Element Fleet Management Corp.

Management Discussion and Analysis

June 30, 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- and six-month periods ended June 30, 2021 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three- and six-month periods ended June 30, 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 "Q2 2021", "this quarter", or "the quarter" are to the quarter ended June 30, 2021 and references to "Q1 2021" and "Q2 2020" are to the quarters ended March 31, 2021 and June 30, 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 JULY 27, 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 $14.5 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 own 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) improve on the industry average 98% client retention rate at Element, (ii) increase client profitability and service penetration ("share of wallet"), (iii) win new clients from other fleet managers by improving our salesforce effectiveness 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 and opportunities. 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 by increasing service penetration and strategically syndicating fleet assets, which enhances return on equity; and

- Achieve high single-digit to low double-digit annual free cash flow growth and predictably return excess equity to shareholders by way of dividends and share buybacks.

[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.

Select Q2 2021 Results

Net revenue	Earnings / share	After-tax adjusted operating income / share	Free cash flow / share
$ 235 M	$ 0.17	$ 0.20	$ 0.26

Net income margin	Adjusted operating margin	Return on common equity[2]	Pre-tax return on common equity[3]
46.8 %	53.7 %	9.1 %	15.3 %

Income Summary

(in $000's for stated values, except per share amounts)		**For the three-month period ended June 30, 2021**
Net financing revenue	**$**	**109,352**
Servicing income, net		**113,185**
Syndication revenue, net		**12,865**
Net revenue		**235,402**
Adjusted operating expenses		***108,890***
Total operating expenses		**117,288**
Total other expenses		**8,037**
Net income before taxes		**110,077**
Earnings per share [basic]		**0.17**
Adjusted operating income before taxes		***126,512***
After-tax adjusted operating income per share [basic]	***$***	***0.20***

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).

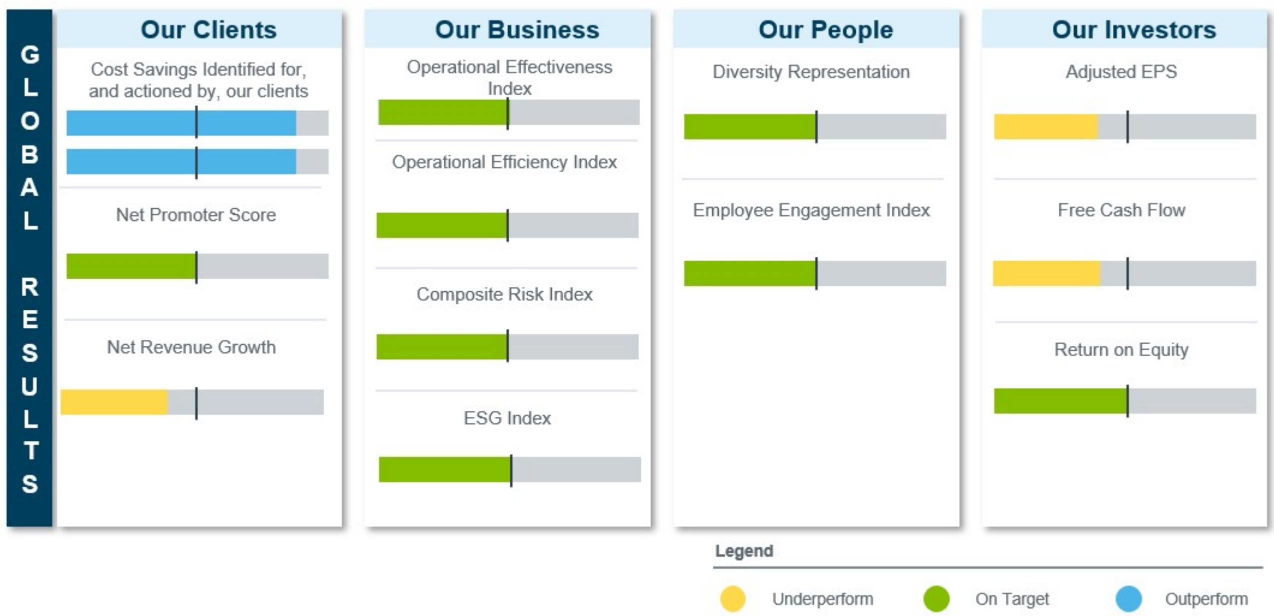
Balanced Scorecard

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 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 2021 Global BSC results at the end of Q2 were as follows:



Element made significant advances toward its strategic objectives and delivered strong operational performance in the first half of 2021. Our Global BSC results confirm we have the right strategy, are delivering on that strategy, and are proactively managing our risks through the business's ascent back to normalcy post-pandemic.

Our Clients continue to have consistent, superior service experiences with Element, as evidenced by our LTM Net Promoter Score of 25 (with both the U.S. and ANZ achieving record high NPS in the quarter) and our ability to lower clients' total cost of fleet operations, borne out by our outperformance on both cost savings identified for, and actioned by, our clients. Net Revenue Growth – in constant currency – is still tracking on target despite OEM production delays in the wake of the pandemic, however the strengthening of the Canadian dollar continues to put pressure on our ability to achieve our net revenue growth target on a nominal basis.

Our Business continues to demonstrate the benefits of Transformation and our commitment to continuous improvement. Despite lingering effects of COVID-19, we continue to achieve our ambitious operational effectiveness and efficiency index targets, where we are both trending positively in the right direction, as are our Composite Risk Index and ESG Index.

Our People efforts to build a more diverse and inclusive workforce are evident in our Diversity Representation index results, as we onboarded an increasing proportion of new female and BIPOC employees in the quarter.

Our Investor efforts and outcomes are addressed throughout this document.

Achievements and Initiatives in the Period

Our Clients

Achievements

Profitable revenue growth

Our commercial teams in all our geographies are advancing Element's multi-faceted growth strategy and generating solid results. We closed 50 deals with new clients in the quarter, representing over 30,000 new client revenue units – almost 25,000 of which are in the U.S. and Canada (combined). By comparison, Element closed 23 deals representing approximately 12,000 new client revenue units globally in Q2 2020, making Q2 this year more than twice as successful as last year in terms of new client wins. Similarly, over 90,000 revenue units from all deals closed with new clients in the first half of 2021 is close to three times what Element accomplished in the same respects in H1 2020.

"Share of wallet" (SOW) wins are signed agreements (i.e. closed deals) with existing clients to provide incremental services and/or financing to vehicles either already under Element's management, or operated by the client and not previously under Element's management. Year-over-year, we grew SOW revenue unit wins by 77% in Q2 2021, despite closing only 18% more SOW deals (than in Q2 2020). H1 2021 SOW revenue unit wins grew 98% from H1 2020 levels despite closing only 20% more SOW deals.

Further details are broken out in our Supplementary Information document (available on Element's website), including illustrative timelines showing (a) our commercial process from prospecting to closing a deal with a new client, as well as (b) the process of (i) implementing new client services and (ii) ordering new vehicles.

Earning our clients' loyalty

We consider Net Promoter Scores (NPS) – which we successfully solicit from our global client base on an ongoing basis – to be invaluable indicators of the consistency and effectiveness with which we deliver Element's superior client experience.

The NPS we report quarterly on our Global BSC is a weighted average of the current and prior three quarters' NPS results from each of our geographies. In the second quarter this year, Element's NPS in the U.S. and Canada exceeded the previous all-time high, which we had achieved only last quarter (ie. in Q1 2021). Our colleagues at Custom Fleet in ANZ similarly earned a record high NPS in the second quarter, and Element Mexico was able to maintain its admirable NPS for yet another quarter.

One of the trends we are seeing in our improving NPS is a steady reduction in the number of "detractors" – respondents who score Element a 6 or less in response to the question "On a scale of 1 to 10, 10 being 'extremely likely', how likely is it that you would recommend Element Fleet Management to a friend or colleague?" We view the steady reduction of "detractor" respondents as evidence of improving consistency in our delivery of a superior client experience.

Another insight we have gleaned from our NPS analyses is that clients who adopt our digital platforms give Element higher scores. At the same time, we receive high scores from our clients for Element's augmented, omni-channel approach that includes access to thoughtful and empathetic support for client-side fleet managers and drivers, which "digital-only" cannot provide.

