

FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 Name and Address of Company

Element Fleet Management Corp. (“**Element**” or the “**Company**”)
161 Bay Street, Suite 3600
Toronto, Ontario M5J 2S1

Item 2 Date of Material Change

October 1, 2018.

Item 3 News Release

The news release referenced herein was disseminated over Marketwired on October 1, 2018. A copy of the news release (the “**News Release**”) is filed under the Company’s profile on SEDAR at www.sedar.com.

Item 4 Summary of Material Change

On October 1, 2018, Element announced by way of the News Release a customer-centric plan to meaningfully improve financial performance, strengthen and de-risk the Company’s balance sheet, and position the business for growth.

The plan includes:

- A series of concrete actions to improve the customer experience and generate an estimated \$150 million in run-rate pre-tax operating income improvements in the fleet management business by the end of 2020;
- A \$150 million investment in the business to achieve those improvements, which will be funded in part by capital retained after a reduction in the Company’s quarterly common share dividend from \$0.075 to \$0.045, and the introduction of a dividend reinvestment plan;
- An agreement, subject to the satisfaction of certain conditions, to purchase the interests in the 19th Capital Group LLC (“**19th Capital**”) joint venture that Element does not already own for nominal consideration, and the intention by Element to undertake an orderly run off of 19th Capital’s assets over the next 36 months. In conjunction with this initiative, Element will recognize an after-tax charge of approximately \$360 million in the third quarter reflecting a write down of the carrying value of its remaining investment in 19th Capital;
- Strengthening the Company’s investment-grade balance sheet through a \$300 million offering of common shares (“**Common Shares**”) via a bought deal transaction; and

- A clear accountability plan, including a Transformation Management Office run by a leading global consulting firm that will bring focus, support and accountability for the duration of the program, as well as regular reporting to track Element’s performance.

Item 5 Full Description of Material Change

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Transforming the Fleet Business

The plan to transform Element’s fleet business is based on a comprehensive assessment of its operations undertaken in recent months. This included customer and stakeholder interviews, extensive industry benchmarking, and in-depth reviews of Element’s operations, structure and balance sheet. Element’s management and Board of Directors (the “**Board**”) have examined key topics such as customer retention, rebate

management, people and culture, IT systems, allocation of capital expenditures, and more.

Key aspects of the plan include, among other things, simplifying how such fleet business works and Element's organizational structure, by reducing the nine existing layers of the organization to five, bringing leadership closer to the customer and simplifying operations and customer touchpoints to provide a better, more consistent customer experience, through initiatives such as automating manual processes to reduce errors and improve cycle times.

In total, approximately 80% (approximately \$120 million) of the expected total run rate pre-tax operating income improvement is anticipated to be from productivity enhancements to the customer experience, with the other 20% (approximately \$30 million) largely flowing from revenue assurance and improved retention.

As a result of these transformational changes to how Element does business, the Company's management expects to achieve the approximately \$150 million in annual pre-tax operating income improvements by executing on opportunities in three waves:

1. *Quick Wins* – Element expects to action \$40 million in run-rate profitability improvements by the end of 2018, and has already identified and advanced more than \$30 million of these to date. This phase includes the implementation of over 50 initiatives including organizational redesign, supplier management, revenue assurance and cost productivity.
2. *Back to Basics* – Throughout 2019, Element will execute on the second wave of over 25 projects that are collectively anticipated to take the Company to \$100 million of pre-tax run-rate profitability improvement by the end of that year. These projects will focus on improving customer service delivery, optimizing the Company's go-to-market strategy and pricing model, improving customer acquisition and retention, better managing rebates and procurement, and increased automation and organizational simplification.
3. *Building for the Future* – The final wave will consist of a smaller number of 5-10 projects that are anticipated to bring the pre-tax run-rate profitability improvement to the full \$150 million estimate by the end of 2020. Completing the fortification of Element's operating foundation; the Company will then pivot to growth, with focus on the mid-market fleet segments, salesforce optimization and other strategic growth levers.

To de-risk the execution of this transformation and to ensure that the customer experiences only positive outcomes from this undertaking, the Company has taken a number of steps to create crisp execution: (i) Element has created a Transformation Management Office, which will bring focus, support and accountability to the program; (ii) Element has also developed a changed management approach to train and support its team, and will align incentive compensation to the attainment of results; and (iii) Element is building capability and confidence with "Quick Wins", and the Company

has populated its executive ranks with seasoned leaders who have successfully steered organizations through extensive change.

In recent weeks, Element has added two more experienced executives with a demonstrated ability to manage change and deliver value – Jacqui McGillivray as Chief Human Resources Officer and Scott Davidson as Executive Vice President, Corporate Development. This is in addition to the previously announced appointments of Jay Forbes, as Chief Executive Officer, effective June 1st, and new Chief Financial Officer Vito Culmone, effective July 16th.

