05**	**4.250**	**172,500**	**(3,962)**	**(11,907)**	**156,631**

	As at December 31, 2020						
Issue Date	Final maturity date	Conversion price per share	Interest rate[2]	Face value	Deferred costs	Discount	Net carrying value
		$	%	$	$	$	$
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(4,567)	(13,666)	154,267

1. There was no change to the conversion price from the date of issuance for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

May 29, 2015 Issuance

On June 30, 2020, the $567,200 4.25% extendible convertible unsecured subordinated debentures matured and were repaid in full, including accrued interest, by the Company, on June 29, 2020, in accordance with the Trust Indenture.

8. SHARE CAPITAL

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

	Common shares	
	Shares	**Amount**
	#	**$**
Balance, December 31, 2019	436,509,117	3,127,714
Share issuance	1,677,274	18,140
Share repurchase	(762,100)	(5,500)
Exercise of options	2,851,002	40,025
Balance, December 31, 2020	**440,275,293**	**3,180,379**
Share repurchase	**(21,360,045)**	**(155,021)**
Exercise of options	**2,490,115**	**40,484**
Balance, June 30, 2021	**421,405,363**	**3,065,842**

Share Repurchase

On November 4, 2020, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid (the "NCIB"). The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 10, 2020 and ending on the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid for the three- and six-month periods ended June 30, 2021, 13,515,159 and 21,360,045, respectively, common shares have been repurchased for cancellation for $189,449 and $293,931, respectively, including commission, at a volume weighted average price of $14.02 and $13.76 per common share, respectively. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. Trade date accounting is the date on which the Company commits itself to purchase the shares.

Issuance of common shares

On October 27, 2020, the Board approved the termination of the dividend reinvestment plan ("DRIP") which was originally announced on October 1, 2018. The DRIP provided eligible shareholders the opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX. Eligible shareholders were required to reside in Canada. Dividends declared after October 27, 2020 are not eligible for the DRIP.

For the three- and six-month periods ended June 30, 2021, the Company issued nil common shares under the DRIP (June 30, 2020 - 150,044 and 562,952 common shares, respectively).

Common share dividends

For the three- and six-month periods ended June 30, 2021, the Company declared $27,421 and $55,680, respectively, in common share dividends or $0.065 and 0.13, respectively, per common share (June 30, 2020 - $19,822 and $39,545 , respectively, or $0.045 and 0.09, respectively, per common share).

As at June 30, 2021, the accrued common share dividends were $27,421 (December 31, 2020 – $28,623).

Increase in Common Share Dividend

On October 27, 2020, the Board approved the increase in the quarterly common share dividend from $0.045 to $0.065 per share.

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Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at June 30, 2021 consist of the following:

Series	Issue date	Interest rate %	Gross $	After tax transaction costs $	Net proceeds $	Shares #
A	**December 17, 2013**	**6.93**[1]	**115,000**	**4,625**	**110,375**	**4,600,000**
C	**March 7, 2014**	**6.21**[2]	**128,160**	**3,416**	**124,744**	**5,126,400**
E	**June 18, 2014**	**5.903**[3]	**133,048**	**3,054**	**129,994**	**5,321,900**
I	**May 5, 2017**	**5.75**	**150,000**	**3,244**	**146,756**	**6,000,000**

1. On December, 20, 2018, Preferred Shares Series A dividend rate was reset from 6.60% to 6.93%.
2. On June 21, 2019, Preferred Shares Series C dividend rate was reset from 6.50% to 6.21%.
3. On September 19, 2019, Preferred Shares Series E dividend rate was reset from 6.40% to 5.903%.

Series G Preferred Shares Redemption

On September 30, 2020, the Company redeemed all of its 6,900,000 Series G Preferred Shares for a redemption price equal to $25.00 per share for a total of $172,500 together with all accrued and unpaid dividends.

Preferred share dividends

For the three- and six-month periods ended June 30, 2021, the Company declared $8,103 and $16,206, respectively, in preferred share dividends (June 30, 2020 – $10,906 and $21,812, respectively).

As at June 30, 2021, the accrued preferred share dividends were $89 (December 31, 2020 – $89).