Creating compelling value for our clients

Our global strategic consulting services (SCS) team has identified $705 million of cost-saving opportunities for our clients year-to-date. Approximately $102 million worth of value in these opportunities has been "actioned" by our clients, including Armada. We expect the proportion of identified opportunities "actioned" to increase over the course of 2021, in the U.S. and Canada in particular where client vehicle usage is approaching pre-pandemic levels. In 2020, clients acted on approximately one quarter of the $1.5 billion in cost savings opportunities we identified globally over the course of the year.

SCS continues to improve the ability of our consultants to create compelling value for our clients by making select strategic investments in tools and analytics. In the second quarter, SCS:

- Developed a more comprehensive Optimal Vehicle Replacement (OVR) model, which evaluates a broader spectrum of vehicle-associated costs and leverages data science to analyze safety, downtime and fuel-efficiency-degradation factors;
- Added functionality to the tool we use for Element program review with our clients, including:
    - an improved benchmark scoring algorithm and KPI reporting features in order to conduct quicker, more insightful client-vs.-benchmark assessments;
    - additional “what-if” / scenario testing capabilities; and
    - additional insight capability for predictive maintenance assessments.
- Added functionality to our Life Cycle Cost Analysis tool to accommodate our clients’ growing interest in EV’s, including the ability to analyze:
    - different charging levels at regularly-updated state and provincial electricity rates;
    - implications of split client/driver vehicle use on charging cost allocation; and
    - battery charging behavior based on different user inputs including charge duration, cost, speed, socket output and battery intake.

SCS in ANZ continues to work closely with government agencies and private businesses to assist them with EV transition planning and fleet carbon reduction. We perform detailed analysis on EV suitability, fit-for-purpose, trip analysis (based on telematics data), vehicle selection, optimal term, and lease vs. ownership. An ongoing project for a major government agency identified an opportunity to streamline one of our clients’ fleets and use the operating cost savings to fund the addition of a higher proportion of EVs to the fleet.

Initiatives

<u>Supplier diversity</u>

We have a long and well-established track record of fostering supplier diversity, dating back to the 1990s at Element’s predecessor companies. Our ongoing supplier diversity initiatives are something Element is very proud of and our clients tell us are increasingly important.

Element is a member of the National Minority Supplier Development Council (NMDSC) in the U.S., the Canadian Aboriginal and Minority Supplier Council (CAMSC) and Disability:IN Minnesota.

- NMDSC and CAMSC are the leading organizations connecting corporations to minority vendors in the U.S. and Canada giving Element and our clients access to a broad network of diverse suppliers.
- NMDSC and CAMSC conduct independent data audits of our supplier networks annually to validate certification, providing Element and our clients reliable insight into the make-up of our supplier base and where opportunities exist to improve minority spend.
- Disability:IN is the leading certifier of disabled persons-owned business enterprises, including service-disabled and disabled veterans-owned businesses. Disability:IN helps us connect those businesses to Element’s supply chain.

We track Diversity Spend at a tier 1 level and offer clients customized tracking solutions to ensure their Diversity commitments applicable to their fleet operations are understood, organized and can be accurately reported. Moreover, our SCS team applies a 'client diversity spend requirements' lens to all our proactive advisory work, offering actionable insights to clients that will improve their own practices in this area.

Xcelerate Ordering

In the second quarter, we launched our state-of-the-art North American Vehicle Ordering (NAVO) platform. The platform is expected to provide a consistent, superior client, supplier and employee experience – and delivers approximately $2 million of annual operating cost savings through the reduction of manual processing requirements and automation of order transmission.

We onboarded 45 clients to NAVO over the course of the quarter, and those clients successfully placed a significant number of orders through the platform. We have been onboarding an additional 150 clients during this month of July.

Feedback received to date confirms the NAVO platform is more user-friendly and easier to navigate for clients, with a better flow of information; clients no longer require Element assistance when placing vehicle orders.

Digital platforms such as NAVO are replacing disparate applications, automating and streamlining our business processes to create a more consistent client experience and to bolster the scalability of our operating platform.

Direct access in ANZ

Custom Fleet began implementing system enhancements to our Accident Management solution in ANZ in the second quarter to increase online direct access tools for clients and empower proactive claim management. These enhancements include:

- Launching a driver portal to allow clients to file claims online;
- Implementing additional automated communications throughout the claim lifecycle, to keep drivers up-to-date on claim progress – in turn, reducing inbound correspondence;
- Automated task creation to highlight and manage critical steps within the claim process; and
- Client portal improvements including access to high-level accident data snapshots.

Our Business

Achievements

Electric vehicle ("EV") offerings

Element is well positioned to support our clients and lead our industry through the gradual electrification of automotive fleets.

In the first quarter of this year, as previously disclosed, Element in ANZ – where we do business as 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. 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.

Element also reached an agreement in the first quarter 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. As previously disclosed, 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. The partnership will initially serve clients in the U.S.

and Canada but the supply chain capabilities and resources of the two companies can also be leveraged to meet potential future demand across Element's footprint.

In the second quarter, Element's EV Strategy and Sustainability team completed a comprehensive situational assessment of our North American capability to offer an end-to-end EV fleet management product; something akin to EV+, which our colleagues at Custom Fleet innovated and brought to market in New Zealand several years ago. EV+ was the first product of its kind in ANZ and, we believe, it will find ready application in North America.

In North America, Element already has all the necessary capabilities to seamlessly add EVs to our clients' fleets and manage same today. However, informed by Custom Fleet's experience with EV+, we undertook the situational assessment to identify our readiness gaps as we mature existing capabilities and develop a market-leading end-to-end EV fleet management offering for North America, to serve the ongoing gradual electrification of our clients' fleets.

Our EV Strategy and Sustainability team are now leveraging the completed situational assessment in working with relevant senior leaders and their teams across the business to develop a roadmap and prioritization plan for implementation. The roadmap will consider the speed of fleet transitions to EVs, and pace recommendations regarding Element resourcing and investment accordingly. We remain focused on our clients as we move ahead.

The complexity of EV adoption fits Element's ability to "make the complex simple" for our clients across all of our geographies. Our proven ability to build market-leading service and fueling networks, and our strong balance sheet to finance EV adoption, position us to be a long-term winner once EV fleet adoption begins to accelerate.

<u>Fostering positive environmental and social outcomes and maintaining good governance</u>

In 2020 we built our ESG strategy, aligned to our balanced scorecard and informed by leading ESG reporting frameworks.

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 engaged with our clients and learned which ESG solutions are most important to them.

We worked with our executive team and the internal 'owners' of each of the four pillars of our ESG strategy to understand what work is already underway, what we want to accomplish and how we can 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 Satisfaction & Safety 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 at least 86% and targeting a Global NPS of 23 for 2021.

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

In Q1 2021, we produced Element's Inaugural ESG report, which is available on our website.

In Q2, we increased gender diversity on Element's Board to 40%. We also saw strong shareholder support for all matters at our Annual General Meeting in May, including over 95% approval of "say-on-pay".

Throughout this year, we are tracking our ESG performance to build a robust baseline on which we can aim to improve in subsequent years. By the end of this year, we will have a benchmark that will help inform and evolve our ESG strategy for 2022 and beyond.

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 is creating 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 ECRI.

Year-to-date, the ECRI is on target as reported on our global balanced scorecard (above).

While the ECRI is functioning as planned, it is still relatively new and we remain in learning mode. Beginning in the second quarter, we have been working to determine how to measure the ECRI below the global level (eg. Mexico, ANZ). Further refinements will take shape as we continue to deepen our understanding of our risk universe and the interconnectivity of risks. The ECRI 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 of last year 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 the first half of this year, the Continuous Improvement Group made progress against three key priorities:

- 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 was 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.
- 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.
- We developed and implemented a total of 22 automation solutions by leveraging Robotic Process Automation “bots” and other light-touch tools. Our total library of automations now contains 97 solutions accounting for over 955,000 transactions processed and 24,000 hours saved for our employees in H1 2021 alone. These automation solutions decrease cycle times and provide increased accuracy, leading to a superior employee and client experience.

