

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2019

Element Fleet Management Corp.

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

	As at June 30, 2019	As at December 31, 2018
	\$	\$
ASSETS		
Cash	91,226	21,999
Restricted funds (note 7)	476,747	504,454
Finance receivables (notes 3 and 16)	12,104,501	13,203,588
Equipment under operating leases (note 4)	2,219,003	2,161,663
Accounts receivable and other assets	219,528	270,997
Notes receivable (note 16)	10,081	13,698
Derivative financial instruments (note 16)	49,439	34,752
Property, equipment and leasehold improvements, net	109,921	60,969
Investments (notes 5 and 16)	23,166	124,353
Intangible assets, net	812,502	854,433
Deferred tax assets	398,361	410,864
Goodwill	1,258,002	1,302,236
	<u>17,772,477</u>	<u>18,964,006</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	796,911	706,720
Derivative financial instruments (note 16)	55,159	68,467
Secured borrowings (notes 7 and 16)	12,200,817	13,270,780
Convertible debentures (notes 8 and 16)	711,305	897,435
Deferred tax liabilities	70,931	45,119
	<u>13,835,123</u>	<u>14,988,521</u>
Shareholders' equity (note 9)	<u>3,937,354</u>	<u>3,975,485</u>
	<u>17,772,477</u>	<u>18,964,006</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018
	\$	\$
NET REVENUE		
Interest income, net (note 11)	167,075	169,814
Rental revenue and other (note 11)	184,788	146,518
Depreciation of equipment under operating leases (note 4)	(119,581)	(100,408)
	<u>232,282</u>	<u>215,924</u>
Interest expense	128,737	111,644
Net financing revenue	103,545	104,280
Fleet service revenue (note 11)	135,446	124,780
Direct costs of fixed rate service contracts (note 11)	(11,164)	(11,817)
Servicing income, net	124,282	112,963
Syndication revenue, net (note 11)	21,743	2,197
Net revenue	<u>249,570</u>	<u>219,440</u>
OPERATING EXPENSES		
Salaries, wages and benefits	84,532	82,071
General and administrative expenses	28,592	28,833
Depreciation and amortization (note 15)	10,470	5,972
Amortization of convertible debenture discount (note 8)	4,492	3,480
Share-based compensation (note 10)	5,410	5,191
	<u>133,496</u>	<u>125,547</u>
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	9,112	11,936
Restructuring and transformation costs (note 17)	21,949	1,306
	<u>31,061</u>	<u>13,242</u>
(Income) loss on investments (note 5)	(238)	4,601
Income before income taxes from operations	85,251	76,050
Provision for (recovery of) income taxes	21,190	(3,046)
Net income for the period	<u>64,061</u>	<u>79,096</u>
Basic earnings per share (note 12)	<u>\$ 0.12</u>	<u>\$ 0.18</u>
Diluted earnings per share (note 12)	<u>\$ 0.12</u>	<u>\$ 0.18</u>

See accompanying notes

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
NET REVENUE		
Interest income, net (note 11)	334,283	323,170
Rental revenue and other (note 11)	376,141	287,158
Depreciation of equipment under operating leases (note 4)	(242,126)	(197,261)
	<u>468,298</u>	<u>413,067</u>
Interest expense	257,866	213,157
Net financing revenue	210,432	199,910
Fleet service revenue (note 11)	265,350	250,543
Direct costs of fixed rate service contracts (note 11)	(22,940)	(22,881)
Servicing income, net	242,410	227,662
Syndication revenue, net (note 11)	38,955	3,211
Net revenue	<u>491,797</u>	<u>430,783</u>
OPERATING EXPENSES		
Salaries, wages and benefits	164,647	164,336
General and administrative expenses	58,390	62,673
Depreciation and amortization (note 15)	20,830	11,252
Amortization of convertible debenture discount (note 8)	8,147	6,904
Share-based compensation (note 10)	10,580	9,738
	<u>262,594</u>	<u>254,903</u>
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	18,288	23,807
Restructuring and transformation costs (note 17)	28,687	42,117
	<u>46,975</u>	<u>65,924</u>
Loss on investments (note 5)	1,092	14,905
Income before income taxes from operations	181,136	95,051
Provision for (recovery of) income taxes	36,602	(5,804)
Net income for the period	<u>144,534</u>	<u>100,855</u>
Basic earnings per share (note 12)	<u>\$ 0.28</u>	<u>\$ 0.21</u>
Diluted earnings per share (note 12)	<u>\$ 0.28</u>	<u>\$ 0.21</u>

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018
	\$	\$
Net income for the period	64,061	79,096
OTHER COMPREHENSIVE (LOSS) INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	(2,284)	11,676
Net unrealized foreign exchange (loss) gain	(67,460)	21,820
	(69,744)	33,496
Recovery of income taxes	(816)	(478)
Total other comprehensive (loss) income	(68,928)	33,974
Comprehensive (loss) income for the period	(4,867)	113,070

See accompanying notes

Element Fleet Management Corp.

