

Interim Condensed Consolidated Financial Statements

**Element Fleet Management Corp.**

September 30, 2018

**Element Fleet Management Corp.**

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

	<b>As at September 30, 2018</b>	<b>As at December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
	<hr/>	<hr/>
<b>ASSETS</b>		
Cash	50,493	76,637
Restricted funds (notes 7 and 14)	444,479	484,280
Finance receivables (note 3)	12,528,927	12,768,133
Equipment under operating leases (note 4)	1,677,911	1,599,423
Accounts receivable and other current assets	139,521	164,376
Notes receivable (note 12)	13,318	19,670
Derivative financial instruments (note 14)	26,920	32,026
Property, equipment and leasehold improvements	57,290	67,409
Equity investments (note 5)	115,234	151,425
Deferred tax assets (note 6)	393,994	177,602
Intangible assets	823,719	819,308
Goodwill	1,238,378	1,209,344
	<hr/> <b>17,510,184</b>	<hr/> <b>17,569,633</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	658,361	582,090
Derivative financial instruments (note 14)	44,241	33,342
Secured borrowings (note 7)	12,401,398	12,307,873
Convertible debentures (note 8)	891,929	875,918
Deferred tax liabilities	61,574	30,327
	<hr/> <b>14,057,503</b>	<hr/> <b>13,829,550</b>
Shareholders' equity (note 9)	<hr/> <b>3,452,681</b>	<hr/> <b>3,740,083</b>
	<hr/> <b>17,510,184</b>	<hr/> <b>17,569,633</b>

*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)

	<b>Three-month period ended September 30, 2018</b>	<b>Three-month period ended September 30, 2017</b>
	<b>\$</b>	<b>\$</b>
<b>NET REVENUE</b>		
Service and other revenue (note 11)	<b>142,894</b>	149,399
Interest income, net (note 11)	<b>167,783</b>	163,051
Rental revenue	<b>134,448</b>	118,303
Depreciation of equipment under operating leases	<b>(99,687)</b>	(89,931)
Direct costs of fixed rate service contracts (note 11)	<b>(11,460)</b>	(8,313)
	<b>333,978</b>	332,509
Interest expense	<b>112,723</b>	96,225
Net revenue	<b>221,255</b>	236,284
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	<b>81,464</b>	80,838
General and administrative expenses	<b>35,504</b>	35,130
Depreciation and amortization	<b>6,196</b>	3,854
Amortization of convertible debenture synthetic discount	<b>3,537</b>	3,313
Share-based compensation (note 10)	<b>8,867</b>	5,800
Impairment on loans to 19 <sup>th</sup> Capital (note 6)	<b>480,000</b>	—
	<b>615,568</b>	128,935
<b>OTHER EXPENSES</b>		
Amortization of intangible assets from acquisitions	<b>10,442</b>	13,975
Restructuring and transformation costs (note 19 and 20)	<b>35,000</b>	1,059
	<b>45,442</b>	15,034
Loss on equity investments (note 5)	<b>20,000</b>	9,108
Income (loss) before income taxes from operations	<b>(459,755)</b>	83,207
Provision for (recovery of) income taxes	<b>(118,650)</b>	16,032
	<b>(341,105)</b>	67,175
<b>Net income (loss) for the period</b>	<b>(341,105)</b>	67,175
Basic earnings (loss) per share (note 13)	<b>\$ (0.93)</b>	\$ 0.15
Diluted earnings (loss) per share (note 13)	<b>\$ (0.93)</b>	\$ 0.15

*See accompanying notes*

**Element Fleet Management Corp.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	<b>Nine-month period ended September 30, 2018</b>	Nine-month period ended September 30, 2017
	<b>\$</b>	<b>\$</b>
<b>NET REVENUE</b>		
Service and other revenue (note 11)	<b>425,187</b>	470,201
Interest income, net (note 11)	<b>490,254</b>	476,195
Rental revenue	<b>390,117</b>	355,961
Depreciation of equipment under operating leases	<b>(293,299)</b>	(272,253)
Direct costs of fixed rate service contracts (note 11)	<b>(34,341)</b>	(28,043)
	<b>977,918</b>	1,002,061
Interest expense	<b>325,880</b>	279,822
Net revenue	<b>652,038</b>	722,239
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	<b>245,800</b>	235,041
General and administrative expenses	<b>98,177</b>	111,845
Depreciation and amortization	<b>17,448</b>	11,401
Amortization of convertible debenture synthetic discount	<b>10,441</b>	9,779
Share-based compensation (note 10)	<b>18,605</b>	15,425
Impairment on loans to 19 <sup>th</sup> Capital (note 6)	<b>480,000</b>	—
	<b>870,471</b>	383,491
<b>OTHER EXPENSES</b>		
Amortization of intangible assets from acquisitions	<b>34,249</b>	43,569
Restructuring and transactions costs (notes 19 and 20)	<b>77,117</b>	68,420
	<b>111,366</b>	111,989
Loss on equity investments (note 5)	<b>34,905</b>	60,227
Income (loss) before income taxes from operations	<b>(364,704)</b>	166,532
Provision for (recovery of) income taxes	<b>(124,454)</b>	10,425
<b>Net income (loss) for the period</b>	<b>(240,250)</b>	156,107
Basic earnings (loss) per share (note 13)	<b>\$ (0.72)</b>	\$ 0.33
Diluted earnings (loss) per share (note 13)	<b>\$ (0.72)</b>	\$ 0.32

*See accompanying notes*

**Element Fleet Management Corp.**

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

	<b>Three-month period ended September 30, 2018</b>	Three-month period ended September 30, 2017
	<b>\$</b>	\$
<b>Net income (loss) for the period</b>	<b>(341,105)</b>	67,175
<b>OTHER COMPREHENSIVE LOSS</b>		
Cash flow and foreign exchange hedges (note 14)	(4,161)	(6,076)
Net unrealized foreign exchange loss	(44,374)	(183,919)
	<b>(48,535)</b>	(189,995)
Deferred income tax recovery	(1,440)	(1,581)
<b>Total other comprehensive loss</b>	<b>(47,095)</b>	(188,414)
<b>Comprehensive loss for the period</b>	<b>(388,200)</b>	(121,239)

*See accompanying notes*

**Element Fleet Management Corp.**

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

	<b>Nine-month period ended September 30, 2018</b>	Nine-month period ended September 30, 2017
	<b>\$</b>	\$
<b>Net income (loss) for the period</b>	<b>(240,250)</b>	156,107
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Cash flow and foreign exchange hedges (note 14)	12,388	(51,832)
Net unrealized foreign exchange gain (loss)	117,796	(299,620)
	<b>130,184</b>	(351,452)
Deferred income tax recovery	(661)	(13,888)
<b>Total other comprehensive income (loss)</b>	<b>130,845</b>	(337,564)
<b>Comprehensive loss for the period</b>	<b>(109,405)</b>	(181,457)

