

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

September 30, 2017

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[unaudited, in thousands of Canadian dollars]

	As at September 30, 2017 \$	As at December 31, 2016 \$
	<u> </u>	<u> </u>
ASSETS		
Cash	37,799	12,638
Restricted funds [notes 6 and 13]	472,439	606,461
Finance receivables [note 3]	12,885,673	13,454,011
Equipment under operating leases [note 4]	1,524,674	1,421,637
Accounts receivable and other assets [note 5]	340,348	435,901
Notes receivable [note 11]	19,551	22,078
Derivative financial instruments [note 13]	37,841	67,238
Property, equipment and leasehold improvements	71,581	80,742
Deferred tax assets	222,126	156,895
Intangible assets	814,555	880,420
Goodwill	1,200,134	1,282,643
	<u>17,626,721</u>	<u>18,420,664</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	555,980	552,794
Derivative financial instruments [note 13]	24,050	27,532
Secured borrowings [note 6]	12,347,134	12,983,535
Convertible debentures [note 7]	870,743	855,688
Deferred tax liabilities	42,621	19,761
	<u>13,840,528</u>	<u>14,439,310</u>
Shareholders' equity [note 8]	<u>3,786,193</u>	<u>3,981,354</u>
	<u>17,626,721</u>	<u>18,420,664</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars, except for per share amounts]

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016
	\$	\$
NET REVENUE		
Service and other revenue <i>[note 10]</i>	141,086	143,128
Interest income and rental revenue, net <i>[note 10]</i>	191,423	190,848
	332,509	333,976
Interest expense	96,225	88,306
Net revenue	236,284	245,670
OPERATING EXPENSES		
Salaries, wages and benefits	80,838	75,832
General and administrative expenses	38,984	43,257
Amortization of convertible debenture synthetic discount <i>[note 7]</i>	3,313	3,103
Share-based compensation <i>[note 9]</i>	5,800	7,109
	128,935	129,301
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	13,975	15,443
Transaction and integration costs	1,059	71,608
	15,034	87,051
Share of loss from and provision in joint venture <i>[note 5]</i>	9,108	—
Income before income taxes from continuing operations	83,207	29,318
Provision for (recovery of) income taxes	16,032	(6,326)
Net income for the period from continuing operations	67,175	35,644
Net income for the period from distributed operations <i>[note 18]</i>	—	1,225
Net income for the period	67,175	36,869
Basic <i>[note 12]</i>		
Continuing operations	\$ 0.15	\$ 0.07
Distributed operations	\$ —	\$ —
Total basic earnings per share	\$ 0.15	\$ 0.07
Diluted <i>[note 12]</i>		
Continuing operations	\$ 0.15	\$ 0.07
Distributed operations	\$ —	\$ —
Total diluted earnings per share	\$ 0.15	\$ 0.07

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[unaudited, in thousands of Canadian dollars, except for per share amounts]

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	\$	\$
NET REVENUE		
Service and other revenue <i>[note 10]</i>	442,158	435,229
Interest income and rental revenue, net <i>[note 10]</i>	559,903	587,364
	<u>1,002,061</u>	<u>1,022,593</u>
Interest expense	279,822	257,779
Net revenue	<u>722,239</u>	<u>764,814</u>
OPERATING EXPENSES		
Salaries, wages and benefits	235,041	222,207
General and administrative expenses	123,246	136,649
Amortization of convertible debenture synthetic discount <i>[note 7]</i>	9,779	9,159
Share-based compensation <i>[note 9]</i>	15,425	19,635
	<u>383,491</u>	<u>387,650</u>
BUSINESS ACQUISITION AND SEPARATION COSTS		
Amortization of intangible assets from acquisitions	43,569	46,742
Transaction and integration costs	68,420	124,155
	<u>111,989</u>	<u>170,897</u>
Share of loss from and provision in joint venture <i>[note 5]</i>	60,227	—
Income before income taxes from continuing operations	166,532	206,267
Provision for income taxes	10,425	20,017
Net income for the period from continuing operations	<u>156,107</u>	<u>186,250</u>
Net income for the period from distributed operations <i>[note 18]</i>	—	51,721
Net income for the period	<u>156,107</u>	<u>237,971</u>
Basic <i>[note 12]</i>		
Continuing operations	\$ 0.33	\$ 0.41
Distributed operations	\$ —	\$ 0.13
Total basic earnings per share	<u>\$ 0.33</u>	<u>\$ 0.55</u>
Diluted <i>[note 12]</i>		
Continuing operations	\$ 0.32	\$ 0.41
Distributed operations	\$ —	\$ 0.13
Total diluted earnings per share	<u>\$ 0.32</u>	<u>\$ 0.54</u>

See accompanying notes

Element Fleet Management Corp.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

[unaudited, in thousands of Canadian dollars]

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016
	\$	\$
Net income for the period	67,175	36,869
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	(6,076)	27,465
Net unrealized foreign exchange gain (loss)	(183,919)	72,803
	(189,995)	100,268
Deferred income tax expense (recovery)	(1,581)	7,596
Total other comprehensive income (loss) from continuing operations	(188,414)	92,672
Total other comprehensive income from distributed operations, net of tax	—	10,909
Total other comprehensive income (loss)	(188,414)	103,581
Comprehensive income (loss) for the period	(121,239)	140,450

See accompanying notes

Element Fleet Management Corp.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

[unaudited, in thousands of Canadian dollars]

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	\$	\$
Net income for the period	156,107	237,971
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	(51,832)	17,062
Net unrealized foreign exchange loss	(299,620)	(325,767)
	(351,452)	(308,705)
Deferred income tax expense (recovery)	(13,888)	3,536
Total other comprehensive loss from continuing operations	(337,564)	(312,241)
Total other comprehensive loss from distributed operations, net of tax	—	(38,825)
Total other comprehensive loss	(337,564)	(351,066)
Comprehensive loss for the period	(181,457)	(113,095)

See accompanying notes

Element Fleet Management Corp.