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

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
Net income for the period	144,534	100,855
OTHER COMPREHENSIVE (LOSS) INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	(2,235)	16,549
Net unrealized foreign exchange (loss) gain	(145,273)	162,170
	(147,508)	178,719
(Recovery of) provision for income taxes	(2,117)	779
Total other comprehensive (loss) income	(145,391)	177,940
Comprehensive (loss) income for the period	(857)	278,795

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 / (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	3,092,010	680,412	46,200	75,805	(175,426)	256,484	3,975,485
Impact on adopting IFRS 16 (notes 2 and 15)	—	—	—	—	1,958	—	1,958
Restated opening balance under IFRS 16	3,092,010	680,412	46,200	75,805	(173,468)	256,484	3,977,443
Comprehensive income (loss) for the period	—	—	—	—	144,534	(145,391)	(857)
Dividends - Preferred shares (note 9)	—	—	—	—	(22,328)	—	(22,328)
Dividends - Common shares (note 9)	—	—	—	—	(38,962)	—	(38,962)
Net taxes on dividends paid	—	—	—	—	—	—	—
Options exercised (notes 9 and 10)	9,948	—	—	(7,330)	—	—	2,618
Issuance of shares, net of share issue costs (note 9)	3,849	—	—	—	—	—	3,849
Issuance of convertible debentures (note 8)	—	—	18,544	—	—	—	18,544
Deferred income taxes on equity component of convertible debentures	—	—	(4,812)	—	—	—	(4,812)
Employee stock option expense (note 10)	—	—	—	1,859	—	—	1,859
Balance, June 30, 2019	3,105,807	680,412	59,932	70,334	(90,224)	111,093	3,937,354
Balance, December 31, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083
Impact on adopting IFRS 9	—	—	—	—	(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 for the period	—	—	—	—	100,855	177,940	278,795
Dividends - Preferred shares (note 9)	—	—	—	—	(22,136)	—	(22,136)
Dividends - Common shares (note 9)	—	—	—	—	(57,053)	—	(57,053)
Net taxes on dividends paid	—	—	—	—	(599)	—	(599)
Options exercised (notes 13 and 14)	844	—	—	(528)	—	—	316
Employee stock option expense (note 10)	—	—	—	3,467	—	—	3,467
Balance, June 30, 2018	2,756,380	680,412	46,200	72,389	204,606	117,582	3,877,569

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	144,534	100,855
Items not affecting cash		
Share-based compensation (note 10)	1,859	3,467
Depreciation of property, equipment and leasehold improvements	13,627	6,942
Amortization of intangible assets, including from acquisitions	25,491	28,118
Amortization of deferred lease costs	15,115	11,498
Amortization of deferred financing costs	28,905	16,669
Depreciation of equipment under operating leases (note 4)	242,126	197,261
Amortization of convertible debenture discount and deferred costs (note 8)	12,316	10,592
Loss on investments	1,092	10,000
Share of earnings from other equity accounted investments	—	4,905
Provision for credit losses	1,452	394
	<u>486,517</u>	<u>390,701</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(2,931,725)	(2,762,285)
Repayments of finance receivables	2,258,280	2,321,218
Investment in equipment under operating leases	(587,275)	(419,295)
Proceeds on disposal of equipment under operating leases	209,386	141,302
Syndications of finance receivables	1,238,606	166,133
Other non-cash operating assets and liabilities	(21,532)	3,095
Cash provided by (used in) operating activities	<u>652,257</u>	<u>(159,131)</u>
INVESTING ACTIVITIES		
Investments	(338)	(13,255)
Sale of ECAF I Holdings Ltd.	97,476	—
Purchase of property, equipment and leasehold improvements	(14,486)	(3,080)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	27,900	1,969
Purchase of intangible assets	(12,213)	(22,942)
Decrease in notes receivable	3,617	3,558
Cash provided by (used in) investing activities	<u>101,956</u>	<u>(33,750)</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(5,087)	—
Cash payments for interest portion of lease liability	(1,220)	—
Decrease in restricted funds	10,342	(50,337)
Increase in deferred financing costs	(20,355)	(19,070)
Issuance of share capital, net	6,467	316
(Repayments) issuance of secured borrowings, net	(443,510)	389,479
Dividends paid	(57,441)	(79,189)
Repayment of 2014 convertible debenture	(345,000)	—
Issuance of 2019 convertible debenture	172,500	—
Cash (used in) provided by financing activities	<u>(683,304)</u>	<u>241,199</u>
Effects of foreign exchange rates on cash	(1,682)	785
Net increase in cash during the period	69,227	49,103
Cash, beginning of the period	21,999	76,637
Cash, end of the period	<u>91,226</u>	<u>125,740</u>
Supplemental cash flow information:		
Cash taxes paid	18,920	12,267
Cash interest paid	236,504	191,413

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with approximately \$17.8 billion in assets and operations in the US, Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 4,000 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018, which includes information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these unaudited interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on July 31, 2019.

Accounting policies

These unaudited 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, 2018, except as discussed below.

Syndication

The Company periodically syndicates certain finance receivables to third party financial institutions. At the time the finance receivables are syndicated, the net book value of the asset is removed from the statement

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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of financial position and the associated revenue and expenses are recognized immediately in the statement of operations within the Syndication revenue, net line item.