*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, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083
Impact of adopting IFRS 9 (note 2 and 21)	—	—	—	—	(65,304)	—	(65,304)
Restated opening balance under IFRS 9	2,755,536	680,412	46,200	69,450	183,539	(60,358)	3,674,779
Comprehensive income (loss) for the period	—	—	—	—	(240,250)	130,845	(109,405)
Dividends - Preferred shares (note 9)	—	—	—	—	(33,205)	—	(33,205)
Dividends - Common shares (note 9)	—	—	—	—	(85,595)	—	(85,595)
Net taxes on dividends paid	—	—	—	—	(898)	—	(898)
Options exercised (notes 9 and 10)	2,440	—	—	(1,467)	—	—	973
Employee stock option expense (note 10)	—	—	—	6,033	—	—	6,033
Balance, September 30, 2018	2,757,976	680,412	46,200	74,016	(176,409)	70,487	3,452,682
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 (note 9)	—	—	—	—	(30,233)	—	(30,233)
Dividends - Common shares	—	—	—	—	(68,017)	—	(68,017)
Net taxes on dividends paid	—	—	—	—	(818)	—	(818)
Options exercised (notes 9 and 10)	15,452	—	—	(7,821)	—	—	7,631
Issuance of shares, net of share issue costs	—	146,756	—	—	—	—	146,756
Shares repurchased for cancellation (note 9)	(65,318)	—	—	(13,599)	—	—	(78,917)
Employee stock option expense (note 10)	—	—	—	9,894	—	—	9,894
Balance, September 30, 2017	2,753,470	680,412	46,200	67,448	289,875	(51,212)	3,786,193

*See accompanying notes*

**Element Fleet Management Corp.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands of Canadian dollars)

	<b>Nine-month period ended September 30, 2018</b>	Nine-month period ended September 30, 2017
	\$	\$
<b>OPERATING ACTIVITIES (note 18)</b>		
Net income for the period	(240,250)	156,107
Items not affecting cash		
Share-based compensation (note 10)	6,032	9,895
Depreciation of property, equipment and leasehold improvements	10,378	8,309
Amortization of intangible assets, including from acquisitions	41,319	46,660
Amortization of deferred lease costs	18,092	14,349
Amortization of deferred financing costs	33,042	24,084
Depreciation of equipment under operating leases	293,299	272,253
Amortization of convertible debenture synthetic discount and deferred costs	16,012	15,055
Share of loss from joint venture investment	34,905	60,227
Share of loss (earnings) from other equity accounted investments and non-consolidated companies	—	(13,770)
Impairment on loans to 19 <sup>th</sup> Capital (note 6)	480,000	—
Provision for credit losses	580	287
	<b>693,409</b>	<b>593,456</b>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(4,046,685)	(4,470,076)
Repayments of finance receivables	3,454,048	3,650,338
Investment in equipment under operating leases	(625,615)	(556,100)
Proceeds on disposal of equipment under operating leases	179,622	181,099
Syndications of finance receivables	514,401	471,906
Other non-cash operating assets and liabilities (note 18)	(86,321)	25,201
<b>Cash provided by (used in) operating activities</b>	<b>82,859</b>	<b>(104,176)</b>
<b>INVESTING ACTIVITIES (note 18)</b>		
Business acquisition	—	(329)
Proceeds from managed fund	—	24,064
Investment in equity investments	(13,813)	(9,553)
Purchase of property, equipment and leasehold improvements	(6,460)	(8,419)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	4,498	2,367
Purchase of intangible assets	(21,340)	(33,457)
Decrease in notes receivable	6,352	2,527
<b>Cash provided by (used in) investing activities</b>	<b>(30,763)</b>	<b>(22,800)</b>
<b>FINANCING ACTIVITIES (note 18)</b>		
Decrease in restricted funds	54,234	96,952
Increase in deferred financing costs	(17,864)	(29,275)
Issuance of share capital, net	652	154,387
Shares repurchased (note 9)	—	(78,917)
Issuance of secured borrowings, net	3,278	105,004
Dividends paid (note 9)	(118,800)	(94,753)
<b>Cash provided by (used in) financing activities</b>	<b>(78,500)</b>	<b>153,398</b>
<b>Effects of foreign exchange rates on cash</b>	<b>260</b>	<b>(1,261)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(26,144)</b>	<b>25,161</b>
Cash, beginning of the period	76,637	12,638
<b>Cash, end of the period</b>	<b>50,493</b>	<b>37,799</b>
<b>Supplemental cash flow information:</b>		
Cash taxes paid	37,706	28,345
Cash interest paid	315,952	268,223

*See accompanying notes*

# Element Fleet Management Corp.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

### 1. CORPORATE INFORMATION

Element Fleet Management Corp. (“Element Fleet”, “EFN” or the “Company”) 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”.

Element Fleet is a publicly traded fleet management company with more than \$17.5 billion in assets and operations in the U.S., Canada, Mexico, Australia and New Zealand. As a leading global fleet management company, Element Fleet provides world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. Element’s fleet management services span the total fleet lifecycle - from acquisition and financing to program management and remarketing – helping more than 4,000 customers optimize their fleet performance and productivity.

On October 1, 2018, Element announced the completion of a comprehensive strategic assessment of our business, which included customer and stakeholder interviews, extensive industry benchmarking, and in-depth reviews of our operations, capital structure and balance sheet. The outcome of our process is a detailed plan to transform Element’s fleet business over the next 2 years, founded on renewing our focus on customers and ensuring that customer needs are at the center of all key decision-making. We have already begun this transformational reset, effecting dozens of changes to our organization in executing our plan to deliver superior customer service, generate meaningfully improved profitability and further strengthen Element’s financial position between now and the end of 2020.

# Element Fleet Management Corp.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2017, which include 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 5, 2018.

#### Accounting policies

These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2017, except for the recently adopted accounting standards discussed below.

#### Recently adopted accounting standards

IFRS 9, *Financial Instruments* (“IFRS 9”)

Effective January 1, 2018, the Company adopted IFRS 9, issued by the IASB. The project was divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9’s classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remained generally unchanged. The new standard replaced the existing incurred loss model used for measuring the allowance for credit losses with an expected credit loss (“ECL”) model. The standard also introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The Company elected to not restate comparative periods and has recognized any classification and measurement adjustments on January 1, 2018, through opening retained earnings.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

On transition to IFRS 9, the Company's investment in ECAF I Ltd. through ECAF I Holdings Ltd. was classified as fair value through profit and loss ("FVTPL"). As a result, the accrued interest previously recognized using the effective interest method for amortized cost investments was reversed, and the Company recognized a fair value adjustment as described in note 5 and note 21. In addition, the Company increased the allowance for credit losses as a result of the transition to the expected loss model, including an allowance for loans to 19<sup>th</sup> Capital Group LLC, as described in note 5 and note 21. The impact of these two changes has been recognized through opening retained earnings. While the Company adopted hedge accounting under IFRS 9, it did not have a material impact on our accounting policies and consequently there were no adjustments to the Company's Interim Financial Statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

Effective January 1, 2018, the Company adopted IFRS 15 which clarifies revenue recognition principles, provides a framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. The adoption of this standard did not have a material impact on our accounting policies and did not result in any adjustments to the Company's Interim Financial Statements. Revenue segmentation disclosures are provided in note 16.

#### **Future accounting changes**

The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements.

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

IFRS 16 will replace IAS 17, *Leases* ("IAS 17"). IFRS 16 substantially carries forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS 16 will have on the Company's consolidated financial statements, but expects the impact to be immaterial.

## Element Fleet Management Corp.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

### Changes in accounting policies

This section should be read as a modification to the accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2017.

### Allowance for credit losses

IFRS 9 replaces the incurred loss model with the forward-looking ECL model. The Company is required to assess and segment its lease and loan portfolio into one of three classifications at each consolidated statement of financial position date:

- Financially healthy with no sign of increased credit risk (Stage 1);
- Increased credit risk but not credit-impaired (Stage 2); and
- Credit-impaired (Stage 3).