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

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2016	2,803,336	533,656	46,200	78,974	232,836	286,352	3,981,354
Comprehensive income (loss) for the period	—	—	—	—	156,107	(337,564)	(181,457)
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(30,233)	—	(30,233)
Dividends - Common shares	—	—	—	—	(68,017)	—	(68,017)
Net taxes on dividends paid	—	—	—	—	(818)	—	(818)
Options exercised <i>[notes 8 and 9]</i>	15,452	—	—	(7,821)	—	—	7,631
Issuance of shares, net of share issue costs	—	146,756	—	—	—	—	146,756
Shares repurchased for cancellation <i>[note 8]</i>	(65,318)	—	—	(13,599)	—	—	(78,917)
Employee stock option expense <i>[note 9]</i>	—	—	—	9,894	—	—	9,894
Balance, September 30, 2017	2,753,470	680,412	46,200	67,448	289,875	(51,212)	3,786,193
Balance, December 31, 2015	4,229,848	533,656	46,200	61,867	160,777	684,735	5,717,083
Comprehensive income (loss) for the period	—	—	—	—	237,971	(351,066)	(113,095)
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(26,736)	—	(26,736)
Dividends - Common shares	—	—	—	—	(28,975)	—	(28,975)
Net taxes on dividends paid	—	—	—	—	(750)	—	(750)
Options exercised <i>[notes 8 and 9]</i>	4,475	—	—	(2,187)	—	—	2,288
Employee stock option expense <i>[note 9]</i>	—	—	—	18,369	—	—	18,369
Distribution dividend	(1,444,448)	—	—	—	(266,025)	—	(1,710,473)
Balance, September 30, 2016	2,789,875	533,656	46,200	78,049	76,262	333,669	3,857,711

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited, in thousands of Canadian dollars]

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	\$	\$
OPERATING ACTIVITIES <i>[note 17]</i>		
Net income for the period from continuing operations	156,107	186,250
Items not affecting cash		
Share-based compensation <i>[note 9]</i>	9,895	14,023
Depreciation of property, equipment and leasehold improvements	8,309	5,990
Amortization of intangible assets, including from acquisitions	46,660	50,012
Amortization of deferred lease costs	14,349	8,775
Amortization of deferred financing costs	24,084	20,883
Depreciation of equipment under operating leases	272,253	253,787
Amortization of convertible debenture synthetic discount and deferred costs	15,055	14,350
Write-off of intangible assets and other assets	—	3,500
Share of loss from joint venture investment	60,227	—
Share of loss (earnings) from other equity accounted investments	(13,770)	13,787
Recovery of (provision for) credit losses	287	(4,734)
	<u>593,456</u>	<u>566,623</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(4,470,076)	(4,432,684)
Repayments of finance receivables	3,650,338	4,376,662
Investment in equipment under operating leases	(556,100)	(479,192)
Proceeds on disposal of equipment under operating leases	181,099	217,328
Syndications of finance receivables	471,906	289,497
Other non-cash operating assets and liabilities <i>[note 17]</i>	25,201	(229,107)
Cash provided by (used in) operating activities - continuing operations	<u>(104,176)</u>	<u>309,127</u>
INVESTING ACTIVITIES <i>[note 17]</i>		
Business acquisition	(329)	14,699
Proceeds from managed fund	24,064	—
Investment in non-consolidated companies	(9,553)	—
Decrease (increase) in restricted funds	96,952	(208,555)
Purchase of property, equipment and leasehold improvements	(8,419)	(39,328)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	2,367	3,682
Purchase of intangible assets	(33,457)	(39,084)
Decrease in notes receivable	2,527	2,078
Decrease (increase) in deferred financing costs	(29,275)	(38,478)
Cash provided by (used in) investing activities - continuing operations	<u>44,877</u>	<u>(304,986)</u>
FINANCING ACTIVITIES <i>[note 17]</i>		
Issuance of share capital, net <i>[note 8]</i>	154,387	2,288
Shares repurchased	(78,917)	—
Issuance of secured borrowings, net	105,004	97,992
Dividends paid	(94,753)	(55,711)
Cash provided by financing activities - continuing operations	<u>85,721</u>	<u>44,569</u>
Effects of foreign exchange rates on cash	(1,261)	(911)
Net changes in cash used in distributed operations <i>[note 17]</i>	<u>—</u>	<u>(101,819)</u>
Net increase (decrease) in cash during the period	25,161	(54,020)
Cash, beginning of period	12,638	56,764
Cash, end of period from continuing operations	<u>37,799</u>	<u>2,744</u>
Supplemental cash flow information:		
Cash taxes paid	28,345	18,710
Cash interest paid	268,223	224,740

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

1. CORPORATE INFORMATION

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

On February 16, 2016, the Board of Directors of Element Financial Corporation approved a plan to separate Element into two publicly-traded companies [the "Separation"]. The plan involved the separation of the portion of Element and its subsidiaries comprising the Commercial and Vendor ["C&V"] Finance, Rail Finance and Aviation Finance verticals from the existing corporate structure into ECN Capital Corp. ["ECN Capital"], a newly created publicly traded company. The Separation was effective on October 3, 2016. On the Separation, common shareholders were granted one common share of Element Fleet and one common share of ECN Capital in exchange for each Element share.

Element Fleet is a publicly traded fleet management company with more than \$17.6 billion in assets and operations in the U.S., Canada, Mexico, Australia and New Zealand. Element Fleet is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 2,800 customers optimize their fleet performance and productivity.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016, which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 8, 2017.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

3. FINANCE RECEIVABLES

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

	September 30, 2017			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,483,177	10,554,821	272,687	12,310,685
Unguaranteed residual values	—	24,035	70,577	94,612
Gross investment	1,483,177	10,578,856	343,264	12,405,297
Unearned income	(149,164)	(762,489)	(35,302)	(946,955)
Net investment	1,334,013	9,816,367	307,962	11,458,342
Net realizable value of impaired receivables	473	5,248	3,385	9,106
Unamortized deferred costs and subsidies	(5,255)	(102,024)	—	(107,279)
Prepaid lease payments and security deposits	(5,526)	(67,249)	(27,130)	(99,905)
Interim fundings	44,950	705,786	607	751,343
Fleet management service receivables	86,943	553,195	53,959	694,097
Other receivables	1,516	102,545	81,741	185,802
Allowance for credit losses	(1,334)	(2,727)	(1,772)	(5,833)
Total finance receivables	1,455,780	11,011,141	418,752	12,885,673