Our People

Achievements

Steady momentum is underway amongst our people in the second quarter as we surpassed the one-year mark of working together, but apart. What were once emerging processes for operating remotely have become established ways of working revealing the benefits of a flexible work environment. Thanks to the agility of our people, Element is emerging from the pandemic with a progressive company culture defined by inclusion, collaboration and a collective focus on growth.

Diversity and inclusion

We have made significant progress in our ambition to build a diverse and inclusive Element this quarter. The advancements we have made propelled this objective in our balanced scorecard to outperform with a score of 103 – up from 70 in Q1.

This achievement can be attributed to our efforts to adapt recruiting practices and bring D&I to the forefront of our thinking with people leaders when assessing talent. Our efforts were further bolstered with a successful self-identification campaign in the spring which gave us a strong baseline to understand the make-up of our employee population allowing us to measure progress more accurately.

The most marked improvements in our workforce have been in leadership where 40% of our management and board positions globally are now held by women. This progress extends to our BIPOC colleagues who now make up 25% of our senior leadership positions in the U.S. and Canada.

While we are proud of the growing diversity of our talent, we know there is more work to do. We remain committed to attracting, developing and retaining a diverse workforce at all levels with a specific focus at the leadership level.

Talent

Having significantly matured our talent practices, Element is now enjoying the benefits of a strong talent base and a healthy succession pool. Our focus on acquiring, developing and engaging talent – particularly for our commercial organization – remains vital to the future of Element.

In our commercial organization, we have reorganized our salesforce into functional teams to enable a dedicated focus on the work of both retaining and acquiring clients. Through the process of renewing talent and making targeted changes to the structure, the commercial team is operating more productively. Further changes to compensation plans that incentivize our salespeople by paying competitive rewards for closing profitable deals is also helping to drive growth.

As we look toward a bright future, we are already seeing the benefits of our evolved approach to recruitment and succession planning. Today, we are more discerning of what it will take to be 'ready now' for an executive role, putting greater focus on leadership development to ready our potential successors. The result is we have significantly increased our top talent and grown the pool of potential candidates for executive roles. These efforts have also extended to recruitment where 30% of our succession candidates were hired after January, 2020.

Initiatives

Employee experience and the return to the office

As re-opening continues to accelerate across our geography, our unwavering focus has remained on the safety of our people. This has meant continued adherence to the safety protocols that have protected our essential workers and prevented any in-office exposures or outbreaks throughout the pandemic. Our approach has also required flexibility as some regions have experience fluctuations with their states of re-opening. This includes ANZ where the cities of Melbourne and Sydney recently re-entered a lock-down phase.

Our commitment to safety has extended to our approach with vaccines where we have chosen to educate our people on the benefits of vaccines and facilitate access by providing paid time off to get their shots. In June, we took education a step further by offering a series of regional webinars with healthcare professionals to help ensure everyone's questions about vaccination were answered. Moving forward, we will continue to encourage our people to consider the benefits of vaccination.

With pandemic related restrictions easing, we continue to plan for a broad return to the office in early 2022. Our process for returning will be guided by public health considerations, the well-being of our people, and the requirements of our business with individual preferences in mind. We have started to pilot a safe return in 2 of our U.S. offices welcoming a small number of people back into the office under enhanced health and safety protocols. Learnings from these experiences will further inform how we proceed in the coming months to ensure the way we return to the office is not only safe, but also consistent with the employee experience we want to enable for our people.

Learning and development in Mexico

In Q2 in Mexico, we implemented a Learning & Development strategy for employees, aligned with the Balanced Scorecard and focused on identified local training needs. We introduced a four-module virtual course to ensure employees are familiar with and understand the Balanced Scorecard and how it impacts Element's strategy. The course includes general interest webinars, microlearning resources, training sessions for various groups, and financial training for Risk and Commercial employees in particular – to improve their understanding of and ability to analyze clients' finances.

Our Investors

Achievements

Return of capital

Element generated $0.26 of free cash flow per share in the quarter; a $0.03 improvement over last quarter, $0.01 over Q2 of last year, and a $0.04 improvement in both cases in constant currency (16.3% and 13.8% respectively) – aided by our share buyback activity pursuant to our Normal Course Issuer Bid ("NCIB").

Element has returned $360.8 million of cash to common shareholders to-date in the form of dividends and share buybacks since launching the NCIB in November 2020. We returned $189.4 million in cash to shareholders by repurchasing 13,515,159 common shares for cancellation in the quarter. The NCIB allows

Element to buy back up to 21,807,449[4] more of its common shares before November 9, 2021, which will be the end of the first year of what we envision as a regular, ongoing return of capital to shareholders through share buybacks and growing common dividends.

Advancing a capital-lighter business model

Syndication is an ongoing source of high quality earnings for Element. Syndication accelerates revenue recognition and the velocity of cash flow, expands operating margins and enhances returns on equity. It also lowers financing risk by reducing tangible leverage. Element advanced its capital-lighter business model in the quarter by syndicating $611 million of fleet assets, meeting demand from our growing base of frequent buyers and generating $12.9 million of revenue. As we noted last quarter, we syndicated a portion of planned Q2 volume in Q1 2021 in response to robust market conditions. Nonetheless, we achieved our syndication volume and revenue targets for the first half of 2021, which are largely on par with both measures from the first half of 2020.

The other thrust of our capital-lighter business model is service revenue, which has a relatively low funding requirement – the net working capital position of procured services – compared with net financing revenue. Q2 service revenue grew 7.9% year-over-year and 1.4% quarter-over-quarter before the impact of changes in FX, led by the U.S. and Canada where client vehicle usage is approaching pre-pandemic levels.

Service revenue growth coupled with syndication activities enhanced our Q2 pre-tax return on common equity by 100 basis points quarter-over-quarter to 15.3%.

Profitable revenue growth

Element is on track to meet our 4-6% annual net revenue growth target in constant currency for 2021. Net revenue grew $37.6 million or 8.4% in the first half of this year compared to the same period last year (before the impact of changes in FX), driven by net financing revenue growth of $32.9 million or 17.6% and aided by $2.3 and $2.4 million period-over-period servicing income and syndication revenue increases, respectively. Our scalable operating platform allowed us to maintain virtually flat adjusted operating expenses on the same period-over-period basis. The result is adjusted operating income having grown $0.1 million more than net revenue on the same comparative basis, and 16.7% H1-over-H1. Even absorbing the adverse impacts of a strengthening Canadian dollar, Element grew H1 net revenue by 2.4% over H1 2020 and AOI by 9.7% on the same basis. We do expect operating margins to moderate slightly in the second half of this year given that H1 2021's operating expenses benefitted slightly from several discrete non-recurring items and net revenue benefitted from what are likely to be the largest releases of allowance for credit loss this year.

Our first half net revenue growth was largely powered by our continuing success reducing interest expenses and the costs of funding imbedded therein. Interest expenses fell 47.5% H1-over-H1, while constrained originations, asset syndication and amortization reduced gross interest and rental income by only 16.5%.

Servicing income experienced modest growth in the first half over the same period last year in constant currency. Importantly, the leading indicators of client vehicle usage – fuel consumption and accident rates – point to driving activity levels approaching pre-pandemic levels across Element's footprint, with the expectation that those will continue to rise gradually but steadily in H2 2021. The U.S. and Canada led service revenue growth in H1 and is by far the largest contributing geography to this line item, through both recurring (*ie*. subscription) and usage-based revenue streams. We maintain a positive outlook on servicing income growth globally through the balance of this year.