9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	**$**	$
(a) Stock options	**51**	284	**222**	621
(b) Deferred share units	**312**	496	**651**	877
(c) Performance share units	**3,832**	1,859	**5,844**	4,556
(d) Restricted share units	**3,316**	1,788	**6,034**	3,810
	7,511	4,427	**12,751**	9,864

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(a) Stock options

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

	Number of options #	Weighted average exercise price $
Outstanding, December 31, 2019	16,412,433	10.26
Forfeited	(62,984)	8.69
Expired	(1,565,163)	12.13
Exercised[1]	(3,761,627)	10.22
Outstanding, December 31, 2020	**11,022,659**	**10.01**
Forfeited	**(20,434)**	**10.42**
Expired	**(474,608)**	**11.91**
Exercised[1]	**(3,235,367)**	**11.62**
Outstanding, June 30, 2021	**7,292,250**	**9.17**

1. Weighted average share price of options exercised during the six-month period ended June 30, 2021 was $13.79 (year-ended December 31, 2020 – $12.45).

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2019	682,703	1,507,806	1,896,940
Granted	176,534	578,018	786,848
Forfeited	—	(1,388)	(102,527)
Redeemed	(225,266)	(203,186)	(1,071,054)
Outstanding, December 31, 2020	**633,971**	**1,881,250**	**1,510,207**
Granted	**67,888**	**787,821**	**853,446**
Forfeited	**—**	**—**	**(54,355)**
Redeemed	**—**	**(569,552)**	**(714,215)**
Outstanding, June 30, 2021	**701,859**	**2,099,519**	**1,595,083**

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10. REVENUE

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

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	**$**	$
Major service lines				
Interest income, net	**93,100**	140,708	**197,211**	281,390
Rental revenue	**152,458**	139,377	**306,331**	302,752
Gain on sale of equipment under operating leases	**20,972**	8,620	**40,094**	19,700
Depreciation of equipment under operating leases	**(109,653)**	(99,371)	**(221,545)**	(214,191)
Financing revenue before interest expense	**156,877**	189,334	**322,091**	389,651
Other service revenue, net	**89,990**	89,992	**179,781**	189,482
Vehicle sales and end of contract fees	**23,195**	24,523	**47,893**	50,880
Service and other revenue, net	**113,185**	114,515	**227,674**	240,362
Syndication revenue, net	**12,865**	10,333	**35,954**	36,420
Net revenue before interest expense	**282,927**	314,182	**585,719**	666,433
Primary geographical markets				
US and Canada	**188,472**	244,566	**398,080**	523,463
Australia and New Zealand	**56,623**	42,297	**114,414**	85,207
Mexico	**37,832**	27,319	**73,225**	57,763
Net revenue before interest expense	**282,927**	314,182	**585,719**	666,433
Timing of revenue recognition				
Revenue earned at a point in time	**93,950**	88,129	**203,785**	202,797
Revenue earned over time	**188,977**	226,053	**381,934**	463,636
Net revenue before interest expense	**282,927**	314,182	**585,719**	666,433

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

(A) Contract balances

	As at June 30, 2021	As at December 31, 2020
	$	$
Contract assets	**12,272**	15,214

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

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. For the three- and six-month periods ended June 30, 2021, the Company has recorded $1,824 and $4,914, respectively, of amortization on its service contract assets (June 30, 2020 - $2,453 and $4,888, respectively).

B) Performance obligations

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

11. INCOME TAXES

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. IAS 34 requires this annual tax rate to be reviewed each quarter and applied to the profits earned to date.

The effective income tax rate was 26.5% and 25.0% for the three- and six-month periods ended June 30, 2021, respectively (three- and six-month periods ended June 30, 2020 - 6.3% and 13.0%, respectively). The effective tax rate is higher than prior years reflecting a number of adjustments in the prior year that temporarily reduced the tax rate during the three- and six-month periods ended June 30, 2020.

12. EARNINGS PER SHARE

Basic earnings per share is as follow:

	Three-month period ended		**Six-month period ended**	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	**$**	$
Net income attributable to shareholders	**80,872**	58,594	**176,401**	137,952
Cumulative dividends on preferred shares	**(8,103)**	(10,906)	**(16,206)**	(21,812)
Net income available to common shareholders	**72,769**	47,688	**160,195**	116,140
Weighted average number of common shares outstanding – basic (number)	**428,646,160**	437,851,713	**433,547,176**	437,576,575
Basic earnings per share	**$ 0.17**	$ 0.11	**$ 0.37**	$ 0.27

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Diluted earnings per share is as follows for:

	Three-month period ended		Six-month period ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	**$**	$
Net income available to common shareholders adjusted for the effects of dilution	**74,356**	47,688	**163,420**	119,647
Weighted average number of common shares outstanding – basic (number)[1]	**428,646,160**	437,851,713	**433,547,176**	437,576,575
Convertible debentures (number)	**14,315,353**	—	**14,315,353**	14,315,353
Dilutive stock options and warrants (number)	**2,702,363**	1,230,160	**2,510,649**	1,522,155
Weighted average number of common shares outstanding – diluted (number)	**445,663,876**	439,081,873	**450,373,178**	453,414,083
Diluted earnings per share	**$ 0.17**	$ 0.11	**$ 0.36**	$ 0.26

1. Prior year weighted average number of common shares outstanding has been adjusted for the impact of the issuance of shares under the DRIP by 3,000 and 6,854 shares for the three- and six-month periods ended June 30, 2020, respectively.