	December 31, 2016			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,465,962	11,410,387	292,910	13,169,259
Unguaranteed residual values	—	12,789	72,901	85,690
Gross investment	1,465,962	11,423,176	365,811	13,254,949
Unearned income	(115,729)	(733,527)	(33,160)	(882,416)
Net investment	1,350,233	10,689,649	332,651	12,372,533
Net realizable value of impaired receivables	635	1,499	1,029	3,163
Unamortized deferred costs and subsidies	(6,322)	(123,184)	(323)	(129,829)
Prepaid lease payments and security deposits	(7,385)	(6,201)	(13,982)	(27,568)
Interim fundings	58,450	422,960	1,669	483,079
Fleet management service receivables	79,457	496,526	47,865	623,848
Other receivables	693	72,564	61,609	134,866
Allowance for credit losses	(1,350)	(2,985)	(1,746)	(6,081)
Total finance receivables	1,474,411	11,550,828	428,772	13,454,011

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

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

	September 30, 2017 (1)		December 31, 2016	
	\$	%	\$	%
31-60 days past due	9,492	0.08	2,057	0.02
61-90 days past due	2,281	0.02	250	0.00
Greater than 90 days past due	2,182	0.02	360	0.00
Total past due	13,955	0.12	2,667	0.02
Current	11,444,387	99.88	12,369,866	99.98
Total net investment	11,458,342	100.00	12,372,533	100.00

- (1) At September 30, 2017, \$9,340 of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover for losses.

Selected characteristics of the finance receivables

	September 30, 2017		December 31, 2016 (1)	
	Leases	Loans (2)	Leases	Loans (2)
Net investment	\$ 10,601,949	\$ 856,393	\$ 11,484,494	\$ 888,039
Weighted average fixed interest rate	3.95%	5.54%	4.01%	5.29%
Weighted average floating interest rate	3.87%	9.85%	3.26%	8.83%
Percentage of portfolio with fixed interest rate	46.23%	97.84%	45.09%	94.23%

- (1) December 31, 2016 leases and loans have been reclassified, and the weighted average interest rates adjusted, to reflect the characterization of the loans provided to the joint venture, instead of the assets contributed.
(2) Included are loans to 19th Capital joint venture of \$777,167, which have a weighted average fixed interest rate of 5.50% [December 31, 2016 - \$829,976, weighted average fixed interest rate of 5.28%].

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

Allowance for credit losses

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

	Nine-month period ended September 30, 2017	Year ended December 31, 2016 (1)
	\$	\$
Allowance for credit losses, beginning of period	6,081	13,397
Provision for (recovery of) credit losses	287	(3,834)
Charge-offs, net of recoveries	(286)	(2,654)
Impact of foreign exchange rates	(249)	(828)
Allowance for credit losses, end of period	5,833	6,081
Allowance as a percentage of finance receivables	0.05%	0.05%
Finance receivables in arrears [90 days and over]	2,182	360
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.02%	0.00%
Impaired receivables, at estimated net realizable value	9,106	3,163

(1) Reflects amounts from continuing operation.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

4. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with equipment under operating leases and continues to recognize the leased assets in its interim condensed consolidated statements of financial position. The lease payments received, net of depreciation, are recognized in income as rental revenue, net.

	September 30, 2017	December 31, 2016
	\$	\$
Cost	1,955,211	1,725,800
Accumulated depreciation	430,537	304,163
Net carrying amount of equipment under operating leases	1,524,674	1,421,637

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

5. EQUITY ACCOUNTED INVESTMENTS

ECAF I Holdings Ltd.

The Company has a 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer. ECAF I Holdings Ltd. was accounted for using the equity method in the interim condensed consolidated financial statements of the Company. The carrying amount of the Company's investment is \$127,589 as at September 30, 2017 [December 31, 2016 – \$148,056] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position. For the three and nine-month periods ended September 30, 2017, the Company has recorded \$4,280 and \$13,770, respectively, of income from its investment in associates [three and nine-month periods ended September 30, 2016 – \$4,751 and \$14,445, respectively], which has been included in interest income on the interim condensed consolidated statements of operations.

Splend Holdings PTY Limited

On August 15, 2017, the Company acquired a 12.5% equity interest in Splend Holdings PTY Limited ["Splend"], a supplier of vehicles for on-demand rideshare and delivery services primarily operating in Australia, for Australian \$7,143 or Canadian \$7,124.

The Company's interest in Splend is accounted for using the equity method in the interim condensed consolidated financial statements of the Company. The following is a summary of financial information of the joint venture and a reconciliation with carrying amount of the investment in the consolidated financial statements:

	September 30, 2017
Summarized statement of financial position of Splend:	
Current assets	13,739
Non-current assets	24,513
Current liabilities	(2,469)
Non-current liabilities	(23,962)
Equity	11,821
Carry amount of the Company's investment (including goodwill of \$5,997)	<u>7,015</u>

The carrying amount of the Company's investment is \$7,015 as at September 30, 2017 [December 31, 2016 – \$nil] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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September 30, 2017

In addition, the Company has provided fleet management services and vehicle financing of \$10,156 to Splend at pricing consistent with similar customers of the Company, and commitments to provide additional fleet management services and vehicle financing in various currencies, at a current commitment of Canadian \$90,761 at September 30, 2017, and a maximum commitment of Canadian \$207,202 subject to the maintenance of specific terms, conditions and covenants.

For the three and nine-month periods ended September 30, 2017, the Company has recorded \$26 and \$26, respectively, of income from its investment in associate [three and nine-month periods ended September 30, 2016 – \$nil and \$nil, respectively], which has been included in service and other revenue on the interim condensed consolidated statements of operations.