[4] As of June 30, 2021

Selected Quarterly Financial Information

(in $000's for stated values, except per share amounts)	As at and for the three-month periods ended			As at and for the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	$	**$**	$
Net revenue	**235,402**	248,598	225,503	**484,000**	472,742
Net income	**80,872**	95,529	58,594	**176,401**	137,952
Total assets	**13,483,620**	14,033,707	16,883,105	**13,483,620**	16,883,105
Total debt	**8,686,606**	9,259,492	11,910,711	**8,686,606**	11,910,711
After tax adjusted operating income(1)	**93,935**	105,173	93,361	**199,108**	198,758
Earnings per share					
Basic	**0.17**	0.20	0.11	**0.37**	0.27
Diluted	**0.17**	0.20	0.11	**0.36**	0.26
After tax adjusted operating income per share(1)					
Basic	**0.20**	0.22	0.19	**0.42**	0.40
Pro forma Diluted	**0.20**	0.22	0.19	**0.41**	0.40
Dividends declared, per share					
Common share	**0.065000**	0.065000	0.045000	**0.130000**	0.090000
Preferred Shares, Series A	**0.433313**	0.433313	0.433313	**1.733252**	0.866626
Preferred Shares, Series C	**0.388130**	0.388130	0.388130	**1.552520**	0.776260
Preferred Shares, Series E	**0.368938**	0.368938	0.368938	**1.475752**	0.737876
Preferred Shares, Series G	**—**	—	0.406250	**1.218750**	0.812500
Preferred Shares, Series I	**0.359375**	0.359375	0.359375	**1.437500**	0.718750

(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			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	$	**$**	$
Net revenue					
Net interest income and rental revenue	**156,877**	165,214	189,334	**322,091**	389,651
Interest expense	**47,525**	54,194	88,679	**101,719**	193,691
Net financing revenue	**109,352**	111,020	100,655	**220,372**	195,960
Servicing income, net	**113,185**	114,489	114,515	**227,674**	240,362
Syndication revenue, net	**12,865**	23,089	10,333	**35,954**	36,420
Net revenue	**235,402**	248,598	225,503	**484,000**	472,742
Operating expenses					
Salaries, wages and benefits	**72,654**	73,625	74,859	**146,279**	150,329
General and administrative expenses	**25,826**	27,146	28,590	**52,972**	60,381
Depreciation and amortization	**10,410**	10,526	10,910	**20,936**	21,566
Adjusted operating expenses	**108,890**	111,297	114,359	**220,187**	232,276
Amortization of convertible debenture discount	**887**	872	2,003	**1,759**	4,558
Share-based compensation	**7,511**	5,240	4,427	**12,751**	9,864
Total operating expenses	**117,288**	117,409	120,789	**234,697**	246,698
Disposition of 19th Capital					
Gain on settlement of debt	**—**	—	38,580	**—**	38,580
Loss on sale of assets	**—**	—	(52,442)	**—**	(52,442)
Net loss on disposition	**—**	—	(13,862)	**—**	(13,862)
Other expenses					
Amortization of intangible assets from acquisition	**8,674**	8,906	9,660	**17,580**	19,883
Restructuring and transformation costs	**—**	—	18,663	**—**	33,658
(Gain) loss on investments	**(637)**	(2,801)	(3)	**(3,438)**	54
Total other expenses	**8,037**	6,105	28,320	**14,142**	53,595
Net income before taxes	**110,077**	125,084	62,532	**235,161**	158,587
Income tax expense	**29,205**	29,555	3,938	**58,760**	20,635
Net income for the period	**80,872**	95,529	58,594	**176,401**	137,952
Weighted average number of shares outstanding [basic]	**428,646**	438,503	437,852	**433,547**	437,577
Earnings per share [basic]	**0.17**	0.20	0.11	**0.37**	0.27

Element earned net income of $80.9 million for the quarter, a 38.0% or $22.3 million improvement over Q2 2020 and 15.3% or $14.7 million less than Q1 2021. Net income for the six-month period ended June 30, 2021 was $176.4 million; a 27.9% or $38.4 million improvement over net income earned for the six-month period ended June 30, 2020 notwithstanding a 184.8% increase in provision for income taxes.

The year-over-year net income improvement for the quarter was driven by:

- net revenue growth of 4.4% or $9.9 million, led by net financing revenue growth of $8.7 million resulting from interest expense and related savings, and a $2.5 million increase in syndication revenue, partially offset by a modest reduction in servicing income as a result of FX;
- $5.5 million lower adjusted operating income expenses;
- the absence of a $13.9 million net loss on disposition this quarter, which was recorded in Q2 2020 with the completion of the sale of 19th Capital; and
- the absence of $18.7 million in transformation investments made in Q2 2020,
- offset by a $25.3 million increase in the provision for income taxes reflecting a higher effective tax rate applied to higher net income before taxes.

The quarter-over-quarter decrease in net income is largely attributable to:

- $13.2 million less net revenue in the quarter, driven by lower syndication volume (and thus revenue) as planned (ie. as previously indicated, we consciously pulled forward would-be Q2 syndication volume in Q1 2021 in response to robust market conditions) and modest decreases in net financing revenue and servicing income as a result of FX;
- $2.3 million higher share-based compensation in the quarter; and
- a $2.2 million greater gain on investments in Q1 2021 than in this quarter,
- partially offset by operating expense favourability of $2.4 million.

Quarterly Adjusted Operating Results

	For the three-month periods ended			For the six-month periods ended	
(in $000's for stated values, except per share amounts)	**June 30, 2021**	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	$	**$**	$
Originations	**1,198,102**	1,286,506	1,306,804	**2,484,608**	3,337,792
Assets under management (1)	**14,516,361**	15,045,231	17,049,689	**14,516,361**	17,049,689
Net financing revenue	**109,352**	111,020	100,655	**220,372**	195,960
Servicing income, net	**113,185**	114,489	114,515	**227,674**	240,362
Syndication revenue, net	**12,865**	23,089	10,333	**35,954**	36,420
Net revenue	**235,402**	248,598	225,503	**484,000**	472,742
Salaries, wages and benefits	**72,654**	73,625	74,859	**146,279**	150,329
General and administrative expenses	**25,826**	27,146	28,590	**52,972**	60,381
Depreciation and amortization	**10,410**	10,526	10,910	**20,936**	21,566
Adjusted operating expenses (1)	**108,890**	111,297	114,359	**220,187**	232,276
Adjusted operating income (1)	**126,512**	137,301	111,144	**263,813**	240,466
Provision for taxes applicable to adjusted operating income	**32,577**	32,128	17,783	**64,705**	41,708
Cumulative preferred share dividends	**8,103**	8,103	10,906	**16,206**	21,812
After-tax adjusted operating income attributable to common shareholders (1)	**85,832**	97,070	82,455	**182,902**	176,946
Weighted average number of shares outstanding [basic]	**428,646**	438,503	437,852	**433,547**	437,577
After-tax adjusted operating income per share (1) [basic]	**0.20**	0.22	0.19	**0.42**	0.40

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

Element's adjusted operating income ("AOI") for the quarter was $126.5 million (equivalent to $0.20 on a per share basis), which is a $15.4 million or 13.8% increase over Q2 2020 and a $10.8 million or 7.9% decline from Q1 2021.

The year-over-year increase in AOI stemmed from higher net financing and syndication revenues and lower adjusted operating expenses. Reported year-over-year AOI growth was constrained by significant FX headwinds. The quarter-over-quarter AOI decline was impacted by lower syndication revenue and FX headwinds, which offset servicing income and net financing revenue growth before FX. We address these puts and takes in further detail below.

H1 2021 AOI of $263.8 million was $23.3 million or 9.7% higher than H1 2020 AOI, driven by materially higher net financing revenues (savings on interest expense more than offset the decrease in earning assets and accompanying decrease in net interest income), partially offset by FX headwinds.

Originations

We originated $1.2 billion of assets in the quarter – relatively flat to prior quarter and same quarter prior year before the adverse impacts of FX.

Originations are necessarily preceded by vehicle orders, which are legally binding commitments by our clients to lease or purchase vehicles from Element upon production by the OEM and upfitting as necessary.

OEM production delays driven by the microchip shortage have lengthened the supply cycle time from order placement to lease origination in both the U.S. and Canada, suppressing H1 2021 origination volumes (in the U.S. in particular). Historical average order-to-origination cycle times are approximately 60 days in the U.S. and 90 days in Canada. As of July 15, 2021, the average was over 125 days in each country and rising.

H1 2021 U.S. and Canadian vehicle order volumes increased 56% from H1 2020 order volumes on a constant currency basis, and are largely consistent with H1 2017 and H1 2018 vehicle order volumes on the same basis. H1 2019 order volume in the U.S. was significantly enlarged by Armada as we adopted them as a new client to rapidly build out their fleet requirements. Further, we believe there is additional near-term client demand for vehicles in the U.S. and Canada that is not reflected in H1 2021 order volumes, as some clients have remained cautious in the first half of this year due to lingering uncertainty regarding the pandemic and economic recovery therefrom.