Instruments outstanding as at June 30, 2021 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, included 50,000 and 50,000 stock options for the three- and six-month periods ended June 30, 2021, respectively (June 30, 2020 - 9,223,213 and 9,223,213 stock options, respectively).

In addition, the 2019 convertible debentures (note 7) were excluded from the diluted earnings per share calculation for the three-month period ended June 30, 2020 as they were anti-dilutive.

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13. CAPITALIZATION

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

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

As at	**June 30, 2021**	December 31, 2020
	$	$
Cash	**21,550**	8,789
Unsecured debt		
Senior credit facilities	**1,006,473**	1,551,939
4.250% Convertible Debentures due 2024	**156,631**	154,267
3.850% Senior Notes due 2025	**495,880**	509,080
1.600% Senior Notes due 2024	**619,850**	—
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	**3,430,246**	4,005,371
Variable funding notes	**2,958,584**	3,768,395
Other	**40,764**	44,841
Deferred financing costs	**(28,987)**	(29,911)
Hedge accounting fair value adjustments	**7,165**	14,621
Total debt	**8,686,606**	10,018,603
Shareholders' equity		
Common share capital	**3,065,842**	3,180,379
Preferred share capital	**511,869**	511,869
Other	**(31,239)**	91,869
Total Shareholders’ Equity	**3,546,472**	3,784,117
Total Capitalization	**12,233,078**	13,802,720

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

14. GEOGRAPHIC INFORMATION

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

Selected geographic assets are as follows:

	As at June 30, 2021				As at December 31, 2020			
	US and Canada	**Australia and New Zealand**	**Mexico**	**Total**	US and Canada	Australia and New Zealand	Mexico	Total
	$	**$**	**$**	**$**	$	$	$	$
Select assets								
Finance receivables	**7,304,684**	**399,981**	**463,197**	**8,167,862**	8,675,701	410,268	475,653	9,561,622
Equipment under operating leases	**35,597**	**1,267,570**	**850,335**	**2,153,502**	43,255	1,334,370	779,602	2,157,227
Goodwill and intangible assets	**1,966,812**	**30,238**	**5,217**	**2,002,267**	2,002,565	32,090	3,064	2,037,719
Property, equipment and leasehold improvements	**73,593**	**14,592**	**11,406**	**99,591**	82,572	17,478	12,302	112,352
	9,380,686	**1,712,381**	**1,330,155**	**12,423,222**	10,804,093	1,794,206	1,270,621	13,868,920

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

15. LEASES

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

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

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

Management evaluates all facilities to ensure the Company's footprint continues to support business activities, employees and client needs. In support of this and to align with the Company's growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year-ended December 31, 2020. As a result, the Company recorded an impairment charge of $4,113 through Transformation on the right of use, property, plant, and equipment assets at the closed facilities. The remaining lease liability for the closed facilities was $3,140 as at June 30, 2021 (December 31, 2020 - $3,580).

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June 30, 2021

		As at June 30, 2021	As at December 31, 2020
		$	$
Assets	**Classification**		
Right-of-use assets	Buildings, net of accumulated depreciation[1]	**68,976**	76,067
Liabilities	**Classification**		
Lease liabilities	Accounts payable and accrued liabilities	**77,186**	84,970

1. As at June 30, 2021, right-of-use assets are recorded net of accumulated amortization of $35,774 (December 31, 2020 - $31,134).