19th Capital Group LLC

The Company has a 49.99% interest in 19th Capital Group LLC ["19th Capital"], a joint venture involved in the leasing of highway tractors in the U.S. The Company's interest in 19th Capital is accounted for using the equity method in the interim condensed consolidated financial statements. The carrying amount of the Company's investment is \$69,045 as at September 30, 2017 [December 31, 2016 – \$135,846] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

In addition, the Company has provided \$777,167 in loans to the joint venture that have a weighted average fixed interest rate of 5.5% [December 31, 2016 – \$829,976 at 5.28% interest rate]. The loans consist of [a] term loans of \$757,480 that have a weighted average fixed interest rate of 5.47% [December 31, 2016 – \$829,976 at 5.28%], with a latest maturity of December 31, 2023 and are secured by highway tractors and related leases; and [b] a revolving line of credit for working capital of \$19,687 at 7.00% [December 31, 2016 – \$nil]. The remaining available for draw on the unsecured line of credit was U.S. \$38 [December 31, 2016 – U.S. \$16,630].

For the three and nine-month periods ended September 30, 2017, the Company has recorded \$9,108 and \$60,227, respectively, of non-cash losses from its investment in 19th Capital [three and nine-month periods ended September 30, 2016 – nil and nil, respectively]. Included in the Company's non-cash losses from its investment in 19th Capital are \$9,108 and \$21,725 of operating losses, and \$5,599 and \$8,502 of losses on certain assets recognized in the joint ventures financial statements of which \$5,599 of losses for the three and nine-month periods ended September 30, 2017, were applied against the reserve of \$30,000 on certain assets the Company provided for during the second quarter of 2017.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

September 30, 2017

6. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	September 30, 2017			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	2,471,350	2.19	2,608,202	51,434
Term notes, in revolving period	2,742,080	1.97	2,893,923	28,244
Variable-funding notes	4,020,613	2.10	4,251,252	42,722
Other	2,762	5.09	2,762	—
Vehicle management asset-backed debt	9,236,805	2.09	9,756,139	122,400
Term senior credit facility (2)	3,163,214	2.56	—	—
	12,400,019	2.21	9,756,139	122,400
Deferred financing costs	(52,885)			
Total secured borrowings	12,347,134			
	December 31, 2016			
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	3,001,980	1.52	3,207,420	63,987
Term notes, in revolving period	2,260,838	2.03	2,377,640	29,446
Variable-funding notes	4,786,118	1.70	5,113,658	58,037
Other	2,123	4.62	2,123	—
Vehicle management asset-backed debt	10,051,059	1.72	10,700,841	151,470
Term senior credit facility (2)	2,978,122	2.56	—	—
	13,029,181	1.91	10,700,841	151,470
Deferred financing costs	(45,646)			
Total secured borrowings	12,983,535			

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

(2) The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at September 30, 2017.

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Vehicle management asset-backed debt

Term notes, in amortization period

During the first and second quarters of 2017, US \$700 million and US \$1,000 million, respectively, of revolving notes were converted into amortizing term notes.

During the second and third quarters of 2017, US \$1,039 million and US \$316 million, respectively, of amortizing term notes were repaid using available capacity from variable funding notes.

Term notes, in revolving period

During the first and second quarter of 2017, US \$700 million and US \$1,000 million, respectively, of revolving notes were converted into amortizing term notes.

During the second and third quarter of 2017, the Company issued US \$1,200 million and US \$1,000 million, respectively, of revolving term notes. The proceeds from these issuances were used to pay down variable-funding notes.

Variable-funding notes

During the first quarter of 2017, the Company renegotiated an existing variable-funding note program, and an additional series of variable funding notes was issued with commitments thereunder to become effective on April 7, 2017. The new series was established to facilitate the combination of Chesapeake Funding LLC and Chesapeake Funding II LLC. As part of the combination, Chesapeake Funding II LLC became the surviving entity for legal and tax purposes.

As at September 30, 2017, the Company has available capacity in variable-funding notes and other of \$3,648,662 [December 31, 2016 – \$4,156,828] under its vehicle management asset-backed debt facilities.

Term senior credit facility

As at September 30, 2017, the Company had available capacity of \$887,586 [December 31, 2016 – \$1,721,328] from the term senior credit facility.

Restricted funds

Restricted funds include [i] cash reserves of \$122,400 as at September 30, 2017 [December 31, 2016 – \$151,470], which represent restricted collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of \$344,979 as at September 30, 2017 [December 31, 2016 – \$452,421], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

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7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

		September 30, 2017					
Final maturity date	Conversion price per share (2)	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	13.98	5.125	345,000	(4,472)	(13,398)	327,130
Issued on May 29, 2015	June 30, 2020	18.65	4.250	575,000	(13,597)	(17,790)	543,613
				920,000	(18,069)	(31,188)	870,743
		December 31, 2016					
Final maturity date	Conversion price per share	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	14.18	5.125	345,000	(6,253)	(18,626)	320,121
Issued on May 29, 2015	June 30, 2020	18.91	4.250	575,000	(17,092)	(22,341)	535,567
				920,000	(23,345)	(40,967)	855,688

(1) Stated interest rate on principal face value.

(2) The conversion price was adjusted on June 28, 2017, the ex-dividend date for dividends to be paid on July 14, 2017, to \$13.98488 for the June 18, 2014 issuance and \$18.64650 for the May 29, 2015 issuance.

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8. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2016	387,116,660	2,803,336
Exercise of options	1,909,028	15,452
Shares repurchased	(9,014,600)	(65,318)
Balance, September 30, 2017	380,011,088	2,753,470
Balance, December 31, 2015	386,134,550	4,229,848
Exercise of options	982,110	6,436
Share issue costs, adjustment	—	11,500
Distribution dividend (allocated share capital)	—	(1,444,448)
Balance, December 31, 2016	387,116,660	2,803,336

Shares repurchased

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid [the "NCIB"]. The NCIB allows the Company to repurchase on the open market [or as otherwise permitted], at its discretion during the period commencing on June 12, 2017 and ending on the earlier of June 11, 2018 and the completion of purchases under the NCIB, up to 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the three and nine-month periods ended September 30, 2017, 7,754,800 and 9,014,600 common shares have been repurchased for cancellation for \$67,822 and \$78,917 at a volume weighted average price of \$8.75 and \$8.75 per common share, respectively.