Internal risk rating changes and delinquencies are used by the Company to determine when there has been a significant increase or decrease in credit risk of a loan. The Company has elected, as an accounting policy choice, to apply the simplified approach to lease receivables and trade receivables to apply lifetime ECL at all times. Under this approach:

- Loans begin in Stage 1 unless they are initiated or acquired in an impaired state. ECL that are possible within the next 12 months are recognized immediately at a reporting date.
- Leases begin in Stage 2, and loans move to this stage when it is determined that a significant increase in credit risk has occurred. ECL that are possible over the expected life of the lease or loan are recognized immediately. Loans may return to Stage 1 if a significant decrease in credit risk has occurred.
- Leases and loans enter Stage 3 when there is an event of default. Contractual delinquencies over 120 days are automatically considered defaulted accounts (Stage 3) and are fully provisioned (net of any anticipated recoveries) and presented at their net realizable value on the statement of financial position. Accounts are also considered for transfer to Stage 3 when internal or external credit ratings indicate a default, a material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral, or when the borrower has filed for bankruptcy or creditor protection. A borrower is considered cured and moved out of Stage 3 when none of these conditions are present for six consecutive months.
- Loans are charged-off when the Company has stopped pursuing the recovery.

ECLs are calculated based on four probability-weighted scenarios (a base case, an upside, a mild downside, and a more extreme downside) that take into account forward-looking macroeconomic information such as changes in Gross Domestic Product (“GDP”) and its effect on the probability of default (“PD”) and the used vehicle index and its impact on loss given default (“LGD”). Each of these scenarios results in a different exposure at default (“EAD”), and LGD. ECL is then calculated under each scenario and weighted by the probabilities assigned to each scenario; probability weights are assessed at each reporting period.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

The adoption of IFRS 9 does not have a direct impact on the net charge-off rate of the Company's loans and receivables which is driven by customers' credit profile and behaviour.

#### **Derivatives financial instruments and hedge accounting**

The hedge accounting standards under IFRS 9 align the accounting for hedging instruments more closely to the Company's risk management practices. Accordingly, all hedging relationships that were designated under IAS 39, *Financial Instruments: Recognition and Measurement*, as at December 31, 2017 met the criteria for hedge accounting under IFRS 9.

#### **Financial assets and liabilities**

The Company initially recognizes financial assets and liabilities at fair value and subsequently measures at either fair value or amortized cost based on their classification under IFRS 9 as described below.

##### *Fair value through profit or loss*

Financial assets and financial liabilities that the Company purchases or incurs, respectively, with the intention of generating earnings in the near term are classified as FVTPL. Such assets and liabilities are carried on the consolidated statement of financial position at fair value, with any subsequent changes to fair value recognized through the consolidated statements of operations. Transaction costs are recognized in the consolidated statements of operations as incurred.

##### *Amortized cost*

Financial assets held to collect contractual cash flows (in the form of payment of principal and interest earned on the principal outstanding) are carried at amortized cost. The assets are initially recognized at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

### 3. FINANCE RECEIVABLES

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

	September 30, 2018			
	US	Canada	Other	Total
Minimum lease payments	\$ 10,686,421	\$ 1,483,657	\$ 320,853	\$ 12,490,931
Unguaranteed residual values	22,441	—	72,423	94,864
Gross investment	10,708,862	1,483,657	393,276	12,585,795
Unearned income	(879,653)	(161,080)	(42,599)	(1,083,332)
<b>Net investment in finance receivables</b>	<b>9,829,209</b>	<b>1,322,577</b>	<b>350,677</b>	<b>11,502,463</b>
Net realizable value of impaired receivables	7,285	428	609	8,322
Unamortized deferred costs and subsidies	(96,101)	(2,827)	—	(98,928)
Prepaid lease payments and security deposits	(47,389)	(5,447)	(30,411)	(83,247)
Interim fundings	641,343	81,956	11,377	734,676
Fleet management service receivables	622,755	107,560	48,424	778,739
Other receivables	130,618	2,295	103,787	236,700
Impairment of loans to 19 <sup>th</sup> Capital (1)	(541,667)	0	0	(541,667)
Allowance for credit losses (Subsection (C))	(5,817)	(331)	(1,983)	(8,131)
<b>Total finance receivables</b>	<b>\$ 10,540,236</b>	<b>\$ 1,506,211</b>	<b>\$ 482,480</b>	<b>\$ 12,528,927</b>

	December 31, 2017			
	US	Canada	Other	Total
Minimum lease payments	\$ 10,617,200	\$ 1,473,742	\$ 281,248	\$ 12,372,190
Unguaranteed residual values	16,326	—	71,532	87,858
Gross investment	10,633,526	1,473,742	352,780	12,460,048
Unearned income	(788,515)	(149,772)	(40,281)	(978,568)
<b>Net investment in financial receivables</b>	<b>9,845,011</b>	<b>1,323,970</b>	<b>312,499</b>	<b>11,481,480</b>
Net realizable value of impaired receivables	4,225	381	4,059	8,665
Unamortized deferred costs and subsidies	(99,901)	(5,121)	—	(105,022)
Prepaid lease payments and security deposits	(38,427)	(5,807)	(20,166)	(64,400)
Interim fundings	533,636	41,058	12,523	587,217
Fleet management service receivables	503,581	105,005	51,641	660,227
Other receivables	120,111	1,219	82,940	204,270
Allowance for credit losses (Subsection (C))	(2,770)	(324)	(1,210)	(4,304)
<b>Total finance receivables</b>	<b>\$ 10,865,466</b>	<b>\$ 1,460,381</b>	<b>\$ 442,286</b>	<b>\$ 12,768,133</b>

(1) See note 6 for additional information on the loans to 19<sup>th</sup> Capital and the related \$480,000 provision for credit losses in the current quarter.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### A) Delinquency status of net investment in finance receivables

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

	September 30, 2018		December 31, 2017	
	\$	%	\$	%
31-60 days past due	7,995	0.07%	3,999	0.03%
61-90 days past due	4,591	0.04	5,918	0.05
Greater than 90 days past due	1,999	0.02	1,594	0.01
Total past due	<b>14,585</b>	<b>0.13</b>	11,511	0.09
Current	<b>11,487,878</b>	<b>99.87</b>	11,469,969	99.91
Net investment in finance receivables	<b>\$ 11,502,463</b>	<b>100.00%</b>	<b>\$ 11,481,480</b>	<b>100.00%</b>

#### B) Interest rate characteristics of net investment in finance receivables

	September 30, 2018		December 31, 2017	
	Leases	Loans (1)	Leases	Loans
Net investment in finance receivables	<b>\$ 10,624,869</b>	<b>\$ 877,594</b>	\$ 10,625,691	\$ 855,789
Weighted average fixed interest rate	4.33%	6.23%	3.99%	5.90%
Weighted average floating interest rate	4.73%	8.68%	4.07%	9.71%
Percentage of portfolio with fixed interest rate	<b>47.82%</b>	<b>99.64%</b>	46.04%	98.77%

(1) The largest component of loans receivable remains the \$793,336 in loans to 19<sup>th</sup> Capital. Please refer to note 6 for further details on these loans and the related allowance for credit losses of \$541,667.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### C) Allowance for credit losses

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

	Stage 1	Stage 2	Stage 3	Total
<b>Loans</b>				
Balance at January 1, 2018	\$ 22	\$ 65,193	\$ 591	\$ 65,806
Transfer to Stage 1				—
Transfer to Stage 2				—
Transfer to Stage 3		(65,060)	65,060	—
Loan originations				—
Changes in models and inputs, derecognition, and repayments	32	(13)	479,995	480,014
<b>Total</b>	<b>54</b>	<b>120</b>	<b>545,646</b>	<b>545,820</b>
Charge-offs, net of recoveries				—
Foreign exchange	—	60	(3,401)	(3,341)
<b>Balance at September 30, 2018</b>	<b>\$ 54</b>	<b>\$ 180</b>	<b>\$ 542,245</b>	<b>\$ 542,479</b>