Custom Fleet (ANZ) saw vehicle orders grow 46% H1-over-H1 in returning to pre-pandemic levels for the first half of this year while Element Mexico's H1 2021 orders grew 42% year-over-year.

This healthy client demand for vehicles coupled with OEM production delays (resulting in longer order-to-origination cycle times) has resulted in record vehicle order backlogs in each of our operating geographies (excluding historical Armada orders in the U.S.).

Based on the latest OEM production plans (which continue to be fluid), we expect a return to normal production volumes later in this half, which would allow order backlogs to be fulfilled, resulting in increased levels of originations (compared to historical run rates excluding Armada) in early 2022.

In addition to the OEM production delays' impact on origination volumes in the quarter, the strengthening of the Canadian dollar softened reported results. The year-over-year originations comparison in the U.S. is also impacted by the timing of Armada origination volumes, with an immaterial number of Armada vehicles having reached origination in Q2 2021, which should translate into higher originations for this client through the remainder of 2021.

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)	**June 30, 2021**		March 31, 2021		June 30, 2020	
	$	**%**	$	%	$	%
United States and Canada	**888,254**	**74.14**	1,000,042	77.73	1,055,608	80.77
Mexico	**167,145**	**13.95**	172,893	13.44	141,602	10.84
Australia and New Zealand	**142,703**	**11.91**	113,571	8.83	109,594	8.39
Total	**1,198,102**	**100.00**	1,286,506	100.00	1,306,804	100.00

The table below sets out the geographic distribution of Element's originations for the following three-month periods ended on a constant currency basis:

(in $000's for stated values)	**June 30, 2021**		March 31, 2021		June 30, 2020	
	$	**%**	$	%	$	%
United States and Canada	**888,254**	**74.14**	975,381	77.71	946,421	78.46
Mexico	**167,145**	**13.95**	170,087	13.55	146,269	12.13
Australia and New Zealand	**142,703**	**11.91**	109,735	8.74	113,456	9.41
Total	**1,198,102**	**100.00**	1,255,203	100.00	1,206,146	100.00

Servicing income, net

Servicing income declined by $1.3 million or 1.2% in Q2 on both year-over-year and quarter-over-quarter bases as reported. That said, servicing income of $113.2 million represents a 7.9% increase year-over-year and 1.4% increase quarter-over-quarter before the adverse impact of the strengthening Canadian dollar.

On a year-over-year basis, service revenue growth in constant currency was led by maintenance volume uptick in the U.S. and Canada, while quarter-over-quarter growth was driven by accident services revenue. We also saw organic growth of service penetration in ANZ and Mexico in the quarter, where we continue to increase our share of wallet with existing clients in addition to new client wins.

We believe our service revenue stream has now turned a corner and we anticipate continued growth in the second half of this year on a constant currency basis as vehicle usage increases and the pandemic continues to subside.

Net financing revenue

Net financing revenue for the quarter increased 8.6% or $8.7 million year-over-year, despite a 21.2% reduction in average net earning assets on the same comparative basis. Controlling for FX globally, Q2 net financing revenue grew 15.6% or $14.7 million year-over-year. This continued strong performance was driven by:

- lower costs of funding as we continue to optimize our debt structure;
- strong gain on sale performance in ANZ (and, to a lesser extent, Mexico) as we continue to benefit from the supply-constrained used vehicle market; and
- growth in net earning assets in Mexico as we continue to onboard new clients and expand existing relationships.

Net financing revenue declined 1.5% quarter-over-quarter, impacted by FX headwinds arising from a strong Canadian dollar. Excluding global FX impacts, net financing revenue grew $1.3 million quarter-over-quarter. This growth was primarily driven by decreased interest expenses as a result of lower funding costs and lower cost of debt, which offset the decrease in net interest income.

For the six-month period ended June 30, 2021, net financing revenue increased $24.4 million or 12.5% over H1 2020. Excluding global FX impacts, net financing revenue grew $32.9 million or 17.6% on the same basis. This growth is attributable to the same drivers of Q2 year-over-year net financing revenue growth noted above.

Net financing revenue may moderate in the second half of 2021 to the extent that the tailwinds of strong gain on sale performance in ANZ subside without a commensurate improvement in OEM production volumes facilitating the conversion of our record backlog of originations-in-waiting.

Net financing revenue yield on average net earning assets

	For the three-month periods ended			For the six-month periods ended	
(in $000's for stated values)	**June 30, 2021**	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Average net earning assets	**$ 9,161,155**	$ 10,148,697	$ 11,626,619	**$ 9,655,126**	$ 11,768,287
Net interest income and rental revenue	**6.85 %**	6.52 %	6.51 %	**6.67 %**	6.62 %
Interest expense	**2.08 %**	2.14 %	3.05 %	**2.11 %**	3.29 %
Net financing revenue yield on average net earning assets	**4.77 %**	4.38 %	3.46 %	**4.56 %**	3.33 %
Average debt outstanding	**$ 8,193,170**	$ 9,777,382	$ 12,994,547	**$ 8,985,276**	$ 13,025,353
Average cost of debt (Interest expense / average debt)	**2.32 %**	2.22 %	2.73 %	**2.26 %**	2.97 %
Average 1-Month LIBOR rates	**0.10 %**	0.12 %	0.35 %	**0.11 %**	0.89 %

Average net earning assets decreased 9.7% or $987.5 million quarter-over-quarter and 21.2% or $2.5 billion year-over-year.

At the same time, net financing revenue yield on average net earning assets has improved 131 basis points year-over-year and 39 basis points quarter-over-quarter, reflecting:

- The growth of net financing revenue for the reasons noted above; and

- The evolving geographic mix of assets on our balance sheet.

We would expect net financing revenue yield to moderate slightly in future quarters to the extent that net financing revenue itself is impacted by the matters noted above.

Syndication revenue, net

We syndicated $611 million of assets in the quarter, $148 million less than in Q2 2020, but we generated $12.9 million of syndication revenue – a $2.5 million or 24.5% increase in syndication revenue for the quarter year-over-year. Quarter-over-quarter, syndicated asset volume decreased $405 million and syndication revenue decreased $10.2 million. As indicated last quarter, we elected to syndicate a portion of planned Q2 asset volume in Q1 2021 in response to robust market conditions. For H1 2021, we achieved our syndication volume and revenue targets – which are largely on par with both measures from H1 2020.

As previously communicated, we continue to expect syndication volume and 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 Q1-Q2 2021 syndication revenue yield represents a relatively normalized level for the balance of this year, all else equal.

Adjusted operating expenses and margins

Adjusted operating expenses of $108.9 million for the quarter were $5.5 million or 4.8% lower than adjusted operating expenses for Q2 last year and $2.4 million or 2.2% lower than last quarter. These improvements were largely a function of the strengthening Canadian dollar. Before the impact of changes in FX, Q2 2021 adjusted operating expenses were essentially flat quarter-over-quarter and up 2.5% year-over-year.

We anticipate our quarterly adjusted operating expense profile to be more-so in line with Q1 2021 (than this quarter's result) through the balance of this year.

For the first half of 2021, adjusted operating expenses were $12.1 million lower than H1 2020 as a result of FX; controlling for same, adjusted operating expenses were virtually flat H1-over-H1.

Operating margin for the quarter contracted by 149 basis points from last quarter, which we indicated was likely to occur. The primary driver of the contraction was reduced syndication revenue as expected in Q2 2021 given Q1 syndication volume allocation. Q2 operating margin year-over-year expanded by 440 basis points (460 bps before FX) as the scalability of our operating platform is greater today than it was in Q2 of last year by virtue of having completed Transformation and the operating expense savings therefrom continuing to be delivered in 2021. On a half-year-over-half-year basis, operating margin has expanded 360 basis points (and 390 basis points on a constant currency basis) for the same reasons as the Q2 year-over-year improvement.