Common share dividends

During the three and nine-month periods ended September 30, 2017, the Company paid \$29,177 and \$68,017, respectively, in common share dividends, or \$0.075 and \$0.175 per common share, respectively [three and nine-month periods ended September 30, 2016 - \$9,668 and \$28,975, respectively, or \$0.025 and \$0.075 per common share, respectively].

As at September 30, 2017, un-accrued common share dividends were \$28,501 or \$0.075 per common share [December 31, 2016 - \$9,678 or \$0.025 per common share].

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	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Preferred Shares, Series G		Preferred Shares, Series I	
	Shares	Amount								
	#	\$	#	\$	#	\$	#	\$	#	\$
Balance, December 31, 2016	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	—	—
Issuance of shares, net of costs	—	—	—	—	—	—	—	—	6,000,000	146,756
Balance, Sept 30, 2017	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	6,000,000	146,756

Preferred shares

On May 5, 2017, the Company issued, through a public offering, 6,000,000 5.75% Cumulative 5-Year Rate Reset Preferred Shares, Series I ["Series I shares"] at a price of \$25.00 per preferred share for gross proceeds of \$150,000. The issuance included pre-tax transaction costs of \$4,423 [or after-tax transaction costs of \$3,244].

For each five-year period, holders of the Series I shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.64%, provided that, in any event, the annual fixed dividend rate shall not be less than 5.75%. The Company will have the right to redeem the Series I shares on June 30, 2022, and on June 30 every five years thereafter for \$25 per Series I share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series I shares, the holders of the Series I shares will have the right on June 30, 2022, and on June 30 every five years thereafter, to convert all or any of the Series I shares into Series J shares, on the basis of one Series J share for each Series I share converted. Holders of Series J shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.64%.

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Preferred share dividends

During the three and nine-month periods ended September 30, 2017, the Company paid \$8,912 and \$26,736, respectively, in preference share dividends [three and nine-month periods ended September 30, 2016 – \$8,912 and \$26,736, respectively].

As at September 30, 2017, the un-accrued cumulative preference share dividends were \$122 [December 31, 2016 – \$98].

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9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the periods ended:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
[a] Stock options	3,221	4,768	9,894	14,023
[b] Deferred share units	425	1,348	3,121	3,536
[c] Performance share units	1,085	7,042	(1,403)	22,405
[d] Restricted share units	1,069	—	2,793	—
	5,800	13,158	14,405	39,964
Allocated as:				
Share-based compensation (1)	5,800	7,109	15,425	19,635
Transaction and integration costs	—	6,049	2,884	20,329
Other revenue (2)	—	—	(3,904)	—
	5,800	13,158	14,405	39,964

(1) Excluded in the three and nine-month periods ended September 30, 2016 is \$1,314 and \$4,346 of stock option expenses, respectively, and \$1,775 and \$2,627 of PSU expenses, respectively, for share-based compensation recognized in the net income from distributed operations.

(2) During the nine-month period ended September 30, 2017, a PSU liability expired without vesting for a participant from ECN Capital Corp. The original expense for this PSU was recognized in discontinued operations and was not included as share-based compensation in the statement of operations of the Company. As a result, the reversal of the liability was recorded to other revenue.

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[a] Stock options

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

	Number of options #	Weighted average exercise price (2) \$
Outstanding, December 31, 2015	22,353,854	12.31
Granted	4,083,574	12.18
Forfeited	(404,797)	14.52
Expired	(64,190)	11.75
Exercised (1)	(1,230,879)	5.22
Outstanding, December 31, 2016	24,737,562	10.37
Granted	963,639	12.73
Forfeited	(184,301)	12.93
Expired	(360,877)	12.33
Exercised (1)	(3,297,088)	7.71
Outstanding, September 30, 2017	21,858,935	10.82

(1) Weighted average share price of options exercised during the nine-month period ended September 30, 2017 was \$12.99 [year ended December 31, 2016 – \$14.25].

(2) On October 3, 2016, upon the Separation, the exercise price of an Element Fleet option was adjusted to approximately 79.4% of the original exercise price. At the time of the Separation there were 22,556,684 options outstanding with a weighted average strike price of \$12.61, and the weighted average share price on these options was adjusted to \$10.02.

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The fair value of the options granted during the periods was determined using the Black-Scholes option valuation model with inputs to the model as follows:

	Unit	Nine-month period ended September 30, 2017	Year ended December 31, 2016
Weighted average share price	\$	12.73	13.17
Average term to exercise	Years	7.0	7.0
Share price volatility	%	29.0	33.1
Weighted average expected annual dividend	\$	0.30	0.10
Risk-free interest rate	%	1.40	1.21
Forfeiture rate	%	1.02	1.02

[b] Deferred share units, performance share units and restricted share units

	Deferred share units #	Performance share units #	Performance share units referenced to ECN Capital Corp. #	Restricted share units #
Outstanding, December 31, 2015	1,450,521	2,222,952	—	—
Granted	210,115	141,922	—	636,352
Issued on Separation	379,641	—	1,386,576	—
Forfeited	—	(48,187)	(2,206)	—
Redeemed	(335,266)	(984,916)	(57,418)	—
Outstanding, December 31, 2016	1,705,011	1,331,771	1,326,952	636,352
Granted	130,959	270,543	3,699	233,864
Forfeited	—	(249,187)	(248,176)	—
Redeemed	(294,421)	(1,086,290)	(1,082,475)	—
Outstanding, September 30, 2017	1,541,549	266,837	—	870,216

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[i] Deferred share units ["DSU"]

As at September 30, 2017, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$14,259 [December 31, 2016 – \$21,244].

[ii] Performance share units ["PSU"]

As at September 30, 2017, 266,837 EFN PSUs and nil ECN Capital PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$1,329 [December 31, 2016 – 1,331,771 EFN PSUs and 1,326,952 ECN Capital PSUs and \$18,770 of liabilities]. Certain PSUs issued during 2017 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2017, 2018 and 2019.

[iii] Restricted share units ["RSU"]

As at September 30, 2017, 870,216 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$3,169 [December 31, 2016 – 636,352 RSUs and \$376 of liabilities]. The RSUs outstanding will vest over one, two and three years.