	Stage 2	Stage 3	Total
<b>Finance leases</b>			
Balance at January 1, 2018	\$ 7,293	\$ 39	\$ 7,332
Transfer to Stage 2	257	(257)	—
Transfer to Stage 3	(323)	323	—
Lease originations	5,441		5,441
Changes in models and inputs, derecognition, and repayments	(119)		(119)
<b>Total</b>	<b>12,549</b>	<b>105</b>	<b>12,654</b>
Charge-offs, net of recoveries	(702)		(702)
Foreign exchange	(4,624)	(30)	(4,654)
<b>Balance at September 30, 2018</b>	<b>\$ 7,223</b>	<b>\$ 75</b>	<b>\$ 7,298</b>

	Stage 2	Stage 3	Total
<b>Fleet receivables</b>			
Balance at January 1, 2018	\$ 7	\$ 13	\$ 20
Provision for credit losses		2	2
Charge-offs, net of recoveries	(1)		(1)
Foreign exchange			—
<b>Balance at September 30, 2018</b>	<b>\$ 6</b>	<b>\$ 15</b>	<b>\$ 21</b>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

<b>Impairment of loans to 19<sup>th</sup> Capital</b>	<b>Nine-month period ended September 30, 2018</b>	Year ended December 31, 2017
Allowance for credit losses, beginning of period	—	—
IFRS 9 Adjustment	<b>65,000</b>	—
Provision for (recovery of) credit losses	—	—
Provision for 19th Capital (Note 6)	<b>480,000</b>	—
Charge-offs, net of recoveries	—	—
Impact of foreign exchange rates	<b>(3,333)</b>	—
<b>Allowance for credit losses, end of period</b>	<b>541,667</b>	—
Allowance as a percentage of total finance receivables	<b>68.28%</b>	—%
Arrears (90 days and over) as a percentage of net investment in finance receivables	—%	—%

  

<b>Other Allowance for credit losses</b>	<b>Nine-month period ended September 30, 2018</b>	Year ended December 31, 2017
Allowance for credit losses, beginning of period	<b>4,304</b>	6,081
IFRS 9 Adjustment	<b>3,854</b>	—
Provision for (recovery of) credit losses	<b>580</b>	(921)
Provision for 19th Capital (Note 6)	—	—
Charge-offs, net of recoveries	<b>(693)</b>	(611)
Impact of foreign exchange rates	<b>86</b>	(245)
<b>Allowance for credit losses, end of period</b>	<b>8,131</b>	4,304
Allowance as a percentage of total finance receivables	<b>0.07%</b>	0.03%
Arrears (90 days and over) as a percentage of net investment in finance receivables	<b>0.02%</b>	0.01%

**Element Fleet Management Corp.**

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<b>Total Allowance for credit losses</b>	<b>Nine-month period ended September 30, 2018</b>	<b>Year ended December 31, 2017</b>
<b>Allowance for credit losses, beginning of period</b>	<b>\$ 4,304</b>	<b>\$ 6,081</b>
IFRS 9 Adjustment	<b>68,854</b>	—
Provision for (recovery of) credit losses	<b>580</b>	(921)
Provision for 19 <sup>th</sup> Capital (Note 6)	<b>480,000</b>	—
Charge-offs, net of recoveries	<b>(693)</b>	(611)
Impact of foreign exchange rates	<b>(3,247)</b>	(245)
<b>Allowance for credit losses, end of period</b>	<b>\$ 549,798</b>	<b>\$ 4,304</b>
Allowance as a percentage of total finance receivables	<b>4.20%</b>	0.03%
Arrears (90 days and over) as a percentage of net investment in finance receivables	<b>0.02%</b>	0.01%

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### D) Credit risk exposure

The following table sets out the credit risk exposure for Loans, Finance leases and Fleet card receivables, and the impaired values and allowances for credit losses recorded as at September 30, 2018:

Loans	Stage 1	Stage 2	Stage 3	Total
<b>Internal risk rating grade</b>				
Low	\$ 748			\$ 748
Medium	44,344	6,090		50,434
High		10,988	793,336	804,324
Not rated				—
Impaired			773	773
	45,092	17,078	794,109	856,279
Allowance for credit losses	(54)	(180)	(542,245)	(542,479)
Net carrying value	\$ 45,038	\$ 16,898	\$ 251,864	\$ 313,800
<b>Finance leases</b>				
		Stage 2	Stage 3	Total
<b>Internal risk rating grade</b>				
Low		\$ 6,845,552		\$ 6,845,552
Medium		3,467,606		3,467,606
High		266,827		266,827
Not rated		66,972		66,972
Other finance receivables		236,700		236,700
Impaired			7,549	7,549
		10,883,657	7,549	10,891,206
Allowance for credit losses		(7,223)	(75)	(7,298)
Net carrying value		\$ 10,876,434	\$ 7,474	\$ 10,883,908
<b>Fleet card receivables</b>				
		Stage 2	Stage 3	Total
Not rated		\$ 778,204	\$ 535	\$ 778,739
Allowance for credit losses		(6)	(15)	(21)
Net carrying value		\$ 778,198	\$ 520	\$ 778,718

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### 4. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with 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.

	<b>September 30, 2018</b>	December 31, 2017
Cost	\$ 2,177,685	\$ 2,034,675
Accumulated depreciation	499,774	435,252
Net carrying amount of equipment under operating leases	<b>\$ 1,677,911</b>	<b>\$ 1,599,423</b>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. EQUITY INVESTMENTS

	Balance December 31, 2017	Acquisition (Disposal or Receipt)	Income (Loss)	FX Gain	Balance September 30, 2018
<b>Equity accounted investments</b>					
19 <sup>th</sup> Capital Group LLC	\$ 10,000	\$ —	\$ (10,000)	\$ —	\$ —
Amerit Fleet Holdings, LLC	—	12,573	(13)	4	12,564
Splend Holdings PTY Limited	7,154	—	(7,190)	36	—
<b>Fair value through profit/ loss accounted investments</b>					
ECAF I Holdings Ltd (1)	113,122	(8,992)	(12,767)	2,879	94,242
AutoTech Fund I, LP	1,348	1,240	131	52	2,771
DMG Blockchain Solutions Inc.	7,369	—	(5,066)	—	2,303
Parking Warrior, LP	2,011	—	—	53	2,064
Work Truck Solutions, Inc	1,257	—	—	33	1,290
<b>Net equity investments</b>	<b>\$ 142,261</b>	<b>\$ 4,821</b>	<b>\$ (34,905)</b>	<b>\$ 3,057</b>	<b>\$ 115,234</b>

(1) The ECAF (and Total Equity Investments) opening balance is net of opening IFRS 9 adjustments of \$9,164.

During the quarter the carrying value of ECAF and Splend investments was written down to reflect management's best estimates of fair value, incurring a \$20,000 charge, such that the net value of equity investments declined to \$115,243.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. 19<sup>th</sup> CAPITAL, LLC

The loans receivable from 19<sup>th</sup> Capital have been transferred from stage 2 to stage 3 for ECL measurement purposes based on the outcome of the strategic review, described below, which resulted in a material reduction in the present value of expected cash flows from the investment, which constituted an event of default. Prior to the transfer, interest income recognized on the loans to 19<sup>th</sup> Capital for the three and nine-month periods ended September 30, 2018 was \$12,091 and \$34,488, respectively (\$10,908 and \$33,539 for the comparable periods in 2017).