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 June 30, 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)	**Q2 2021**	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Net revenue	**235,402**	248,598	247,099	243,252	225,503	247,239	256,509	245,796
Adjusted operating income (1)	**126,512**	137,301	132,058	128,985	111,144	129,322	138,386	127,650
After-tax adjusted operating income (1)	**93,935**	105,173	108,089	107,058	93,361	105,397	112,797	105,311
Net income (loss)	**80,872**	95,529	78,362	70,778	58,594	79,358	(116,978)	70,145
Earnings (loss) per share, basic	**0.17**	0.20	0.16	0.14	0.11	0.16	(0.29)	0.14
Earnings (loss) per share, diluted	**0.17**	0.20	0.16	0.14	0.11	0.16	(0.29)	0.13
Adjusted operating income per share, basic (1)	**0.28**	0.29	0.28	0.27	0.23	0.27	0.29	0.27
After-tax adjusted operating income per share, basic(1)	**0.20**	0.22	0.23	0.22	0.19	0.22	0.23	0.22
After-tax pro forma diluted adjusted operating income per share (1)	**0.20**	0.22	0.22	0.22	0.19	0.21	0.22	0.21
Net earning assets	**8,890,566**	9,426,863	10,465,983	10,750,218	11,025,581	11,999,636	11,783,853	12,388,224
Loan and lease originations	**1,198,102**	1,286,506	1,386,792	1,279,263	1,306,804	2,030,988	2,225,909	2,106,603
Allowance for credit losses	**11,397**	13,676	17,718	18,829	20,000	20,000	8,432	7,810
As a % of total finance receivables before allowance	**0.14**	0.16	0.18	0.19	0.18	0.16	0.07	0.06
Senior revolving credit facilities	**1,006,473**	1,250,957	1,551,939	1,354,470	1,774,086	1,869,919	1,703,507	1,824,014
Borrowings	**7,523,502**	7,853,095	8,312,397	9,380,815	9,984,649	10,529,564	10,189,354	10,329,638
Convertible debentures	**156,631**	155,440	154,267	153,113	151,976	715,978	711,791	715,399

(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 June 30, 2021, 14%, 6%, 9% and 64% of our year-to-date net revenue has been generated, respectively. While Element has established local currency funding structures in Australia, New Zealand, Canada and the United States, thereby mitigating the impacts of fluctuation in certain foreign currencies, and the Company institutes certain designated hedges that further 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. We do not hedge pure currency translation risk.

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			For the six-month periods ended	
(in $000's for stated values)	**June 30, 2021**	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	$	$	$	**$**	$
Interest income, net	**93,100**	101,553	128,216	**197,211**	262,381
Rental revenue and other	**173,430**	168,512	151,750	**346,425**	327,053
Depreciation of equipment under operating leases	**(109,653)**	(109,042)	(102,050)	**(221,545)**	(217,945)
	156,877	161,023	177,916	**322,091**	371,489
Interest expense	**47,525**	53,006	83,286	**101,719**	184,020
Net financing revenue	**109,352**	108,017	94,630	**220,372**	187,469
Fleet service revenue	**122,675**	122,612	115,151	**248,489**	247,061
Direct costs of fixed rate service contract	**(9,490)**	(10,941)	(10,240)	**(20,815)**	(21,682)
Servicing income, net	**113,185**	111,671	104,911	**227,674**	225,379
Syndication revenue, net	**12,865**	22,404	9,162	**35,954**	33,518
Net revenue	**235,402**	242,092	208,703	**484,000**	446,366
Salaries, wages and benefits	**72,654**	71,786	69,489	**146,279**	142,410
General and administrative expenses	**25,826**	26,528	26,531	**52,972**	57,285
Depreciation and amortization	**10,410**	10,249	10,195	**20,936**	20,619
Adjusted operating expenses	**108,890**	108,563	106,215	**220,187**	220,314
Adjusted operating income	**126,512**	133,529	102,488	**263,813**	226,052
After-tax adjusted operating income	**93,935**	102,284	86,091	**199,108**	188,090
Net earning assets	**8,890,566**	9,330,880	10,443,988	**8,890,566**	10,443,988
Average net earning assets	**9,161,155**	10,040,054	10,989,459	**9,655,126**	11,030,653

Financial Position

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

(in $000's for stated values)	**June 30, 2021**	March 31, 2021	December 31, 2020
	$	$	$
ASSETS			
Cash	**21,550**	40,537	8,789
Restricted funds	**371,240**	475,982	388,978
Finance receivables	**8,167,862**	8,560,958	9,561,622
Equipment under operating leases	**2,153,502**	2,129,823	2,157,227
Accounts receivable and other current assets	**210,894**	220,874	226,952
Derivative financial instruments	**31,250**	41,951	53,629
Property, equipment and leasehold improvements	**99,591**	105,985	112,352
Intangible assets	**807,875**	812,392	814,378
Deferred tax assets	**425,464**	433,633	444,120
Goodwill	**1,194,392**	1,211,572	1,223,341
	13,483,620	14,033,707	14,991,388
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	**1,138,017**	972,148	1,062,610
Derivative financial instruments	**38,891**	50,376	68,282
Borrowings	**8,529,975**	9,104,052	9,864,336
Convertible debentures	**156,631**	155,440	154,267
Deferred tax liabilities	**73,634**	61,706	57,776
	9,937,148	10,343,722	11,207,271
Shareholders' equity	**3,546,472**	3,689,985	3,784,117
	13,483,620	14,033,707	14,991,388

Total assets and liabilities decreased by $550,087 and $406,574, respectively, over Q1 2021. Approximately 60% 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 Q2 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 $1.4 billion lower at June 30, 2021 than at December 31, 2020, driven by the cumulative impact of syndication and below average origination volumes during the first six months of 2021.

(in $000’s for stated values, except ratios)	**June 30, 2021**	March 31, 2021	December 31, 2020
	$	$	$
Net investment in finance receivables	**6,737,064**	7,297,040	8,308,756
Impaired receivables - at net realizable value	**3,244**	16,722	25,463
	6,740,308	7,313,762	8,334,219
Unamortized origination costs and subsidies	**(59,924)**	(67,183)	(78,396)
Net finance receivables	**6,680,384**	7,246,579	8,255,823
Prepaid lease payments and Security deposits	**(39,898)**	(49,441)	(85,025)
Interim funding	**518,662**	550,267	625,778
Fleet management service receivables	**453,796**	488,278	505,506
Other	**566,315**	338,951	277,258
	8,179,259	8,574,634	9,579,340
Allowance for credit losses	**11,397**	13,676	17,718
Total finance receivables	**8,167,862**	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- and six-month periods ended March 31, 2021 and June 30, 2021, respectively, and the year-ended December 31, 2020 are as follows.

	Six months ended	Three months ended	Twelve months ended
	June 30, 2021	March 31, 2021	December 31, 2020
(in $000’s for stated values, except ratios)	**$**	$	$
Allowance for credit losses, beginning of period	**17,718**	17,718	8,432
Provision for credit losses	**(5,012)**	(3,516)	11,652
Charge-offs, net of recoveries	**(872)**	(263)	(1,629)
Impact of foreign exchange rates	**(437)**	(263)	(737)
Allowance for credit losses, end of period	**11,397**	13,676	17,718
Ratios			
Charge-offs, net of recoveries, as a % of total finance receivables	**0.01 %**	— %	0.02 %
Allowance for credit losses, as a % of total finance receivables before allowance	**0.14 %**	0.16 %	0.18 %

Element's policy is to assess the probability of default and loss given default for all its clients, both at lease inception and throughout the term of the lease. Element makes these assessments by performing risk reviews of specific clients on a periodic basis, reviewing client's financial condition and ability to service the debt as well as monitoring the value of the underlying security.

While it remains somewhat challenging to perform these assessments in the current environment given the continued uncertainty of the pandemic, namely as it relates to new strains of the virus and the pace of vaccinations, our experience and activity over the last 15 months 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 that potential upward or downward trends in GDP would have on our lease and loan portfolio. Given the continued uncertainty of the pandemic – again, as it relates to new strains of the virus and the pace of vaccinations – and based on forward-looking macroeconomic expectations, we have maintained an allowance for credit losses of $11.4 million at June 30, 2021; a $6.3 million decrease from December 31, 2020.