Fair value hedges

The Company designates fair value hedges as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged interest rate risk are accounted for as basis adjustments to the hedged financial instruments and are included in net income. Changes in fair value from the hedging derivatives are also included in net income. Any differences between the two represent hedge ineffectiveness that is included in other income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and the basis adjustment applied to the hedged item is amortized over the remaining term of the hedged item. If the hedged item is derecognized, the unamortized basis adjustment is recognized immediately in the consolidated statement of operations.

Recently adopted accounting standards

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

Effective January 1, 2019, the Company adopted IFRS 16, issued by the IASB, using the modified retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings. This adoption methodology does not require restatement of prior periods. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification and allowed the use of hindsight to determine the lease term for existing leases. In the application of hindsight, the Company evaluated its current real estate strategies, which resulted in the determination that certain renewal terms would likely be exercised and were therefore included in the expected lease term when calculating the lease liability and right of use asset. As a result, the recorded lease liability at adoption was higher than the lease commitments disclosed in the Company's December 31, 2018 audited annual financial statements.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments. This resulted in the recording of additional lease assets and lease liabilities of approximately \$79,700 as of January 1, 2019. Lessor accounting under the new standard was mostly left unchanged and did not impact the Company's vehicle leases with its clients. The adoption of this standard did not materially impact the Company's unaudited interim condensed consolidated operations and had no impact on cash flows.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Changes in the presentation of the unaudited interim condensed consolidated statements of operations and geographic location

During the first quarter, the Company modified the presentation and classification of the Net revenue section within the unaudited interim condensed consolidated statements of operations with the overarching principle of disaggregating revenue into three distinct revenue streams: 1) financing revenue, 2) syndication revenue, and 3) servicing revenue.

The primary reclassifications are as follows:

- Reclassification of gain on sale of disposition of equipment under operating leases from Service revenue and other to Rental revenue and other,
- Reclassification of syndication revenue from Service revenue and other to its own line item,
- Reclassification of certain US financing leases to Equipment under operating leases, and
- Reclassification of certain contract costs from Interest income, net to Servicing income, net.

Additionally, the Company modified its geographic locations from the US, Canada, and Other to the US and Canada, Australia and New Zealand, and Mexico to align with how management operates and evaluates the business.

The changes in presentation have been applied retrospectively to the 2018 comparative amounts in the interim condensed consolidated statements of financial position, operations, and cash flows and the geographic locations disclosed in the following notes to the unaudited interim condensed consolidated financial statements.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The following tables illustrate the reclassifications of the Company's unaudited interim condensed consolidated financial statements for the periods noted.

Interim condensed consolidated statement of operations

	Three months ended June 30, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
Interest income, net	169,303	511	169,814
Rental revenue and other	129,810	16,708	146,518
Depreciation of equipment under operating leases	(98,309)	(2,099)	(100,408)
	<u>200,804</u>	<u>15,120</u>	<u>215,924</u>
Interest expense	111,644	—	111,644
Net financing revenue	89,160	15,120	104,280
Fleet service revenue	142,097	(17,317)	124,780
Direct costs of fixed rate service contracts	(11,817)	—	(11,817)
Servicing income, net	130,280	(17,317)	112,963
Syndication revenue, net	—	2,197	2,197
Net revenue	<u><u>219,440</u></u>	<u><u>—</u></u>	<u><u>219,440</u></u>

	Six months ended June 30, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
Interest income, net	322,471	699	323,170
Rental revenue and other	255,669	31,489	287,158
Depreciation of equipment under operating leases	(193,612)	(3,649)	(197,261)
	<u>384,528</u>	<u>28,539</u>	<u>413,067</u>
Interest expense	213,157	—	213,157
Net financing revenue	171,371	28,539	199,910
Fleet service revenue	282,293	(31,750)	250,543
Direct costs of fixed rate service contracts	(22,881)	—	(22,881)
Servicing income, net	259,412	(31,750)	227,662
Syndication revenue, net	—	3,211	3,211
Net revenue	<u><u>430,783</u></u>	<u><u>—</u></u>	<u><u>430,783</u></u>

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Interim condensed consolidated statement of financial position

	As at December 31, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
Finance receivables	13,231,146	(27,558)	13,203,588
Equipment under operating leases	2,134,105	27,558	2,161,663

Interim condensed consolidated statement of cash flows

	Six months ended June 30, 2018		
	As previously reported	Adjustments	As reclassified
	\$	\$	\$
OPERATING ACTIVITIES			
Items not affecting cash			
Depreciation of equipment under operating leases	193,612	3,649	197,261
Changes in non-cash operating assets and liabilities			
Investment in finance receivables	(2,798,279)	35,994	(2,762,285)
Repayments of finance receivables	2,328,887	(7,669)	2,321,218
Investment in equipment under operating leases	(387,321)	(31,974)	(419,295)
Proceeds on disposal of equipment under operating leases	117,771	23,531	141,302
Syndications of finance receivables	189,664	(23,531)	166,133