		Three-month period ended		**Six-month period ended**	
		June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Lease cost	**Classification**	**$**	$	**$**	$
Amortization of leased assets	Depreciation and amortization	**2,905**	3,581	**5,823**	7,211
Interest on lease liabilities	Interest expense	**562**	743	**1,162**	1,485
Net lease cost		**3,467**	4,324	**6,985**	8,696

Maturity of lease liabilities	**As at June 30, 2021**
	$
2021	**5,554**
2022	**11,489**
2023	**10,230**
2024	**5,901**
2025	**4,404**
Thereafter	**39,608**

Lease Term and Discount Rate	**As at June 30, 2021**	As at December 31, 2020
Weighted-average remaining lease term (years)	**11.5**	11.6
Weighted-average discount rate	**2.96 %**	2.95 %

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Valuation methods and assumptions

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

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

Convertible debentures

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

Derivatives

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

Investments

The fair value through profit and loss ("FVTPL") investments are valued based on bids received in the private market or using valuation techniques and/or inputs that are based on unobservable market data.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

Accounts receivable, accounts payable, and accrued liabilities

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

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

	As at June 30, 2021				
		Level 1	Level 2	Level 3	
	Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs	Total
	$	$	$	$	$
Financial assets					
Assets not carried at fair value					
Cash	**21,550**	**21,550**	—	—	**21,550**
Finance lease receivables	**8,061,390**	—	—	**8,061,390**	**8,061,390**
Finance loans receivables	**106,472**	—	—	**106,472**	**106,472**
Accounts receivable and other assets	**201,545**	—	—	**201,545**	**201,545**
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	**21,210**	—	**21,210**	—	**21,210**
Interest rate caps	**14**	—	**14**	—	**14**
Equity swaps	**10,026**	—	**10,026**	—	**10,026**
Investments classified as FVTPL	**9,349**	—	—	**9,349**	**9,349**
Total financial assets	**8,431,556**	**21,550**	**31,250**	**8,378,756**	**8,431,556**
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	**1,138,017**	—	—	**1,138,017**	**1,138,017**
Borrowings on finance receivables	**8,529,975**	—	—	**8,529,975**	**8,529,975**
Convertible debentures	**156,631**	—	**165,882**	—	**165,882**
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	**38,891**	—	**38,891**	—	**38,891**
Total financial liabilities	**9,863,514**	—	**204,773**	**9,667,992**	**9,872,765**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

	As at December 31, 2020				
		Level 1	Level 2	Level 3	
	Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs	Total
	$	$	$	$	$
Financial assets					
Assets not carried at fair value					
Cash	8,789	8,789	—	—	8,789
Finance lease receivables	9,460,104	—	—	9,460,104	9,460,104
Finance loans receivables	101,518	—	—	101,518	101,518
Accounts receivable and other assets	221,129	—	—	221,129	221,129
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	46,655	—	46,655	—	46,655
Interest rate caps	80	—	80	—	80
Equity Swaps	6,894	—	6,894	—	6,894
Investments classified as FVTPL	5,823	—	—	5,823	5,823
Total financial assets	9,850,992	8,789	53,629	9,788,574	9,850,992
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,062,610	—	—	1,062,610	1,062,610
Borrowings on finance receivables	9,864,336	—	—	9,864,336	9,864,336
Convertible debentures	154,267	—	165,000	—	165,000
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	68,282	—	68,282	—	68,282
Total financial liabilities	11,149,495	—	233,282	10,926,946	11,160,228

17. RESTRUCTURING AND TRANSFORMATION

For the three- and six-month periods ended June 30, 2021, the Company recorded transformation expenses of nil, (three- and six-month periods ended June 30, 2020 - $18,663 and $33,658, respectively). All amounts have been paid or expect to be paid by the end of 2021 with the exception of accrued operating expenses on closed facilities for $2,129, included in Other, which will be paid out over the remaining term of the lease.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2021

Transformation and restructuring expenses for the three- and six-month periods ended:

	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Nature of expenses	**$**	$	**$**	$
Severance	**—**	5,681	**—**	5,771
Professional fees and other	**—**	12,982	**—**	27,887
Total	**—**	18,663	**—**	33,658

Remaining unpaid liabilities related to transformation expenses.

	As at June 30, 2021	As at December 31, 2020
Nature of expenses	**$**	$
Severance	**2,997**	9,136
Professional fees	**954**	22,884
Other	**2,129**	2,881
Total	**6,080**	34,901

18. SYNDICATIONS

The following represents the detail of the Company's syndicated assets.

	Classification	**As at June 30, 2021** **$**	As at December 31, 2020 $
Allowance for early termination	Accounts payable and accrued liabilities	**18,233**	12,835
Deferred servicing fee	Finance receivables	**632**	814

		Three-month period ended		**Six-month period ended**	
		June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	Classification	**$**	$	**$**	$
Syndication revenue, net	Syndication revenue, net	**12,865**	10,333	**35,954**	36,420
Net book value of assets syndicated	n/a	**610,662**	758,555	**1,626,316**	1,592,172

19. COMPARATIVE FIGURES

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