Impaired receivables

Total impaired receivables were $3.2 million on June 30, 2021, which is a $13.5 million or 81% decrease from March 31, 2021, largely as a product of a single client that entered bankruptcy in 2020 and emerged therefrom in the quarter (and assumed all of its liabilities to Element). The current impaired receivables balance is the lowest in the last five years.

No material client newly entered bankruptcy in Q2 2021.

<u>Classifying receivables as impaired</u>

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)	**June 30, 2021**		March 31, 2021		December 31, 2020	
	$	**%**	$	%	$	%
United States and Canada	**6,079,212**	**68.8**	6,671,808	71.2	7,681,953	73.8
Australia and New Zealand	**1,546,384**	**17.5**	1,572,148	16.7	1,632,065	15.7
Mexico	**1,208,290**	**13.7**	1,132,446	12.1	1,099,032	10.5
Total	**8,833,886**	**100.0**	9,376,402	100.0	10,413,050	100.0
Allocated as:						
Net finance receivables	**6,680,384**	**75.6**	7,246,579	77.3	8,255,823	79.3
Equipment under operating leases, net	**2,153,502**	**24.4**	2,129,823	22.7	2,157,227	20.7
Total	**8,833,886**	**100.0**	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)	**June 30, 2021**		March 31, 2021		December 31, 2020	
	$	**%**	$	%	$	%
United States and Canada	**11,713,653**	**80.7**	12,315,216	81.9	12,814,311	81.9
Australia and New Zealand	**1,545,626**	**10.6**	1,571,278	10.4	1,625,718	10.4
Mexico	**1,257,082**	**8.7**	1,158,737	7.7	1,212,464	7.7
Assets under management	**14,516,361**	**100.0**	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

The global cash management office, instituted in Q1 2020, assesses and proactively manages Element's liquidity position by ensuring we have robust controls over every source and use of cash flow. The global cash management office also conducts 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 June 30, 2021, we continue our efforts to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Free cash flow

We present 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 six-month period ended June 30, 2021 - as presented in our unaudited interim condensed consolidated financial statements - was $1,487.0 million, an increase of $276.3 million from the $1,210.7 million provided by operating activities for the six-month period ended June 30, 2020. The increase was primarily the result of lower investments in finance leases resulting from postponed orders and delayed originations driven by COVID-19 offset by a decrease in repayments of finance receivables as finance receivables continue to by syndicated in conjunction with our leverage strategy.

Cash used in investing activities for the six-month period ended June 30, 2021 was $40.4 million compared to cash provided by investing activities of $30.0 million for the six-month period ended June 30, 2020. The primary driver was the sale of 19th Capital in Q2 2020 offset slightly by an increase in purchases of computer software compared to the prior year.

Cash used in financing activities for the six-month period ended June 30, 2021 was $1,479.3 million, compared to $1,210.1 million used in financing activities for the six-month period ended June 30, 2020. The year-over-year increase is primarily due to (i) the repurchase of common shares, (ii) an increase in the repayment of borrowings, and (iii) an increase in dividends paid from the prior year, offset by (iv) the issuance of the US $500 million, 1.60% senior unsecured investment-grade notes due April 6, 2024.

Credit and debt facilities

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

We had $4.1 billion of contractually committed, undrawn liquidity across our revolving unsecured ($1.6 billion) and vehicle management asset-backed ($2.5 billion) facilities at June 30, 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	June 30, 2021			
(in $000's for stated values)	$	%	$	$
	Facility size	**Undrawn amount**		**Drawn amount**
Senior unsecured revolving credit facilities	**2,603,370**	***61.3***	**1,596,897**	**1,006,473**
Senior notes	**1,115,730**	**—**	**—**	**1,115,730**
Vehicle management asset-backed debt facilities				
Revolving term notes in amortization	**3,430,246**	**—**	**—**	**3,430,246**
Variable funding notes	**5,458,572**	***45.8***	**2,499,988**	**2,958,584**
Other	**40,764**	**—**	**—**	**40,764**
Total vehicle management asset-backed debt	**8,929,582**	***28.0***	**2,499,988**	**6,429,594**
Total cash			**21,550**	
Total capital available for continuing operations			**4,118,435**	

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	$ —	$ —	$ 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.

We believe the $4.1 billion of liquidity available to the Company as at June 30, 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	**June 30, 2021**	March 31, 2021	December 31, 2020
(in $000's)	**$**	$	$
Cash	**21,550**	40,537	8,789
Unsecured debt			
Senior credit facilities	**1,006,473**	1,250,957	1,551,939
4.250% Convertible Debentures due 2024	**156,631**	155,440	154,267
3.850% Senior Notes due 2025	**495,880**	503,715	509,080
1.600% Senior Notes due 2024	**619,850**	—	—
Vehicle Management Asset-Backed Debt			
Revolving term notes in amortization	**3,430,246**	4,267,287	4,005,371
Variable funding notes	**2,958,584**	3,060,470	3,768,395
Other	**40,764**	42,826	44,841
Deferred financing costs	**(28,987)**	(31,614)	(29,911)
Hedge accounting fair value adjustments	**7,165**	10,411	14,621
Total debt	**8,686,606**	9,259,492	10,018,603
Shareholders' equity			
Common share capital	**3,065,842**	3,152,865	3,180,379
Preferred share capital	**511,869**	511,869	511,869
Other	**(31,239)**	25,251	91,869
Total Shareholders' Equity	**3,546,472**	3,689,985	3,784,117
Total Capitalization	**12,233,078**	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 the Company's notice of intention to commence a Normal Course Issuer Bid. 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 $189.4 million and $293.9 million, 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.

Leverage

We view both financial and tangible leverage as indicators of the strength of Element's financial position. At June 30, 2021, our financial leverage ratio was 2.45:1 and tangible leverage ratio was 5.63:1.

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

As at		**June 30, 2021**	December 31, 2020
(in $000's, except ratios)		**$**	$
Borrowings		**8,529,975**	9,864,336
Convertible debentures		**156,631**	154,267
Total debt	**(a)**	**8,686,606**	10,018,603
Total shareholders' equity	**(b)**	**3,546,472**	3,784,117
		12,233,078	13,802,720
Goodwill and intangible assets	**(c)**	**2,002,267**	2,037,719
Financial leverage	**(a)/(b)**	**2.45**	2.65
Tangible leverage	**(a)/[(b)-(c)]**	**5.63**	5.74

The Company was in compliance with all financial and reporting covenants with all of its lenders at June 30, 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 June 30, 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 last year, and – beginning in the middle of last year – having initiated an organization-wide pivot towards our current, post-Transformation focus on growth, we find Element very well positioned to execute 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%-to-6% annual organic net revenue growth into high single-digit to low double-digit annual operating income growth;
    - Given the substantial, unexpected strengthening of the Canadian dollar (CAD) thus far in 2021, and assuming the forecasts of sustained CAD strength through year-end hold true, we are confident in achieving between 4% and 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 synthesize the dynamics of the economic recovery from COVID-19 across North America into a coherent near-term outlook. While we continue to see proof of the resumption of robust client activity – particularly reflected in vehicle usage in the U.S. and Canada (and resulting service revenue streams) – the impact of COVID-19 variants and different regional responses thereto remain unpredictable.

Further, our supply of new vehicles (to lease and sell to our clients) is being impacted by OEM production delays driven by microchip shortages, especially in the U.S. and Canada. These delays are impeding Element's ability to fulfill strong client demand for new vehicles, resulting in the largest order backlogs on record in each of our operating geographies (excluding Q2 2019 to Q1 2020 Armada orders in the U.S.). We believe there is additional near-term client demand for vehicles in the U.S. and Canada that is not reflected in H1 2021 order volumes, as some clients have remained cautious in their outlook on this year given lingering uncertainty as to the resolution of the pandemic and economic recovery therefrom.

Based on the latest OEM production plans (which continue to be fluid), we expect a return to normal production volumes later in this half, which would allow order backlogs to be fulfilled, resulting in increased levels of originations (compared to historical run rates excluding Armada) in early 2022.

Our OEM partners in Mexico have weathered the microchip shortage relatively well by global standards, and although we still have a record backlog of client orders for vehicles in that region, we believe that backlog will be reduced efficiently in a matter of months.