The Company has also realigned its executive team to put the right people in the right roles to drive the best possible customer experience, bring the executive close to the customers and front-line employees, enable faster decision making, and to represent the Company's strategic priorities. This includes the naming of Jim Halliday as Chief Operating Officer. The result is a well-balanced leadership team that combines a wealth of industry experience and established customer relationships, with new perspectives and strong change management experience.

Repositioning 19th Capital

Element also announced that its strategic assessment led the Company's management and the Board to conclude that attempting to undertake any further turnaround of the 19th Capital business would divert management's focus from its core fleet business and the aforementioned transformation plan. Accordingly, the Company announced that it had determined that the best path forward is to acquire full control of the 19th Capital joint venture and run off the business in an orderly fashion over the next 36 months.

Element announced that it reached an agreement to purchase the remaining equity interests in 19th Capital from Element's current joint venture partners for nominal consideration, subject to the satisfaction of certain conditions. Under the plan, Element will continue to serve 19th Capital's client base, while working to dispose of idle truck inventory, changing the origination process to improve the creditworthiness of 19th Capital clients and reduce churn, and running off existing leases. Element will cease further investment in new inventory to support the 19th Capital business.

The Company's plan to address 19th Capital is expected to result in an after-tax charge in Element's third-quarter results of approximately \$360 million. Following the acquisition and consolidation of 19th Capital onto Element's balance sheet, 19th Capital is expected to represent a residual investment of approximately \$260 million in book value, net of related third party debt.

Strengthening the Balance Sheet and Investing in Transformational Improvements

Element announced that it is undertaking a number of initiatives to further strengthen Element's financial position while also freeing up capital to fund the necessary investments in the business and to address near term refinancing requirements:

- Raising \$300 million via the sale of Common Shares pursuant to a bought deal offering;
- Reducing the common share dividend by 40% (from \$0.075 to \$0.045 per share per quarter);
- Instituting a dividend reinvestment program;
- Advancing sales of non-core assets, including surplus real estate; and
- Refinancing certain asset-backed security assets, creating approximately \$160 million in additional borrowing base.

In addition to creating greater stability and liquidity as of the date of announcement, Element expects these actions will effectively pre-finance the Company's convertible debentures maturing in June 2019, leaving less than \$150 million of that maturity to refinance.

In connection with these actions, management has engaged with both Fitch and DBRS to solicit their views on the impact of the transformation plan, the repositioning of 19th Capital and the various balance sheet initiatives described above. Based on these consultations, both Fitch and DBRS are expected to affirm their BBB+ ratings for Element going forward. Element has also engaged with the members of its senior lending syndicate, and secured lender support to implement the strategic plan.

Financial Outlook

Element also announced that as a result of the various strategic and transformational initiatives described in the News Release, management of the Company and the Board expect to realize material improvements in Element's earnings profile. For the 2020 fiscal year, Element is expected to generate after-tax adjusted operating income per share in the range of \$0.90 to \$0.95.

Please see the definitions of "Adjusted operating income" and "After-tax adjusted operating income per share" provided under the heading "Description of Non-IFRS Measures" contained on page 31 of Element's "Management Discussion and Analysis" in respect of the period ended June 30, 2018, which is publicly available on SEDAR. In future reporting periods, the definition of "Adjusted operating income" will be modified to: (i) remove the adjustment for the "share of loss from joint venture", which will no longer be applicable following the acquisition and consolidation of 19th Capital; and (ii) add a new adjustment in respect of one-time restructuring charges and other costs Element will incur in connection with the implementation of the transformation program.

Bought Deal Public Offering

Element also announced that it entered into an agreement with a syndicate of underwriters led by CIBC Capital Markets, BMO Capital Markets and Barclays Capital Canada Inc., and including National Bank Financial Inc., RBC Capital Markets and TD

Securities, as joint bookrunners. Pursuant to the agreement, the underwriters agreed to buy 45,500,000 Common Shares at a price of \$6.60 per Common Share for aggregate gross proceeds of approximately \$300 million (the “**Public Offering**”).

Element has granted the underwriters an overallotment option to purchase up to an additional 6,825,000 Common Shares (representing 15% of the Common Shares offered pursuant to the Public Offering) on the same terms and conditions as the Public Offering, exercisable, in whole or in part, at any time up to the 30th day after closing of the Public Offering. Should the option be fully exercised, the aggregate gross proceeds of the Public Offering will be approximately \$345 million.

The Company intends to use the net proceeds from the Public Offering to repay existing indebtedness owing under the Company’s senior credit facility and for general corporate purposes.

The closing date of the Public Offering is expected to be on or about October 11, 2018.

Dividend Reinvestment Plan

Element also announced that it had adopted a dividend reinvestment plan (the “**Dividend Reinvestment Plan**”) to be administered by Computershare Trust Company of Canada (the “**Plan Agent**”) which will become effective beginning with dividends expected to be declared and payable to holders of record of Common Shares in the fourth quarter of 2018.