The transfer to stage 3 was concurrent with the completion of the Company's strategic review process, whereby it was concluded that the value of the loans would not be recovered through the continuing operations of the 19<sup>th</sup> Capital joint venture, but rather would be realized through a run-off strategy. The run-off strategy includes acquisition of control of 19<sup>th</sup> Capital (note 19), run-off of the existing lease portfolio, and disposal of idle and end-of-lease truck inventory.

The carrying value of the loans receivable from 19<sup>th</sup> Capital has been reduced to \$251,669, and a related provision for credit loss of \$480,000 has been recorded in the statement of operations. Deferred income tax of \$120,000 has been recorded, such that the after-tax impact of this impairment has reduced reported net income for both periods by \$360,000 and increased the deferred tax asset by \$120,000.

The revised carrying value and related provision for credit loss are subject to measurement uncertainty, specifically regarding the amount and timing of the future cash flows associated with the run-off activities. Since the loan will be realized through acquisition of control of the 19<sup>th</sup> Capital business, which will result in derecognition of the loans, impairment was calculated based on the fair value of the business post the strategic review decision. Significant assumptions include collection and utilization rates associated with existing lease contracts, expected proceeds from the sale of both idle and end-of-lease trucks and trailers, and the amount and duration of restructuring and wind-up costs. The Company believes that the provision on the 19<sup>th</sup> Capital loans and the related assumptions are reasonable, however changes in these estimates may result in adjustments to the allowance in future periods.

Subsequent to September 30, 2018, the Company purchased the equity interest held by its joint venture partner for \$5,160, thereby obtaining 100% ownership and control over 19<sup>th</sup> Capital (note 19). Obtaining control will trigger business-acquisition accounting in the fourth quarter of 2018, where the loans receivable from 19<sup>th</sup> Capital will be derecognized and the assets and liabilities of 19<sup>th</sup> Capital will be recorded on Company's balance sheet at the acquisition-date fair value. The measurement of the acquisition-date net assets of 19<sup>th</sup> Capital is expected to be consistent with the reduced carrying value of the loans receivable discussed above because both are based on the present value of forecasted cash flows associated with the orderly run-off of the business.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 7. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

September 30, 2018				
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
Term notes, in amortization period	\$ 4,376,055	2.29%	\$ 4,508,894	\$ 47,798
Term notes, in revolving period	2,580,000	3.10	2,658,318	26,574
Variable-funding notes	2,827,272	3.00	2,982,225	21,871
Other	52,783	4.53	51,740	—
Vehicle management asset-backed debt	9,836,110	2.72	10,201,177	96,243
Term senior credit facility (2)	2,617,114	3.49	—	—
	12,453,224	2.88%	\$ 10,201,177	\$ 96,243
Deferred financing costs	(51,826)			
<b>Total secured borrowings</b>	<b>\$ 12,401,398</b>			
December 31, 2017				
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
Term notes, in amortization period	\$ 2,150,569	2.34 %	\$ 2,270,101	\$ 49,189
Term notes, in revolving period	4,022,080	2.07	4,245,634	41,428
Variable-funding notes	3,027,353	2.35	3,201,050	32,195
Other	—	—	—	—
Vehicle management asset-backed debt	9,200,002	2.23	9,716,785	122,812
Term senior credit facility (2)	3,168,087	2.77	—	—
	12,368,089	2.36 %	\$ 9,716,785	\$ 122,812
Deferred financing costs	(60,216)			
<b>Total secured borrowings</b>	<b>\$ 12,307,873</b>			

(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, 2018.

## Element Fleet Management Corp.

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#### **Vehicle management asset-backed debt**

During the nine-month period ended September 30, 2018, USD \$3.2 billion of revolving notes were converted into amortizing term notes.

During the nine-month period ended September 30, 2018, the Company issued USD \$2.0 billion of revolving term notes. The proceeds from these issuances were used to pay down variable funding notes.

During the quarter, the Company repaid USD \$273.3 million of an amortizing term note on September 17, 2018.

As at September 30, 2018, the Company has available capacity in variable-funding notes and other of \$4.6 billion (December 31, 2017 – \$3.4 billion) under its vehicle management asset-backed debt facilities.

#### **Term senior credit facility**

As at September 30, 2018, the Company had available capacity of \$1.3 billion (December 31, 2017 – \$1.2 billion) from the term senior credit facility.

During the quarter, the USD \$500.0 million one year tranche maturing October 29, 2018 was terminated on September 24, 2018.

#### **Restricted funds**

Restricted funds include (i) cash reserves of \$96.2 million as at September 30, 2018 (December 31, 2017 – \$122.8 million), which represent restricted collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$338.4 million as at September 30, 2018 (December 31, 2017 – \$357.4 million), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates; and (iii) cash provided to counter-parties as collateral against derivative liabilities of \$9.8 million (December 31, 2017 - \$4.1 million).

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 8. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

		September 30, 2018					
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	<b>June 30, 2019</b>	\$ 13.22	5.125%	\$ 345,000	\$ (1,972)	\$ (5,958)	\$ 337,070
Issued on May 29, 2015	<b>June 30, 2020</b>	\$ 17.63	4.250%	575,000	(8,720)	(11,421)	554,859
				<b>\$ 920,000</b>	<b>\$ (10,692)</b>	<b>\$ (17,379)</b>	<b>\$ 891,929</b>
		December 31, 2017					
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	\$ 13.76	5.125%	\$ 345,000	\$ (3,860)	\$ (11,590)	\$ 329,550
Issued on May 29, 2015	June 30, 2020	\$ 18.35	4.250%	575,000	(12,402)	(16,230)	546,368
				<b>\$ 920,000</b>	<b>\$ (16,262)</b>	<b>\$ (27,820)</b>	<b>\$ 875,918</b>

(1) Stated interest rate on principal face value.

(2) The conversion price was adjusted effective as at September 28, 2018, the ex-dividend date for dividends to be paid on October 15, 2018, to \$13.22066 for the June 18, 2014 issuance and \$17.62755 for the May 29, 2015 issuance.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 9. SHARE CAPITAL

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

##### Common shares

	Common shares	
	Shares	Amount
	#	\$
<b>Balance, December 31, 2017</b>	380,355,836	2,755,536
Exercise of options	<b>507,432</b>	<b>2,440</b>
<b>Balance, September 30, 2018</b>	<b>380,863,268</b>	<b>2,757,976</b>
<b>Balance, December 31, 2016</b>	387,116,660	2,803,336
Exercise of options	2,253,776	17,518
Shares repurchased	(9,014,600)	(65,318)
<b>Balance, December 31, 2017</b>	<b>380,355,836</b>	<b>2,755,536</b>

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 up to 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids 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. Under this bid during the prior year ended December 31, 2017, 9,014,600 common shares were repurchased for cancellation for \$78,917 at a volume weighted average price of \$8.75 per common share. No shares have been repurchased during 2018.

During the three and nine-month periods ended September 30, 2018, the Company paid \$28,541 and \$85,595, respectively, in common share dividends, or \$0.075 and \$0.22, respectively, per common share (three and nine-month periods ended September 30, 2017 - \$29,177 and \$68,017, respectively, or \$0.075 and \$0.175 per common share, respectively).

As at September 30, 2018, unaccrued common share dividends were \$17,116 or \$0.045 per common share (December 31, 2017 - \$28,527 or \$0.075 per common share).

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Preferred shares

	As at September 30, 2018	
	Shares	Amount
	#	\$
Preferred Shares, Series A	4,600,000	110,375
Preferred Shares, Series C	5,126,400	124,744
Preferred Shares, Series E	5,321,900	129,994
Preferred Shares, Series G	6,900,000	168,543
Preferred Shares, Series I	6,000,000	146,756

During the three and nine-month periods ended September 30, 2018, the Company paid \$11,068 and \$33,205, respectively, in preference share dividends (three and nine-month periods ended September 30, 2017 – \$8,912 and \$26,736, respectively).