ANZ OEMs were also less impacted by the microchip shortage than U.S. and Canadian production centres. However, new vehicle inventories remain low in ANZ (with more vehicles being sold into the higher-margin retail channel), constraining supply and driving up used vehicle resale values, from which we benefit in that region in the form of gains on sale.

On reflection, the global COVID-19 pandemic demonstrated that automotive fleet vehicles 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 continue to have significant associated costs. We believe that both of these facts will hold true 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 and will continue to remain highly 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 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.

With working from home and social distancing appearing to be longer-term societal norms as a result of the pandemic, we are seeing competition to serve 'stay at home'-oriented consumers increasing, accelerating current and prospective Element clients' interest in building proprietary fleets (both "mega"-sized and less so) to be able to offer their customers proprietary home delivery.

Finally, with respect to EVs, our belief 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 is already bearing itself out. 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- and six-month periods ended June 30, 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.

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.

Hedging relationships impacted by interest rate benchmark reform

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 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)	**2,200,819**	**—**	**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").

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:

		As at and for the three-month periods ended			As at and for the six-month ended	
(in $000's for stated values)		**June 30, 2021**	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Reported and adjusted income measures						
Net income	A	**80,872**	95,529	58,594	**176,401**	137,952
Adjustments:						
Amortization of debenture discount		**887**	872	2,003	**1,759**	4,558
Share-based compensation		**7,511**	5,240	4,427	**12,751**	9,864
Amortization of intangible assets from acquisitions		**8,674**	8,906	9,660	**17,580**	19,883
Restructuring and transformation costs		**—**	—	18,663	**—**	33,658
Net loss on disposition of 19th Capital		**—**	—	13,862	**—**	13,862
Provision of income taxes		**29,205**	29,555	3,938	**58,760**	20,635
(Gain) loss on investments		**(637)**	(2,801)	(3)	**(3,438)**	54
Before-tax adjusted operating income	B	**126,512**	137,301	111,144	**263,813**	240,466
Provision for taxes applicable to adjusted operating income	C	**32,577**	32,128	17,783	**64,705**	41,708
After-tax adjusted operating income	D=B-C	**93,935**	105,173	93,361	**199,108**	198,758
Cumulative preferred share dividends during the period	Y	**8,103**	8,103	10,906	**16,206**	21,812
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	**85,832**	97,070	82,455	**182,902**	176,946
Selected statement of financial position amounts						
Total Finance receivables, before allowance for credit losses	E	**8,179,259**	8,574,634	11,302,278	**8,179,259**	11,302,278
Allowance for credit losses	F	**11,397**	13,676	20,000	**11,397**	20,000
Net investment in finance receivable	G	**6,737,064**	7,297,040	9,055,283	**6,737,064**	9,055,283
Equipment under operating leases	H	**2,153,502**	2,129,823	1,970,298	**2,153,502**	1,970,298
Net earning assets	I=G+H	**8,890,566**	9,426,863	11,025,581	**8,890,566**	11,025,581
Average net earning assets	J	**9,161,155**	10,148,697	11,626,619	**9,655,126**	11,768,287
Goodwill and intangible assets	K	**2,002,267**	2,023,964	2,127,036	**2,002,267**	2,127,036
Average goodwill and intangible assets	L	**1,980,298**	2,036,773	2,150,659	**2,008,536**	2,134,746
Borrowings	M	**8,529,975**	9,104,052	11,758,735	**8,529,975**	11,758,735
Unsecured convertible debentures	N	**156,631**	155,440	151,976	**156,631**	151,976
Total debt	O=M+N	**8,686,606**	9,259,492	11,910,711	**8,686,606**	11,910,711
Average debt	P	**8,193,170**	9,777,382	12,994,547	**8,985,276**	13,025,353
Total shareholders' equity	Q	**3,546,472**	3,689,985	3,878,854	**3,546,472**	3,878,854
Preferred shares	R	**511,869**	511,869	680,412	**511,869**	680,412
Common shareholders' equity	S=Q-R	**3,034,603**	3,178,116	3,198,442	**3,034,603**	3,198,442
Average common shareholders' equity	T	**3,063,206**	3,239,665	3,245,420	**3,151,435**	3,250,164
Average total shareholders' equity	U	**3,575,074**	3,751,533	3,925,832	**3,663,304**	3,930,576

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

(in $000's for stated values, except ratios and per share amounts)		As at and for the three-month periods ended June 30, 2021	March 31, 2021	June 30, 2020	As at and for the six-month ended June 30, 2021	June 30, 2020
Key annualized operating ratios						
Leverage ratios						
Financial leverage ratio	O/Q	**2.45**	2.51	3.07	**2.45**	3.07
Tangible leverage ratio	O/(Q-K)	**5.63**	5.56	6.80	**5.63**	6.80
Average financial leverage ratio	P/U	**2.29**	2.61	3.31	**3.31**	3.31
Average tangible leverage ratio	P/(U-L)	**5.14**	5.70	7.32	**7.32**	7.25
Other key operating ratios						
Allowance for credit losses as a % of total finance receivables before allowance	F/E	**0.14 %**	0.16 %	0.18 %	**0.18 %**	0.18 %
Adjusted operating income on average net earning assets	B/J	**5.52 %**	5.41 %	3.82 %	**3.82 %**	4.09 %
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	**23.56 %**	24.53 %	21.04 %	**24.06 %**	22.14 %
Per share information						
Number of shares outstanding	V	**421,405**	434,169	437,953	**421,405**	437,953
Weighted average number of shares outstanding [basic]	W	**428,646**	438,503	437,852	**433,547**	437,577
Pro forma diluted average number of shares outstanding	X	**445,664**	454,908	453,394	**450,373**	453,115
Cumulative preferred share dividends during the period	Y	**8,103**	8,103	10,906	**16,206**	21,812
Other effects of dilution on an adjusted operating income basis	Z	**$ 1,587**	$ 1,634	$ 1,780	**$ 3,324**	$ 3,507
Net income per share [basic]	(A-Y)/W	**$ 0.17**	$ 0.20	$ 0.11	**$ 0.37**	$ 0.27
Net income per share [diluted]		**$ 0.17**	$ 0.20	$ 0.11	**$ 0.36**	$ 0.26
Book value per share	S/V	**$ 7.20**	$ 7.32	$ 7.30	**$ 7.20**	$ 7.30
After-tax adjusted operating income per share [basic]	(D1)/W	**$ 0.20**	$ 0.22	$ 0.19	**$ 0.42**	$ 0.40
After-tax pro forma diluted adjusted operating income per share	(D1+Z)/X	**$ 0.20**	$ 0.22	$ 0.19	**$ 0.41**	$ 0.40

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 June 30, 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	**126,512**		**0.30**
Less:			
Income taxes related to adjusted operating income	**(32,577)**		**(0.08)**
Preferred share dividends	**(8,103)**		**(0.02)**
After-tax adjusted operating income attributable to common shareholders	**85,832**	**428,646,160**	**0.20**
Dilution items:			
Employee stock option plan	**—**	**2,702,363**	**—**
Convertible debentures (after-tax net interest expense)	**1,587**	**14,315,353**	**—**
After-tax pro forma diluted adjusted operating income	**87,419**	**445,663,876**	**0.20**

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.

Net income margin

Net income margin is net income before taxes divided by net revenues.

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 June 30, 2021 and December 31, 2020, the results of operations, comprehensive income and cash flows for the three- and six-month periods ended June 30, 2021 and June 30, 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 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.

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 margin

Adjusted operating margin is the adjusted operating income before taxes for the period divided by the net revenue for the period.

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 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.

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.

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 common shareholders' equity

Average common shareholders' equity is calculated as the monthly average common shareholders' equity during 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 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 July 27, 2021, the Company had 416,433,871 common shares issued and outstanding. In addition, 7,286,843 options were issued and outstanding under the Company's stock option plan as at July 27, 2021. These convertible securities are convertible into, or exercisable for common shares of the Company of which 7,192,250 are exercisable at June 30, 2021 for proceeds to the Company upon exercise of $63.4 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,315,353 common shares.

As at July 27, 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 July 27, 2021.