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

3. FINANCE RECEIVABLES

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

	June 30, 2019			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	11,098,633	257,900	145,784	11,502,317
Unguaranteed residual values	823	62,651	—	63,474
Gross investment	11,099,456	320,551	145,784	11,565,791
Unearned income	(1,028,104)	(41,747)	—	(1,069,851)
Net investment	10,071,352	278,804	145,784	10,495,940
Net realizable value of impaired receivables	49,798	5,438	—	55,236
Unamortized deferred costs and subsidies	(90,932)	—	—	(90,932)
Prepaid lease payments and security deposits	(19,248)	(173)	(30,381)	(49,802)
Interim fundings	669,783	—	43,156	712,939
Fleet management service receivables	669,701	33,807	15,591	719,099
Other receivables	149,185	80,286	40,733	270,204
Allowance for credit losses (Subsection C)	(6,173)	(1,176)	(834)	(8,183)
Total finance receivables	11,493,466	396,986	214,049	12,104,501

	December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	12,228,537	258,052	109,587	12,596,176
Unguaranteed residual values	4,704	72,435	—	77,139
Gross investment	12,233,241	330,487	109,587	12,673,315
Unearned income	(1,128,602)	(43,555)	—	(1,172,157)
Net investment	11,104,639	286,932	109,587	11,501,158
Net realizable value of impaired receivables	8,064	25,263	—	33,327
Unamortized deferred costs and subsidies	(106,178)	—	—	(106,178)
Prepaid lease payments and security deposits	(42,167)	(236)	(26,936)	(69,339)
Interim fundings	770,542	—	100,266	870,808
Fleet management service receivables	718,297	32,176	15,245	765,718
Other receivables	109,286	83,485	24,655	217,426
Allowance for credit losses (Subsection C)	(6,667)	(2,039)	(626)	(9,332)
Total finance receivables	12,555,816	425,581	222,191	13,203,588

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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:

	June 30, 2019 ⁽¹⁾		December 31, 2018 ⁽¹⁾	
	\$	%	\$	%
31-60 days past due	7,526	0.07	5,349	0.05
61-90 days past due	1,100	0.01	6,080	0.05
Greater than 90 days past due	1,036	0.01	4,286	0.04
Total past due	9,662	0.09	15,715	0.14
Current	10,486,278	99.91	11,485,443	99.86
Total net investment	10,495,940	100.00	11,501,158	100.00

1. As at June 30, 2019, \$922 (December 31, 2018 - \$1,157) of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover losses.

B) Interest rate characteristics of net investment in finance receivables

	June 30, 2019		December 31, 2018	
	Leases	Loans	Leases	Loans
Net investment	\$ 10,383,854	\$ 112,086	\$ 11,387,535	\$ 113,623
Weighted average fixed interest rate	4.64%	7.79%	4.57%	8.77%
Weighted average floating interest rate	4.84%	6.29%	5.04%	8.13%
Percentage of portfolio with fixed interest rate	46.93%	97.63%	48.35%	98.56%

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

C) Allowance for credit losses

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

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	3	207	213	423
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	—	—	—
Loan originations	—	—	—	—
Changes in models and inputs, derecognition, and repayments	3	166	(169)	—
Total	6	373	44	423
Charge-offs, net of recoveries	—	7	—	7
Foreign exchange	—	(10)	(1)	(11)
Balance at June 30, 2019	6	370	43	419

Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	—	8,556	322	8,878
Transfer to Stage 2	—	66	(66)	—
Transfer to Stage 3	—	(547)	547	—
Lease originations	—	2,121	—	2,121
Changes in models and inputs, derecognition, and repayments	—	(414)	(247)	(661)
Total	—	9,782	556	10,338
Charge-offs, net of recoveries	—	(2,119)	—	(2,119)
Foreign exchange	—	(488)	(3)	(491)
Balance at June 30, 2019	—	7,175	553	7,728

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2019	—	19	12	31
Provision for credit losses	—	—	(8)	(8)
Charge-offs, net of recoveries	—	7	6	13
Foreign exchange	—	—	—	—
Balance at June 30, 2019	—	26	10	36

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	22	65,193	340	65,555
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	(19)	15	479,622	479,618
Total	3	148	545,022	545,173
Charge-offs, net of recoveries ⁽¹⁾	—	—	(552,500)	(552,500)
Foreign exchange	—	59	7,691	7,750
Balance at December 31, 2018	3	207	213	423

Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	—	7,544	39	7,583
Transfer to Stage 2	—	31	(31)	—
Transfer to Stage 3	—	(325)	325	—
Lease originations	—	9,136	—	9,136
Changes in models and inputs, derecognition, and repayments	—	(6,850)	(5)	(6,855)
Total	—	9,536	328	9,864
Charge-offs, net of recoveries	—	(1,398)	—	(1,398)
Foreign exchange	—	418	(6)	412
Balance at December 31, 2018	—	8,556	322	8,878

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at January 1, 2018	—	7	13	20
Provision for credit losses	—	13	1	14
Charge-offs, net of recoveries	—	(1)	(2)	(3)
Foreign exchange	—	—	—	—
Balance at December 31, 2018	—	19	12	31

1. On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital (note 6). At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position at the acquisition-date fair value.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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