The Dividend Reinvestment Plan provides eligible registered and beneficial shareholders an opportunity to reinvest their eligible cash dividends payable on Common Shares for additional Common Shares at a discount of 2% to the prevailing market price of the Common Shares on the Toronto Stock Exchange, which discount may be changed or eliminated by the Board from time to time.

Non-IFRS Measures

In this material change report, management used a number of terms and ratios (including annual pre-tax operating income and after-tax adjusted operating income per share) which do not have a standardized meaning under International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board. Such terms and ratios are unlikely to be comparable to similar measures presented by other organizations. A full description of these measures can be found in Element’s Management Discussion & Analysis that accompanies the financial statements for the most recent quarter or year, which have been filed on SEDAR (www.sedar.com). Element believes that certain Non-IFRS Measures can be useful to investors because they provide a means by which investors can evaluate Element’s underlying key drivers and operating performance of the business, exclusive of certain adjustments and activities that investors may consider to be unrelated to the underlying economic performance of the business of a given period.

Forward-Looking Statements

This material change report includes forward-looking statements regarding Element and its business. Such statements are based on the current expectations and views of future events of Element's management. In some cases the forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "plan", "anticipate", "intend", "potential", "estimate", "improve", "believe" or the negative of these terms, or other similar expressions intended to identify forward-looking statements, including, among others, statements regarding the objectives, vision and strategies of Element; the future financial reporting of Element; future cash flows, financial condition, operating performance, financial ratios, projected asset base, capital structure and capital expenditures; Element's after-tax adjusted operating income per share; Element's anticipated dividend policy and plans for future dividends, including realizing on its plans to implement a dividend reinvestment plan; Element's ability to deliver returns and benefits from its initiatives; customer acquisition, retention and experience; changes to management; relationships with suppliers; anticipated cash needs, capital requirements, need for and cost of additional financing and ability to access such financing; future assets; demand for services; Element's competitive position; anticipated trends and challenges in Element's business and the markets in which it operates; Element's borrowing base; those related to the completion and nature of the Public Offering; those related to the completion of the acquisition of the interests in 19th Capital not already owned by Element and the financial impact thereof; those related to the integration, operation and financial impact of 19th Capital following its acquisition, including Element's ability to dispose of 19th Capital's idle truck inventory, run off existing leases and change the origination process to improve the creditworthiness of 19th Capital clients and reduce churn; the extent, nature and impact of any write down of various fleet management businesses or non-core businesses (including those related to 19th Capital); the implementation of Element's systems integrations and organizational revisions; the extent, nature and impact of any value driver to create pre-tax run-rate operating income; Element's ability to generate pre-tax run-rate operating income; Element's ability to increase total shareholder return; Element's ability to pre-fund redemption of its outstanding convertible debentures upon their maturity, including realizing on its plans for selling certain non-core assets; anticipated impact on credit ratings; and Element's research and development investment plans and product offerings.

By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements and information in this material change report speak only as of the date of this material change report. The forward-looking information and statements contained in this material change report reflect several material factors, expectations and assumptions of Element including, without limitation: that Element will conduct its operations in a manner consistent with its expectations and, where applicable, consistent with past practice; acceptable negotiations with third parties; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing (and in certain circumstances,

the implementation of proposed) tax and regulatory regimes; certain cost assumptions; the continued availability of adequate debt and/or equity financing and cash flow to fund its capital and operating requirements as needed; Element's net interest margin; growth in lease receivables and service income; assumed rate of cost inflation; assumed applicable foreign exchange rates and applicable income tax rates; Element's funding mix; the number of Common Shares issued over the applicable period and under the Public Offering; terms of the new instruments issued to refinance Element's 2019 and 2020 convertible debentures; the reset rates for Element's outstanding preferred shares; proceeds from non-core asset sales; the operating performance of 19th Capital, including the terms upon which idle assets can be sold or leased, and timing of same; the extent of its assets and liabilities; and, in the case of the forward-looking statements regarding financial outlook, that Element will achieve the expected benefits, costs and timing of the transformation plan. Element believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking events and circumstances discussed in this material change report may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting Element, including risks regarding the fleet management and finance industries, economic factors, risks related to the completion of the purchase of new portfolios or technologies or the addition of new clients, risks related to the payment of dividends, risks relating to business integration and many other factors beyond the control of Element. No forward-looking statement can be guaranteed and Element cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statement or information. Accordingly, readers should not place undue reliance on any forward-looking statements or information. A discussion of the material risks applicable to Element can be found in Element's current Management Discussion and Analysis, and Annual Information Form, as well as the prospectus supplement filed in connection with the Public Offering, all of which have been or will be filed on SEDAR and can be accessed at www.sedar.com. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Element disclaims any intention and assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Further Information

For further details of the material change, please see the News Release filed on October 1, 2018 under the Company's profile on SEDAR at www.sedar.com.

5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

For further information, please contact Scott Davidson, EVP Corporate Development of the Company, at (416) 646-5686.

Item 9 Date of Report

October 3, 2018.