As at September 30, 2018, the unaccrued cumulative preference share dividends were \$122 (December 31, 2017 – \$122).

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 10. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Nine-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Stock options	\$ 2,566	\$ 3,221	\$ 6,033	\$ 9,894
Deferred share units	191	425	426	3,121
Performance share units	2,285	1,085	5,290	(1,403)
Restricted share units	3,825	1,069	6,856	2,793
	\$ 8,867	\$ 5,800	\$ 18,605	\$ 14,405

Allocated as:

Share-based compensation	\$ 8,867	\$ 5,800	\$ 18,605	\$ 15,425
Restructuring and transformation costs	—	—	—	2,884
Other revenue (1)	—	—	—	(3,904)
	\$ 8,867	\$ 5,800	\$ 18,605	\$ 14,405

- (1) During the three and nine-month periods 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.

## Element Fleet Management Corp.

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#### Stock options

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

	<b>Number of options</b>	<b>Weighted average exercise price</b>
	#	\$
<b>Outstanding, December 31, 2016</b>	24,737,562	10.37
Granted	963,639	12.73
Forfeited	(262,773)	12.81
Expired	(391,808)	12.38
Exercised (1)	(3,678,327)	7.39
<b>Outstanding, December 31, 2017</b>	21,368,293	10.92
Granted (2)	5,549,443	5.72
Forfeited	(184,366)	11.93
Expired	(247,313)	12.28
Exercised (1)	(813,333)	3.56
<b>Outstanding, September 30, 2018</b>	25,672,724	10.74

(1) Weighted average share price of options exercised during the nine-month period ended September 30, 2018 was \$3.56 (year ended December 31, 2017 – \$12.63).

(2) 3,700,000 options granted during 2018 contain performance vesting criteria; an additional 1,849,443 options granted during 2018 vest as described in the notes to the annual audited statements for the year ended December 31, 2017.

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:

	<b>Unit</b>	<b>Nine-month period ended September 30, 2018</b>	Year ended December 31, 2017
Weighted average share price	\$	5.89	12.73
Average term to exercise	Years	7.0	7.0
Share price volatility	%	37.7	29.0
Weighted average expected annual dividend	\$	0.30	0.30
Risk-free interest rate	%	2.30	1.40
Forfeiture rate	%	1.02	1.02

For the performance share options, fair value is further adjusted for the probability of vesting.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 #
<b>Outstanding, December 31, 2016</b>	1,705,011	1,331,771	1,326,952	636,352
Granted	143,076	272,640	3,699	816,695
Forfeited	—	(249,187)	(248,176)	—
Redeemed	(454,100)	(1,086,290)	(1,082,475)	(197,632)
<b>Outstanding, December 31, 2017</b>	1,393,987	268,934	—	1,255,415
Granted	<b>214,803</b>	<b>593,191</b>	—	<b>2,086,294</b>
Forfeited	—	—	—	<b>(5,264)</b>
Redeemed	<b>(416,085)</b>	<b>(312,657)</b>	—	<b>(399,976)</b>
<b>Outstanding, September 30, 2018</b>	<b>1,192,705</b>	<b>549,468</b>	—	<b>2,936,469</b>

## 11. 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 the removal of 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 comparative period has also been adjusted to reflect the removal of external costs related to certain service contracts from Service and other revenue to Direct costs of fixed rate service contracts. The adjustments for internal expenses and external costs for the three and nine-month periods ended September 30, 2018 were \$11,460 and \$34,341 (three and nine-month periods ended September 30, 2017 were \$8,313 and \$28,043), respectively.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Interest income, net consists of the following for the three and nine-month periods ended September 30, 2018 and 2017:

	Three-month period ended		Nine-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest income	\$ 167,969	\$ 163,360	\$ 490,834	\$ 476,482
Provision for (recovery of) credit losses <i>(note 3(C) and 6)</i>	186	309	580	287
Interest income, net	\$ 167,783	\$ 163,051	\$ 490,254	\$ 476,195

## 12. NOTES RECEIVABLE

The notes receivable of \$13,318 as at September 30, 2018 (December 31, 2017 – \$19,670) represent loans made to certain employees and officers of the Company in prior periods to finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee. 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. In the event that a note holder ceases to be an employee or officer to the Company, loans are either immediately repayable or a structured repayment schedule is established.

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

	Nine-month period ended September 30, 2018	Year ended December 31, 2017
<b>Notes receivable, beginning of period</b>	\$ 19,670	\$ 22,078
Interest income	390	556
Repayments (interest and principal)	(6,742)	(2,964)
<b>Notes receivable, end of period</b>	\$ 13,318	\$ 19,670

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 13. EARNINGS PER SHARE

Basic earnings per share are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income (loss) attributable to shareholders	\$ (341,105)	\$ 67,175	\$ (240,250)	\$ 156,107
Cumulative dividends on preferred shares	(11,068)	(11,068)	(33,205)	(30,233)
Net income (loss) available to common shareholders	<u>\$ (352,173)</u>	<u>\$ 56,107</u>	<u>\$ (273,455)</u>	<u>\$ 125,874</u>
Weighted average number of common shares outstanding – basic (number)	<u>380,638,525</u>	<u>384,939,305</u>	<u>380,483,234</u>	<u>387,194,304</u>
Basic earnings (loss) per share	<u>\$ (0.93)</u>	<u>\$ 0.15</u>	<u>\$ (0.72)</u>	<u>\$ 0.33</u>

Diluted earnings per share are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income (loss) available to common shareholders adjusted for the effects of dilution	\$ (352,173)	\$ 56,107	\$ (273,455)	\$ 125,874
Weighted average number of common shares outstanding – basic (number)	380,638,525	384,939,305	380,483,234	387,194,304
Dilutive stock options (number)	—	1,734,789	—	2,649,796
Weighted average number of common shares outstanding – diluted (number)	<u>380,638,525</u>	<u>386,674,094</u>	<u>380,483,234</u>	<u>389,844,100</u>
Diluted earnings (loss) per share	<u>\$ (0.93)</u>	<u>\$ 0.15</u>	<u>\$ (0.72)</u>	<u>\$ 0.32</u>

As the Company has a loss for the three and nine-month periods ended September 31, 2018, no dilution can be measured as any issuance would be anti-dilutive due to the loss (three and nine-month periods September 30, 2017 – 17,611,707 and 15,096,425 anti-dilutive stock options, respectively).

In addition, the convertible debentures in note 8 were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three and nine-month periods ended September 30, 2018 and 2017.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 14. 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Foreign exchange agreements recorded in other revenues	\$ —	\$ (10,147)	\$ 16,479	\$ (16,111)
Fair value changes recorded in other comprehensive income (loss)	\$ (4,161)	\$ (6,076)	\$ 12,388	\$ (51,832)

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018	December 31, 2017
<b>Notional principal</b>		
Derivative assets		
Interest rate contracts	\$ 1,926,292	\$ 5,101,664
Foreign exchange agreements	—	385,668
Derivative assets	<u>1,926,292</u>	<u>5,487,332</u>
Derivative liabilities		
Interest rate contracts	9,170,406	4,695,810
Foreign exchange agreements	—	364,637
Total return swaps	27,492	27,492
Derivative liabilities	<u>9,197,898</u>	<u>5,087,939</u>
<b>Fair values</b>		
Restricted funds - collateral	<u>9,820</u>	4,070
Derivative assets		
Interest rate contracts	26,920	31,197
Foreign exchange agreements	—	829
Derivative assets	<u>26,920</u>	<u>32,026</u>
Derivative liabilities		
Interest rate contracts	33,070	26,730
Foreign exchange agreements	—	1,582
Total return swaps	11,171	5,030
Derivative liabilities	<u>\$ 44,241</u>	<u>\$ 33,342</u>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018	December 31, 2017
Interest rate contracts	\$ (6,150)	\$ 4,467
Foreign exchange agreements	—	(753)
Total return swaps	(11,171)	(5,030)
	<u>\$ (17,321)</u>	<u>\$ (1,316)</u>