	Six-month period ended	Year ended
	June 30, 2019	December 31, 2018
	\$	\$
Allowance for credit losses		
Allowance for credit losses, beginning of period	9,332	4,304
IFRS 9 adjustment	—	68,854
Provision for credit losses	1,452	1,913
Provision for 19 th Capital	—	480,000
Charge-offs, net of recoveries ⁽¹⁾	(2,099)	(553,901)
Impact of foreign exchange rates	(502)	8,162
Allowance for credit losses, end of period	8,183	9,332
Allowance as a percentage of finance receivables	0.07%	0.07%
Finance receivables in arrears (90 days and over)	\$ 1,036	\$ 4,285
Arrears (90 days and over) as a percentage of net investment in finance receivables	0.01%	0.04%

1. On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital (note 6). At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position at the acquisition-date fair value.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

D) Credit risk exposure

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at June 30, 2019:

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	12	12,945	—	12,957
Medium	30,350	8,483	—	38,833
High	—	7,530	—	7,530
Not rated	—	52,767	—	52,767
Impaired	—	—	922	922
	30,362	81,725	922	113,009
Allowance for credit losses	(6)	(370)	(43)	(419)
Net carrying value	30,356	81,355	879	112,590
Finance leases				
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	6,601,263	—	6,601,263
Medium	—	3,451,643	—	3,451,643
High	—	237,929	—	237,929
Not rated	—	93,018	—	93,018
Other finance receivables	—	270,204	—	270,204
Impaired	—	—	54,314	54,314
	—	10,654,057	54,314	10,708,371
Allowance for credit losses	—	(7,175)	(553)	(7,728)
Net carrying value	—	10,646,882	53,761	10,700,643
Fleet management service receivables				
	\$	\$	\$	\$
Not rated	—	715,485	3,614	719,099
Allowance for credit losses	—	(26)	(10)	(36)
Net carrying value	—	715,459	3,604	719,063

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at December 31, 2018:

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	15	13,558	—	13,573
Medium	39,688	9,742	—	49,430
High	—	11,922	—	11,922
Not rated	—	38,698	—	38,698
Impaired	—	—	1,157	1,157
	39,703	73,920	1,157	114,780
Allowance for credit losses	(3)	(207)	(213)	(423)
Net carrying value	39,700	73,713	944	114,357
<hr/>				
Finance leases	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	7,318,012	—	7,318,012
Medium	—	3,713,739	—	3,713,739
High	—	284,895	—	284,895
Not rated	—	70,889	—	70,889
Other finance receivables	—	217,426	—	217,426
Impaired	—	—	32,170	32,170
	—	11,604,961	32,170	11,637,131
Allowance for credit losses	—	(8,556)	(322)	(8,878)
Net carrying value	—	11,596,405	31,848	11,628,253
<hr/>				
Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Not rated	—	763,636	2,082	765,718
Allowance for credit losses	—	(19)	(12)	(31)
Net carrying value	—	763,617	2,070	765,687

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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

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

4. EQUIPMENT UNDER OPERATING LEASES

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

	June 30, 2019	December 31, 2018
	\$	\$
Cost	2,871,742	2,922,965
Accumulated depreciation	652,739	761,302
Net carrying amount	2,219,003	2,161,663

5. INVESTMENTS

	December 31, 2018	Acquisition or (disposal)	(Loss) income	Foreign exchange loss	June 30, 2019
	\$	\$	\$	\$	\$
Equity accounted investments					
Amerit Fleet Holdings, LLC	15,215	—	(1,254)	(543)	13,418
Fair value through profit/loss accounted investments ("FVTPL")					
ECAF I Holdings Ltd.	99,590	(97,763)	—	(1,827)	—
AutoTech Fund I, LP	3,370	901	323	(146)	4,448
DMG Blockchain Solutions Inc.	2,110	(566)	(161)	—	1,383
Parking Warrior, LP	2,705	—	—	(100)	2,605
Work Truck Solutions, Inc.	1,363	—	—	(51)	1,312
Net investments	124,353	(97,428)	(1,092)	(2,667)	23,166

On April 12, 2019, the Company sold its 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

pooled-aircraft asset-backed securities issuer, for \$97,476 (USD \$72,864) which approximated the current carrying value of the investment.

6. 19TH CAPITAL GROUP LLC

On October 19, 2018, the Company purchased the equity interest held by its joint venture partner for \$5,220, (USD \$4,000) thereby obtaining 100% ownership and control over 19th Capital Group LLC ("19th Capital"). At the time of acquisition, the loans receivable from, and the investments in, 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded in the Company's consolidated statement of financial position at the acquisition-date fair value. As at June 30, 2019 and December 31, 2018 and for the periods then ended, all assets, liabilities, and operations of 19th Capital subsequent to acquisition are fully consolidated in the financial statements of the Company.

7. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	June 30, 2019			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	6,973,075	2.80	7,121,304	77,169
Variable rate borrowings	2,678,714	2.91	2,907,159	22,573
Other	218,186	4.84	227,281	—
Vehicle management asset-backed debt	9,869,975	2.87	10,255,744	99,742
Term senior credit facility ⁽²⁾	2,372,370	3.52	—	—
	<u>12,242,345</u>	<u>3.00</u>	<u>10,255,744</u>	<u>99,742</u>
Deferred financing costs	(51,627)			
Hedge accounting fair value adjustments	10,099			
Total secured borrowings	<u>12,200,817</u>			

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 favor of the lenders consisting of a first priority interest on all property.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	December 31, 2018			
	Balance outstanding	Weighted average interest rate(1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	5,390,660	2.52	5,569,745	58,277
Term notes, in revolving period	1,907,920	3.23	1,971,304	19,652
Variable rate borrowings	3,380,147	3.28	3,560,286	27,301
Other	246,036	4.86	246,035	—
Vehicle management asset-backed debt	10,924,763	2.93	11,347,370	105,230
Term senior credit facility ⁽²⁾	2,406,195	3.54	—	—
	<u>13,330,958</u>	<u>3.04</u>	<u>11,347,370</u>	<u>105,230</u>
Deferred financing costs	(60,178)			
Total secured borrowings	<u>13,270,780</u>			

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 favor 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 at June 30, 2019.

Vehicle management asset-backed debt

During the three and six-month periods ended June 30, 2019, USD \$1,400,000 of revolving notes were converted into amortizing term notes.

During the three and six-month periods ended June 30, 2019, the Company issued USD \$1,000,000 of revolving term notes. The proceeds from this issuance were used to pay down variable funding notes.

As at June 30, 2019, the Company has available capacity in variable rate borrowings and other of \$5,691,349 (December 31, 2018 – \$3,894,043) under its vehicle management asset-backed debt facilities.

Term senior credit facility

As at June 30, 2019, the Company had access to an additional \$1,564,230 (December 31, 2018 - \$1,682,205) of available financing from the term senior credit facility.

Restricted funds

As at June 30, 2019, restricted funds include (i) cash reserves of \$99,742 (December 31, 2018 - \$105,230), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$367,825 (December 31, 2018 - \$367,094), 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 derivatives liabilities of \$9,180 (December 31, 2018 - \$32,130).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

8. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

June 30, 2019							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
May 29, 2015	June 30, 2020	17.33	4.250	575,000	(4,889)	(6,411)	563,700
April 5, 2019	June 30, 2024	11.99	4.250	172,500	(6,294)	(18,601)	147,605
				747,500	(11,183)	(25,012)	711,305

December 31, 2018							
Issue Date	Final maturity date	Conversion price per share	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
June 18, 2014	June 30, 2019	13.13	5.125	345,000	(1,324)	(4,009)	339,667
May 29, 2015	June 30, 2020	17.51	4.250	575,000	(7,459)	(9,773)	557,768
				920,000	(8,783)	(13,782)	897,435

1. The conversion price was adjusted on June 28, 2019, the ex-dividend date for dividends to be paid on July 15, 2019, to \$11.99453 for the April 5, 2019 issuance and \$17.33238 for the May 29, 2015 issuance.

2. Stated interest rate on principal face value.

April 5, 2019 Issuance

On April 5, 2019, the Company closed on its offering of \$150,000, 4.25% aggregate principal amount of convertible unsecured subordinated debentures (the "2019 Debentures"). On April 8, 2019, the underwriters exercised in full their over-allotment option to purchase an additional \$22,500 aggregate principal amount of the 2019 Debentures. With the exercise of the over-allotment, the Company has issued a total of \$172,500 aggregate principal amount of 2019 Debentures pursuant to the offering.

To determine the initial amount of the respective debt and equity components of the 2019 Debentures issued, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 6.80%, which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of \$146,553 (net of transaction costs of \$6,572) and the equity component was assigned a value of \$18,544 (net of after-tax transaction costs of \$831, and before the impact of deferred taxes).

The 2019 Debentures bear interest at an annual coupon rate of 4.25% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2019. The maturity date for the 2019 Debentures is June 30, 2024.

Each 2019 Debenture is convertible into common shares at the option of the holder of a Debenture at any

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

time prior to 5:00 p.m. (Toronto time) on June 30, 2024, initially at a conversion price of \$12.05 per common share (the "2019 Conversion Price"), subject to adjustment in accordance with the indenture agreement. Holders converting their 2019 Debentures will be entitled to receive, in addition to the applicable number of common shares to be received on conversion, accrued and unpaid interest thereon in cash for the period from the last interest payment date on their 2019 Debentures to, but excluding, the date of conversion.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2019 Conversion Price. As at June 30, 2019, the Company has not redeemed any of the 2019 Debentures.

Subject to required regulatory approvals and provided that there is not a current 2019 Debenture event of default, the Company may, at its option and with notice, elect to repay, in whole or in part, the principal amount of the 2019 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2019 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2019 Debentures to be redeemed or that have matured, by 95% of the current market price of the common shares on the redemption date or maturity date. Any accrued and unpaid interest will be paid in cash.

June 18, 2014 Issuance

On June 30, 2019, the \$345,000, 5.125% extendible convertible unsecured subordinated debentures matured and were repaid in full, including accrued interest, by the Company, on June 28, 2019, in accordance with the Trust Indenture.