[iv] Hedging of DSUs, PSUs and RSUs

As at September 30, 2017, the Company has hedged 2,451,192 Element Fleet referenced share units and nil ECN Capital referenced share units, with net derivative liabilities of \$6,095, which will be applied to the settlement of PSU, RSU and DSU awards [December 31, 2016 – 1,399,652 EFN and 1,326,953 ECN Capital referenced share units hedged and net derivative liabilities of \$2,078 for PSU and RSU awards].

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10. REVENUES

Service and other revenue, includes fuel cards, accident management services and maintenance services revenues. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third party lessor. The comparative periods have been adjusted to reflect removing internal expenses related to service delivery from service and other revenue to salaries, wages and benefits, and general and administrative expenses to be consistent with the current period presentation. The adjustment for internal expenses for the three and nine-month comparative periods ended September 30, 2016 were \$15,378 and \$46,763, respectively.

Interest income and rental revenue, net consists of the following:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Interest income	163,360	165,173	476,482	503,171
Provision for (recovery of) credit losses <i>[note 3]</i>	309	237	287	(4,734)
Interest income, net	163,051	164,936	476,195	507,905
Rental revenue	118,303	109,933	355,961	333,246
Depreciation of equipment under operating leases	(89,931)	(84,021)	(272,253)	(253,787)
Rental revenue, net	28,372	25,912	83,708	79,459
Interest income and rental revenue, net	191,423	190,848	559,903	587,364

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11. NOTES RECEIVABLE

The notes receivable of \$19,551 as at September 30, 2017 [December 31, 2016 – \$22,078] represent loans to certain employees and officers of the Company. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. The loans were granted in order to help finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee.

The changes in the notes receivable during the periods were as follows:

	Nine-month period ended September 30, 2017	Year ended December 31, 2016
	\$	\$
Notes receivable, beginning of period	22,078	50,819
Additions	—	6,060
Interest income	418	1,236
Repayments [interest and principal]	(2,945)	(5,176)
Transferred to ECN Capital Corp. on separation	—	(30,861)
Notes receivable, end of period	19,551	22,078

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12. EARNINGS PER SHARE

Basic earnings per share are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income from continuing operations attributable to shareholders	\$ 67,175	\$ 35,644	\$ 156,107	\$ 186,250
Cumulative dividends on preferred shares	\$ (11,068)	\$ (8,912)	\$ (30,233)	\$ (26,736)
Net income from continuing operations available to common shareholders	\$ 56,107	\$ 26,732	\$ 125,874	\$ 159,514
Net income from distributed operations attributable to common shareholders	\$ —	\$ 1,225	\$ —	\$ 51,721
Total net income attributable to common shareholders	\$ 56,107	\$ 27,957	\$ 125,874	\$ 211,235
Weighted average number of common shares outstanding – basic [number]	384,939,305	386,741,904	387,194,304	386,389,018
Basic earnings per share from continuing operations	\$ 0.15	\$ 0.07	\$ 0.33	\$ 0.41
Basic earnings per share from distributed operations	\$ —	\$ —	\$ —	\$ 0.13
Total basic earnings per share	\$ 0.15	\$ 0.07	\$ 0.33	\$ 0.55

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Diluted earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income from continuing operations available to common shareholders adjusted for the effects of dilution	\$ 56,107	\$ 26,732	\$ 125,874	\$ 159,514
Net income from distributed operations available to common shareholders adjusted for the effects of dilution	\$ —	\$ 1,225	\$ —	\$ 51,721
Total net income available to common shareholders adjusted for the effects of dilution	\$ 56,107	\$ 27,957	\$ 125,874	\$ 211,235
Weighted average number of common shares outstanding – basic [number]	384,939,305	386,741,904	387,194,304	386,389,018
Dilutive stock options and warrants [number]	1,734,789	3,832,710	2,649,796	4,193,125
Weighted average number of common shares outstanding – diluted [number]	386,674,094	390,574,614	389,844,100	390,582,143
Diluted earnings per share from continuing operations	\$ 0.15	\$ 0.07	\$ 0.32	\$ 0.41
Diluted earnings per share from distributed operations	\$ —	\$ —	\$ —	\$ 0.13
Total diluted earnings per share	\$ 0.15	\$ 0.07	\$ 0.32	\$ 0.54

Instruments outstanding as at September 30, 2017 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 17,611,707 and 15,096,425 stock options for the three and nine-month periods ended September 30, 2017 [three and nine-month periods ended September 30, 2016 – 11,811,913 and 11,796,862 stock options, respectively].

In addition, the convertible debentures [note 7] were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three and nine-month periods ended September 30, 2017 and 2016.

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13. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposure to share-based compensation.

Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the periods ended:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Foreign exchange agreements recorded in other revenues	(10,147)	1,687	(16,111)	(28,679)
Fair value changes recorded in other comprehensive income (loss)	(6,076)	27,465	(51,832)	17,062

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Notional amounts and fair values of derivative instruments

The following table summarizes the notional principal and fair values of the derivative financial instruments outstanding:

	September 30, 2017	December 31, 2016
	\$	\$
Notional principal		
Derivative assets		
Interest rate contracts	4,499,995	3,981,063
Foreign exchange agreements	922,902	553,394
Derivative assets	<u>5,422,897</u>	<u>4,534,457</u>
Derivative liabilities		
Interest rate contracts	3,286,163	3,271,452
Foreign exchange agreements	404,494	385,843
Total return swaps	28,769	24,128
Derivative liabilities	<u>3,719,426</u>	<u>3,681,423</u>
Fair values		
Restricted funds - collateral	<u>5,060</u>	2,570
Derivative assets		
Interest rate contracts	24,728	27,298
Foreign exchange agreements	13,113	39,940
Derivative assets	<u>37,841</u>	<u>67,238</u>
Derivative liabilities		
Interest rate contracts	17,071	24,173
Foreign exchange agreements	884	1,281
Total return swaps	6,095	2,078
Derivative liabilities	<u>24,050</u>	<u>27,532</u>

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Fair values of derivatives designated in hedging relationships

The following table summarizes the fair values of the derivative financial instruments designated in an accounting hedging relationship, as at:

	September 30, 2017	December 31, 2016
	\$	\$
Interest rate contracts	7,657	3,125
Foreign exchange agreements	12,229	38,659
Total return swaps	(6,095)	(2,078)
	13,791	39,706

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Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the interim condensed consolidated statements of financial position; the net amounts presented in the interim condensed consolidated statements of financial position; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount mentioned above; and the amount of cash collateral received or pledged.