#### 15. 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, 2018	December 31, 2017
Secured borrowings	\$ 12,401,398	\$ 12,307,873
Convertible debentures	891,929	875,918
Total debt	<u>13,293,327</u>	<u>13,183,791</u>
Shareholders' equity	3,452,681	3,740,083
	<u>\$ 16,746,008</u>	<u>\$ 16,923,874</u>

#### 16. 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.

## Element Fleet Management Corp.

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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, 2018			Three-month period ended September 30, 2017		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
<b>Net revenue</b>						
Service and other revenue	\$ 131,325	\$ 109	\$ 131,434	\$ 134,902	\$ 6,184	\$ 141,086
Interest and rental revenue, net	189,008	13,536	202,544	169,903	21,520	191,423
	<u>320,333</u>	<u>13,645</u>	<u>333,978</u>	<u>304,805</u>	<u>27,704</u>	<u>332,509</u>
Interest expense	100,218	12,505	112,723	85,739	10,486	96,225
Net revenue	<u>220,115</u>	<u>1,140</u>	<u>221,255</u>	<u>219,066</u>	<u>17,218</u>	<u>236,284</u>
<b>Operating Expenses</b>						
Salaries, wages and benefits	80,742	722	81,464	79,980	858	80,838
General and administrative expenses	33,739	1,765	35,504	34,558	572	35,130
Depreciation and amortization	6,196	—	6,196	3,854	—	3,854
	<u>120,677</u>	<u>2,487</u>	<u>123,164</u>	<u>118,392</u>	<u>1,430</u>	<u>119,822</u>
<b>Net segment operating income (loss) (before tax)</b>	<u>99,438</u>	<u>(1,347)</u>	<u>98,091</u>	<u>100,674</u>	<u>15,788</u>	<u>116,462</u>
Loss on equity investments	—	20,000	20,000	—	9,108	9,108
Net segment income (loss) (before tax)	<u>\$ 99,438</u>	<u>\$ (21,347)</u>	<u>78,091</u>	<u>\$ 100,674</u>	<u>\$ 6,680</u>	<u>107,354</u>
Share-based compensation			8,867			5,800
Amortization of convertible debenture synthetic discount			3,537			3,313
Impairment on loans to 19 <sup>th</sup> Capital			480,000			—
Other expenses			45,442			15,034
Provision for (recovery) income taxes			(118,650)			16,032
Net income (loss) for the period			<u>\$ (341,105)</u>			<u>\$ 67,175</u>

The results presented for segments net certain amounts separated on the interim condensed consolidated statements of operations to conform to internal reporting standards.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2018

	Nine-month period ended September 30, 2018			Nine-month period ended September 30, 2017		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
<b>Net revenue</b>						
Service and other revenue	\$ 389,301	\$ 1,545	\$ 390,846	\$ 406,737	\$ 35,421	\$ 442,158
Interest and rental revenue, net	546,587	40,485	587,072	496,401	63,502	559,903
	<u>935,888</u>	<u>42,030</u>	<u>977,918</u>	<u>903,138</u>	<u>98,923</u>	<u>1,002,061</u>
Interest expense	291,532	34,348	325,880	247,617	32,205	279,822
Net revenue	<u>644,356</u>	<u>7,682</u>	<u>652,038</u>	<u>655,521</u>	<u>66,718</u>	<u>722,239</u>
<b>Operating expenses</b>						
Salaries, wages and benefits	243,615	2,185	245,800	232,411	2,630	235,041
General and administrative expenses	95,436	2,741	98,177	110,002	1,843	111,845
Depreciation and amortization	17,448	—	17,448	11,401	—	11,401
	<u>356,499</u>	<u>4,926</u>	<u>361,425</u>	<u>353,814</u>	<u>4,473</u>	<u>358,287</u>
<b>Net segment operating income (before tax)</b>	<u>287,857</u>	<u>2,756</u>	<u>290,613</u>	<u>301,707</u>	<u>62,245</u>	<u>363,952</u>
Loss on equity investments	—	34,905	34,905	—	60,227	60,227
Net segment income (loss) (before tax)	<u>\$ 287,857</u>	<u>\$ (32,149)</u>	<u>255,708</u>	<u>\$ 301,707</u>	<u>\$ 2,018</u>	<u>303,725</u>
Share-based compensation			18,605			15,425
Amortization of convertible debenture synthetic discount			10,441			9,779
Impairment on loans to 19 <sup>th</sup> Capital			480,000			—
Restructuring and transformation costs			111,366			111,989
Provision for (recovery) income taxes			(124,454)			10,425
Net income (loss) for the period			<u>\$ (240,250)</u>			<u>\$ 156,107</u>

The results presented for segments net certain amounts separated on the interim condensed consolidated statements of operations to conform to internal reporting standards.

#### Segmented financial position

	As at September 30, 2018			As at December 31, 2017		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
<b>Select balance sheet information</b>						
Finance receivables	\$ 12,210,751	\$ 318,176	\$ 12,528,927	\$ 11,904,630	\$ 863,503	\$ 12,768,133
Equipment under operating leases	1,677,911	—	1,677,911	1,599,423	—	1,599,423
Investment in joint venture (1)	—	—	—	—	10,000	10,000
Other equity investments (1) (2)	—	12,555	12,555	—	122,285	122,285
Goodwill and intangible assets	2,062,097	—	2,062,097	2,028,652	—	2,028,652
<b>Total select segment assets</b>	<u>\$ 15,950,759</u>	<u>\$ 330,731</u>	<u>16,281,490</u>	<u>\$ 15,532,705</u>	<u>\$ 995,788</u>	<u>16,528,493</u>
Corporate assets			1,228,694			1,041,140
<b>Total assets</b>			<u>\$ 17,510,184</u>			<u>\$ 17,569,633</u>

(1) Included in Equity investments on the interim condensed consolidated statements of financial position.

(2) Other equity investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., which was accounted for using the effective interest rate method and considered an earning asset. Upon adoption of IFRS 9 on January 1, 2018 by the Company, the investment is accounted for using fair value through profit and loss and no longer considered an earning asset.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### B) Geographic information

The Company primarily operates in the US, Canada and Other (Mexico, Australia and New Zealand). Geographic information is as follows:

For the three-month period ended	September 30, 2018				September 30, 2017			
	US	Canada	Other	Total	US	Canada	Other	Total
Net revenue excluding interest expense	\$ 242,449	\$ 29,787	\$ 61,742	\$ 333,978	\$ 234,273	\$ 33,292	\$ 64,944	\$ 332,509
Interest expense				(112,723)				(96,225)
Net revenue				\$ 221,255				\$ 236,284
<b>For the nine-month period ended</b>								
Net revenue excluding interest expense	\$ 703,207	\$ 85,273	\$ 189,438	977,918	\$ 695,800	\$ 116,706	\$ 189,555	1,002,061
Interest expense				(325,880)				(279,822)
Net revenue				\$ 652,038				\$ 722,239
<b>As at</b>								
<b>Select assets</b>								
Finance receivables	\$10,540,236	\$ 1,506,211	\$ 482,480	\$12,528,927	\$10,865,466	\$ 1,460,381	\$ 442,286	\$12,768,133
Equipment under operating leases	—	—	1,677,911	1,677,911	—	—	1,599,423	1,599,423
Goodwill and intangible assets	1,829,786	200,876	31,435	2,062,097	1,797,079	199,077	32,496	2,028,652
Property, equipment and leasehold improvements	45,813	4,794	6,683	57,290	50,528	5,529	11,352	67,409
	<b>\$12,415,835</b>	<b>\$ 1,711,881</b>	<b>\$ 2,198,509</b>	<b>\$16,326,225</b>	<b>\$12,713,073</b>	<b>\$ 1,664,987</b>	<b>\$ 2,085,557</b>	<b>\$16,463,617</b>