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	
	Shares	Amount
	#	\$
Balance, December 31, 2018	433,204,448	3,092,010
Share issuance	492,737	3,849
Exercise of options	1,156,374	9,948
Balance, June 30, 2019	434,853,559	3,105,807
Balance, December 31, 2017	380,355,836	2,755,536
Share issuance	52,325,000	333,849
Exercise of options	523,612	2,625
Balance, December 31, 2018	433,204,448	3,092,010

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Common share dividends

During the three and six-month periods ended June 30, 2019, the Company paid \$19,468 and \$38,962, respectively, in common share dividends, or \$0.045 and \$0.09, respectively, per common share (three and six-month periods ended June 30, 2018 - \$28,527 and \$57,053, respectively, in common share dividends, or \$0.075 and \$0.15 per common share, respectively).

As at June 30, 2019, un-accrued common share dividends were \$19,568 or \$0.045 per common share (December 31, 2018 - \$19,494 or \$0.045 per common share).

On October 1, 2018, Element Fleet announced the adoption of a dividend reinvestment plan ("DRIP"). The DRIP provides eligible shareholders an opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX, which discount may be changed or eliminated by the Board of Element Fleet from time to time. To be eligible to participate in the DRIP, shareholders must be resident in Canada. Shareholders residing outside of Canada are not eligible to participate in the DRIP. There were no common shares issued under the DRIP during the year ended December 31, 2018. During the three and six-month periods ended June 30, 2019, the Company issued 306,678 and 492,737 common shares under the DRIP.

Preferred shares

	As at June 30, 2019	
	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

On March 7, 2014, the Company issued, through a public offering, 5,126,400 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series C ("Series C shares") at a price of \$25.00 per preferred share for gross proceeds of \$128,160. The issuance included pre-tax transaction costs of \$4,639 (or after-tax transaction costs of \$3,416).

For each five-year period, holders of the Series C shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.81%. The Company had the right to redeem the Series C shares on June 30, 2019, and will so on June 30 every five years thereafter for \$25 per Series C share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series C shares, the holders of the Series C shares had the right on June 30, 2019, and will so on June 30 every five years thereafter, to convert all or any of the Series C shares into Series D shares, on the basis of one Series D share for each Series C share converted. Holders of Series D shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.81%.

On June 21, 2019, the Company announced during the conversion notice period, which commenced on May 31, 2019 and ended at 5:00 p.m. (EST) on June 17, 2019, 145,926 Series C shares were tendered for conversion into Series D shares. In accordance with Section 6.03(a)(iii) of the rights, privileges, restrictions and conditions attaching to the Series C shares, as provided in the Company's restated articles of incorporation dated October 4, 2016, since there would be outstanding on June 30, 2019 less than 500,000 Series D shares, after having taken into account all Series C shares tendered for conversion into Series D shares, holders of Series C shares who elected to tender their shares for conversion will not have their Series C shares converted into Series D shares on June 30, 2019. As a result, no Series D shares were outstanding on June 30, 2019.

The dividend rate applicable to the Series C shares for the period from and including June 30, 2019 up to, but excluding, June 30, 2024, was reset from 6.50% to 6.21%, being equal to the sum of the five-year Government of Canada bond yield determined as of May 31, 2019 plus 4.81%.

Preferred share dividends

During the three and six-month periods ended June 30, 2019, the Company paid \$11,164 and \$22,328, respectively, in preferred share dividends (three and six-month periods ended June 30, 2018 – \$11,068 and \$22,136, respectively).

As at June 30, 2019, the un-accrued cumulative preferred share dividends were \$121 (December 31, 2018 – \$122).

10. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
(a) Stock options	881	1,611	1,859	3,467
(b) Deferred share units	556	643	805	235
(c) Performance share units	112	88	(93)	3,005
(d) Restricted share units	3,861	2,849	8,009	3,031
	5,410	5,191	10,580	9,738

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

(a) Stock options

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

	Number of options #	Weighted average exercise price \$
Outstanding, December 31, 2017	21,368,293	10.92
Granted ⁽¹⁾	5,949,443	6.04
Forfeited	(670,368)	11.94
Expired	(430,424)	10.82
Exercised ⁽²⁾	(888,334)	3.79
Outstanding, December 31, 2018	25,328,610	10.01
Forfeited	(179,497)	7.44
Expired	(1,009,214)	11.60
Exercised ⁽²⁾	(2,740,886)	5.72
Outstanding, June 30, 2019	21,399,013	10.51

1. 4,100,000 options granted during 2018 contain performance vesting criteria; an additional 1,849,443 options granted during 2018 vest as described in each tranche of the award.

2. Weighted average share price of options exercised during the six-month period ended June 30, 2019 was \$8.15 (year ended December 31, 2018 – \$6.51).