	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
				Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	\$	\$	\$	\$	\$	\$
As at September 30, 2017						
Derivative financial instrument assets	37,841	—	37,841	15,751	—	22,090
Derivative financial instrument liabilities	24,050	—	24,050	15,751	5,060	3,239
As at December 31, 2016						
Derivative financial instrument assets	67,238	—	67,238	21,770	—	45,468
Derivative financial instrument liabilities	27,532	—	27,532	21,770	2,570	3,192

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14. CAPITAL DISCLOSURES

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

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

	September 30, 2017	December 31, 2016
	\$	\$
Secured borrowings	12,347,134	12,983,535
Convertible debentures	870,743	855,688
Total debt	13,217,877	13,839,223
Shareholders' equity	3,786,193	3,981,354
	17,004,070	17,820,577

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15. SEGMENTED INFORMATION

[A] Operating Segments

Post Separation, certain assets have remained with or acquired by Element that are not considered pure fleet assets and/or typical earnings assets in a pure fleet management company. Assets have remained from Separation for various commercial and structuring reasons, and the related strategy for each is dependent upon many factors including, but not limited to, cross-selling opportunities with core fleet services, current and expected market conditions related to valuation, and overall risk relative to the size of the Company.

Due to the differing characteristics of these assets and operations from pure fleet management, the Company amended its internal management reporting process during fiscal 2017, resulting in the Company moving from a single segment to two operating and reporting segments consisting of [a] the Fleet Management segment and, [b] the Non-Core segment. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, adjusted operating income, return on tangible equity and leverage.

Segmented Operating Results

	Three-month period ended September 30, 2017			Three-month period ended September 30, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Service and other revenue	134,902	6,184	141,086	142,762	366	143,128
Interest and rental revenue, net	169,903	21,520	191,423	160,000	30,848	190,848
	304,805	27,704	332,509	302,762	31,214	333,976
Interest expense	85,739	10,486	96,225	76,518	11,788	88,306
Net revenue	219,066	17,218	236,284	226,244	19,426	245,670
Operating Expenses						
Salaries, wages and benefits	79,980	858	80,838	75,506	326	75,832
General and administrative expenses	38,412	572	38,984	41,723	1,534	43,257
	118,392	1,430	119,822	117,229	1,860	119,089
Net segment operating income (before tax)	100,674	15,788	116,462	109,015	17,566	126,581
Share of loss from joint venture	—	9,108	9,108	—	—	—
Net segment income (before tax)	100,674	6,680	107,354	109,015	17,566	126,581
Share-based compensation			5,800			7,109
Amortization of convertible debenture synthetic discount			3,313			3,103
Business acquisition and separation costs			15,034			87,051
Provision for (recovery) income taxes			16,032			(6,326)
Net income for the period from continuing operations			67,175			35,644

Element Fleet Management Corp.

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	Nine-month period ended September 30, 2017			Nine-month period ended September 30, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Service and other revenue	406,737	35,421	442,158	412,405	22,824	435,229
Interest and rental revenue, net	496,401	63,502	559,903	489,219	98,145	587,364
	903,138	98,923	1,002,061	901,624	120,969	1,022,593
Interest expense	247,617	32,205	279,822	225,726	32,053	257,779
Net revenue	655,521	66,718	722,239	675,898	88,916	764,814
Operating Expenses						
Salaries, wages and benefits	232,411	2,630	235,041	221,215	992	222,207
General and administrative expenses	121,403	1,843	123,246	132,128	4,521	136,649
	353,814	4,473	358,287	353,343	5,513	358,856
Net segment operating income (before tax)	301,707	62,245	363,952	322,555	83,403	405,958
Share of loss from joint venture	—	60,227	60,227	—	—	—
Net segment income (before tax)	301,707	2,018	303,725	322,555	83,403	405,958
Share-based compensation			15,425			19,635
Amortization of convertible debenture synthetic discount			9,779			9,159
Business acquisition and separation costs			111,989			170,897
Provision for (recovery) income taxes			10,425			20,017
Net income for the period from continuing operations			156,107			186,250

Segmented Financial Position

	As at September 30, 2017			As at December 31, 2016		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select balance sheet information						
Finance receivables	12,002,525	883,148	12,885,673	12,555,776	898,235	13,454,011
Equipment under operating leases	1,524,674	—	1,524,674	1,421,637	—	1,421,637
Investment in joint venture (1)	—	69,045	69,045	—	135,846	135,846
Other earning assets (1)	—	122,346	122,346	—	170,889	170,889
Goodwill and intangible assets	2,014,689	—	2,014,689	2,163,063	—	2,163,063
Total select segment assets	15,541,888	1,074,539	16,616,427	16,140,476	1,204,970	17,345,446
Corporate assets			1,010,294			1,075,218
Total assets			17,626,721			18,420,664

(1) Included in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

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[B] Geographic information

The Company primarily operates in Canada, the US and Other.

Geographic information for the periods ended is as follows:

	September 30, 2017				September 30, 2016			
	Canada	US	Other	Total	Canada	US	Other	Total
For the three-month period ended	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue excluding interest expense from continuing operations	33,292	234,273	64,944	332,509	33,751	227,957	72,268	333,976
Interest expense from continuing operations				(96,225)				(88,306)
Net revenue from continuing operations				236,284				245,670
For the nine-month period ended								
Net revenue excluding interest expense from continuing operations	116,706	695,800	189,555	1,002,061	93,208	705,443	223,942	1,022,593
Interest expense from continuing operations				(279,822)				(257,779)
Net revenue from continuing operations				722,239				764,814

	September 30, 2017				December 31, 2016			
	Canada	US	Other	Total	Canada	US	Other	Total
As at	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	1,455,780	11,011,141	418,752	12,885,673	1,474,411	11,550,828	428,772	13,454,011
Equipment under operating leases	—	—	1,524,674	1,524,674	—	—	1,421,637	1,421,637
Goodwill and intangible assets (1)	201,639	1,783,703	29,347	2,014,689	203,362	1,932,035	27,666	2,163,063
Property, equipment and leasehold improvements	5,288	51,758	14,535	71,581	8,559	55,373	16,810	80,742
	1,662,707	12,846,602	1,987,308	16,496,617	1,686,332	13,538,236	1,894,885	17,119,453

(1) December 31, 2016 has been retrospectively adjusted to reflect finalization of purchase price allocation, including segment allocation for the acquisition of CEI Capital Group, Inc.