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

#### 17. 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.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 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, whereby fair value is determined using valuation techniques and inputs not based on observable market data. 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 receivable

The carrying value of finance loans receivable was \$877,594 and the estimated fair value was \$325,000 to \$345,000 as at September 30, 2018 (December 31, 2017 – \$795,000 to \$840,000). Included in the carrying value as at September 30, 2018 is \$793,336 related to loans provided to the 19<sup>th</sup> Capital joint venture against which a \$541,667 allowance for credit loss has been accrued, resulting in a book value of \$251,669 compared with an estimated fair value of \$240,000 to \$260,000 (December 31, 2017 – \$715,000 to \$760,000). 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, 2018, but see note 6 for a discussion of the loans receivable from 19<sup>th</sup> Capital. Finance loans receivable are also classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

##### 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 also 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.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 8. The fair market value of the debt component as at September 30, 2018 was estimated at \$905,800 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 also classified as Level 2 financial instruments.

#### Derivatives

The fair values of derivatives are presented in note 14 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 also classified as Level 2 financial instruments.

### 18. SUPPLEMENT TO INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<b>September 30, 2018</b>	September 30, 2017
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	\$ 27,108	\$ 4,810
Accounts payable and accrued liabilities	70,673	25,670
Deferred tax assets	(215,840)	(54,721)
Deferred tax liabilities	32,491	23,012
Derivative financial instruments	(753)	26,430
	<b>\$ (86,321)</b>	<b>\$ 25,201</b>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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.

	<b>For the nine-month period ended September 30, 2018</b>
<b>Finance receivables (note 3)</b>	
Balance as at December 31, 2017	\$ 12,768,133
Originations (included in cash flows)	4,046,685
Repayments (included in cash flows)	(3,454,048)
Assets sold to syndications (included in cash flows)	(514,401)
Amortization of deferred lease costs (adjustment to income in cash flows)	(18,092)
Impact of non-cash transfers	(103,361)
Provision for credit losses (adjustment to income in cash flows)	(580)
Impact of foreign exchange translation (excluded from cash flows)	(195,409)
<b>Balance as at September 30, 2018</b>	<b>\$ 12,528,927</b>
<b>Equipment under operating leases (note 4)</b>	
Balance as at December 31, 2017	\$ 1,599,423
Originations (included in cash flows as investment in equipment under operating leases)	625,615
Disposals (included in cash flows)	(179,622)
Amounts transferred from inventory	—
Depreciation of equipment under operating leases (adjustment to income in cash flows)	(293,299)
Impact of foreign exchange translation (excluded from cash flows)	(74,206)
<b>Balance as at September 30, 2018</b>	<b>\$ 1,677,911</b>
<b>Secured borrowings (note 7)</b>	
Balance as at December 31, 2017	\$ 12,307,873
Net issuance (included in cash flows)	3,278
Increase in deferred financing costs (included in cash flows)	(17,864)
Amortization of deferred financing costs (adjustment to income in cash flows)	33,042
Impact of foreign exchange translation (excluded from cash flows)	75,069
<b>Balance as at September 30, 2018</b>	<b>\$ 12,401,398</b>

## **Element Fleet Management Corp.**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **19. SUBSEQUENT EVENTS**

##### **Reduction of Common Share Dividend**

On October 1, 2018, the Company announced a reduction in the quarterly common share dividend from \$0.075 to \$0.045.

##### **Treasury Activity**

On October 1, 2018, the Company reduced the Chesapeake II VFN by USD \$350.0 million.

##### **Issuance of Common Shares**

On October 11, 2018, the Company closed its previously announced offering of 45,500,000 common shares at a price of \$6.60 per share realizing net proceeds of \$286,300 after expenses of the issue. The underwriters have an option to purchase up to 6,825,000 additional shares at the issue price for a period of 30 days following the closing date.

##### **Purchase of 19<sup>th</sup> Capital, LLC**

On October 19, 2018, the Company purchased the equity interest held by its joint venture partner for cash consideration of \$5,160, thereby obtaining 100% ownership of and control over 19<sup>th</sup> Capital. This acquisition of control will be reflected as a business combination during the fourth quarter of 2018.

As part of this business combination, the Company's existing equity and debt interest in 19<sup>th</sup> Capital will be measured at fair value as at the acquisition date. The acquisition-date fair value of the existing equity and debt interest is expected to be consistent the September 30, 2018 impaired carrying values of \$nil (note 5) and \$251,669 (note 6), respectively. However, any difference between the acquisition-date fair value and the September 30, 2018 carrying value will be recorded as a gain or loss through the statement of operations. The acquisition-date fair value of the existing equity and debt investment together with the cash consideration noted above will represent aggregate consideration paid by the Company for the identifiable assets acquired and liabilities assumed of 19<sup>th</sup> Capital. The Company's preliminary estimate of the fair value of aggregate consideration paid by the Company is \$256,829.

The Company has not yet completed its preliminary assessment of the fair value of the identifiable assets acquired and liabilities assumed. However, the Company expects the fair value of the total assets acquired and liabilities assumed to be approximately \$482,000 and \$226,000, respectively.

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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#### 20. PROVISIONS

A restructuring provision of \$35.0 million was recorded in the current quarter with respect to the strategic review conducted, realignment of the executive leadership team and commencement of spending on the transformation exercise announced on October 1, 2018. This provision was in addition to the \$40.0 million provision established in the first quarter. All amounts have been incurred and paid or to be paid by the end of 2018. No similar provisions were accrued in the corresponding periods of 2017.

The changes in the provisions during the periods were as follows:

<b>Nature of expenses</b>	<b>Q1 2018</b>	<b>Q3 2018</b>	<b>Total</b>	<b>Remaining Liability</b>
Severances	\$ 20,000	\$ 17,000	\$ 37,000	\$ 6,945
Professional fees	8,500	12,000	20,500	13,055
Office closure	5,500		5,500	—
Other	6,000	6,000	12,000	3,000
Total	<u>\$ 40,000</u>	<u>\$ 35,000</u>	<u>\$ 75,000</u>	<u>\$ 23,000</u>

## Element Fleet Management Corp.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### 21. TRANSITION TO IFRS 9

The following table shows the pre-transition IAS 39 and post-transition IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for finance receivables and other financial assets as at January 1, 2018 as a result of adopting IFRS 9:

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 carrying value as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 Carrying value as at January 1, 2018
Financial Assets						
ECAF	Amortized cost	FVTPL	\$ 130,588	\$ (8,303)	\$ (9,164)	\$ 113,121
Finance receivables	Amortized cost	Amortized cost	12,768,133	—	(68,854)	12,699,279
Total pre-tax impact of IFRS 9 adoption			12,898,721	(8,303)	(78,018)	12,812,400
Total after-tax Retained earnings			248,843	(6,300)	(59,004)	183,539
Total after-tax Shareholders' Equity			\$ 3,740,083	\$ (6,300)	\$ (59,004)	\$ 3,674,779

#### 22. COMPARATIVE FIGURES

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