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

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the purposes of fair value disclosures, financial instruments have been separated into the following classes: finance lease receivables, finance loans receivable, secured borrowings on finance receivables, convertible debentures, notes receivable, and derivatives.

Valuation methods and assumptions

Finance lease receivables

The carrying value of finance lease receivables approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Finance loans receivables

The carrying value of finance loans receivables was \$856,393 and the estimated fair value was \$845,137 as at September 30, 2017 [December 31, 2016 – \$888,039 and \$888,039, respectively]. Included in the carrying value as at September 30, 2017 is \$777,167 related to loans provided to the 19th Capital joint venture, with an estimated fair value of \$765,911 [December 31, 2016 – \$829,976 and \$829,976, respectively]. The fair value of finance loans receivable is determined by discounting the stream of principal and interest at a rate of interest for instruments of similar terms and credit risks as at September 30, 2017. Finance loans receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

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Secured borrowings on finance receivables

The carrying value of secured borrowings on finance receivables approximates fair value. The assertion that the carrying value of the secured borrowings approximates fair value requires the use of estimates and significant judgment. Secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables securing the borrowings were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost as presented in note 7. The fair market value of the debt component as at September 30, 2017 was estimated at \$900,155 by discounting the stream of remaining payments at 5.50%, which represents the rate of interest prevailing for instruments of similar terms and risks without the conversion feature. Convertible debentures are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Derivatives

The fair values of derivatives are presented in note 13 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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**17. SUPPLEMENT TO INTERIM CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS**

Cash flow from other non-cash operating assets and liabilities for the nine-month period ended:

	September 30, 2017	September 30, 2016
	\$	\$
	<hr/>	<hr/>
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	4,810	(100,690)
Accounts payable and accrued liabilities	25,670	(60,921)
Deferred tax assets	(54,721)	(56,004)
Deferred tax liabilities	23,012	15,011
Derivative financial instruments	26,430	(26,503)
	<hr/>	<hr/>
	25,201	(229,107)
	<hr/>	<hr/>

The cash flow of ECN Capital prior to the completion of the distribution has been included in the Company's interim condensed consolidated statements of cash flows as "distributed operations" and comprised the following amounts:

	Nine-month period ended September 30, 2016
	\$
	<hr/>
Cash utilized in operating activities of distributed operations	(45,418)
Cash provided by investing activities of distributed operations	52,542
Cash utilized in financing activities of distributed operations	<hr/> (108,943)
Net cash utilized in distributed operations	<hr/> (101,819) <hr/>

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The interim condensed consolidated statements of cash flows reflect only the impact of the Company's activities during the period. To simplify understanding of these transactions, and the related non-cash components, the major statement of financial position changes are more fully detailed below with indications as to the amounts included in the interim condensed consolidated statements of cash flows.

	For the nine- month period ended September 30, 2017
	\$
Finance receivables <i>[note 3]</i>	
Balance as at December 31, 2016	13,454,011
Originations [included in cash flows]	4,470,076
Repayments [included in cash flows]	(3,650,338)
Assets sold to syndications [included in cash flows]	(471,906)
Amortization of deferred lease costs [adjustment to income in cash flows]	(14,349)
Impact of non-cash transfers	34,493
Provision for credit losses [adjustment to income in cash flows]	(287)
Impact of foreign exchange translation [excluded from cash flows]	(936,027)
Balance as at September 30, 2017	12,885,673
Equipment under operating leases <i>[note 4]</i>	
Balance as at December 31, 2016	1,421,637
Originations [included in cash flows as investment in equipment under operating leases]	556,100
Disposals [included in cash flows]	(181,099)
Amounts transferred from inventory	9,296
Depreciation of equipment under operating leases [adjustment to income in cash flows]	(272,253)
Impact of foreign exchange translation [excluded from cash flows]	(9,007)
Balance as at September 30, 2017	1,524,674

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	For the nine- month period ended September 30, 2017
	\$
Secured borrowings <i>[note 6]</i>	
Balance as at December 31, 2016	12,983,535
Net issuance [included in cash flows]	105,004
Increase in deferred financing costs [included in cash flows]	(29,275)
Amortization of deferred financing costs [adjustment to income in cash flows]	24,084
Impact of foreign exchange translation [excluded from cash flows]	(736,214)
Balance as at September 30, 2017	12,347,134

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18. DISTRIBUTED OPERATIONS

On October 3, 2016, Element completed the separation of its C&V Finance, Aviation Finance and Rail Finance verticals into ECN Capital implemented by way of a plan of arrangement.

The distributed operations have been presented and accounted for using IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and IFRIC 17, *Distribution of Non-Cash Assets to Owners*. Under this guidance, a distribution dividend of \$1,710,473 was recorded. The dividend was based on the fair value of the distribution as determined using independent valuers and approved by the Company's Board of Directors. The allocation of the components of equity was determined by allocating the fair value by a pro-rata proportion of share capital and retained earnings.

The operating performance of ECN Capital has been included in the Company's comparative interim condensed consolidated statements of operations as "distributed operations" and comprised the following amounts:

	For the three- month period ended September 30, 2016	For the nine- month period ended September 30, 2016
	\$	\$
Net revenue	48,544	152,279
Operating expenses	(20,546)	(57,826)
Business acquisition and separation costs	(36,855)	(37,505)
Provision for income taxes	10,082	(5,227)
Net income for the period from distributed operations	1,225	51,721

19. COMPARATIVE FIGURES

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