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2017	1,393,987	268,934	1,255,415
Granted	360,185	606,247	2,210,714
Forfeited	—	(24,538)	(106,925)
Redeemed	(972,535)	(468,304)	(1,255,471)
Outstanding, December 31, 2018	781,637	382,339	2,103,733
Granted	121,955	1,104,863	820,514
Forfeited	—	—	(49,286)
Redeemed	(119,340)	—	(702,516)
Outstanding, June 30, 2019	784,252	1,487,202	2,172,445

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

11. REVENUE

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

	Three-month period ended			Three-month period ended		
	June 30, 2019			June 30, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Major service lines						
Interest income, net	166,838	237	167,075	155,730	14,084	169,814
Rental revenue	145,707	26,092	171,799	133,123	—	133,123
Gain on sale of equipment under operating leases	10,618	2,371	12,989	13,395	—	13,395
Depreciation of equipment under operating leases	(106,500)	(13,081)	(119,581)	(100,408)	—	(100,408)
Financing revenue before interest expense	216,663	15,619	232,282	201,840	14,084	215,924
Other service revenue, net	98,417	46	98,463	87,122	784	87,906
Vehicle sales and end of contract fees	25,819	—	25,819	25,057	—	25,057
Service and other revenue, net	124,236	46	124,282	112,179	784	112,963
Syndication revenue, net	21,743	—	21,743	2,197	—	2,197
Net revenue before interest expense	362,642	15,665	378,307	316,216	14,868	331,084
Primary geographical markets						
US and Canada	292,727	15,576	308,303	253,046	12,947	265,993
Australia and New Zealand	46,840	89	46,929	46,786	1,921	48,707
Mexico	23,075	—	23,075	16,384	—	16,384
Net revenue before interest expense	362,642	15,665	378,307	316,216	14,868	331,084
Timing of revenue recognition						
Revenue earned at a point in time	110,594	—	110,594	73,909	—	73,909
Revenue earned over time	252,048	15,665	267,713	242,307	14,868	257,175
Net revenue before interest expense	362,642	15,665	378,307	316,216	14,868	331,084

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	Six-month period ended			Six-month period ended		
	June 30, 2019			June 30, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Major service lines						
Interest income, net	333,076	1,207	334,283	296,220	26,950	323,170
Rental revenue	291,579	58,292	349,871	261,838	—	261,838
Gain on sale of equipment under operating leases	21,379	4,891	26,270	25,320	—	25,320
Depreciation of equipment under operating leases	(212,728)	(29,398)	(242,126)	(197,261)	—	(197,261)
Financing revenue before interest expense	433,306	34,992	468,298	386,117	26,950	413,067
Other service revenue, net	189,385	215	189,600	178,011	1,436	179,447
Vehicle sales and end of contract fees	52,810	—	52,810	48,215	—	48,215
Service and other revenue, net	242,195	215	242,410	226,226	1,436	227,662
Syndication revenue, net	38,955	—	38,955	3,211	—	3,211
Net revenue before interest expense	714,456	35,207	749,663	615,554	28,386	643,940
Primary geographical markets						
US and Canada	578,202	35,074	613,276	490,328	25,224	515,552
Australia and New Zealand	90,783	133	90,916	93,604	3,162	96,766
Mexico	45,471	—	45,471	31,622	—	31,622
Net revenue before interest expense	714,456	35,207	749,663	615,554	28,386	643,940
Timing of revenue recognition						
Revenue earned at a point in time	213,031	—	213,031	145,646	—	145,646
Revenue earned over time	501,425	35,207	536,632	469,908	28,386	498,294
Net revenue before interest expense	714,456	35,207	749,663	615,554	28,386	643,940

Revenue earned at a point in time includes accident, fuel, and title and registration fees, and vendor commissions. Revenue earned over time includes interest income, fleet management fees, including maintenance fees, and telematics services.

(A) Contract balances

	June 30, 2019	December 31, 2018
	\$	\$
Contract assets	47,651	41,876

Contract assets represent the costs the Company incurs to enter into contracts with customers including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

B) Performance obligations

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

12. EARNINGS PER SHARE

Basic earnings per share are as follows::

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Net income attributable to shareholders	64,061	79,096	144,534	100,855
Cumulative dividends on preferred shares	(11,164)	(11,068)	(22,328)	(22,136)
Net income available to common shareholders	52,897	68,028	122,206	78,719
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	434,687,227	380,458,363	434,150,208	380,409,520
Basic earnings per share	\$ 0.12	\$ 0.18	\$ 0.28	\$ 0.21

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Diluted earnings per share is as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Net income available to common shareholders adjusted for the effects of dilution	54,445	68,028	123,754	78,719
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	434,687,227	380,458,363	434,150,208	380,409,520
Convertible debentures (number)	14,381,556	—	14,381,556	—
Dilutive stock options and warrants (number)	491,305	416,723	736,907	533,033
Weighted average number of common shares outstanding – diluted (number)	449,560,088	380,875,086	449,268,671	380,942,553
Diluted earnings per share	\$ 0.12	\$ 0.18	\$ 0.28	\$ 0.21

(1) Prior year weighted average number of common shares outstanding has been adjusted for the impact of the issuance of shares under the DRIP by 6,129 and 5,219 shares for the three and six-month period ended June 30, 2018, respectively.

Instruments outstanding as at June 30, 2019 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 14,137,072 and 14,137,072 stock options for the three and six-month periods ended June 30, 2019, respectively (three and six-month periods ended June 30, 2018 – 24,922,526 and 24,922,526 stock options, respectively).

In addition, the May 29, 2015 convertible debentures (note 8) were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three and six-month periods ended June 30, 2019 and 2018.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

13. 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:

	June 30, 2019	December 31, 2018
	\$	\$
Secured borrowings	12,200,817	13,270,780
Convertible debentures	711,305	897,435
Total debt	12,912,122	14,168,215
Shareholders' equity	3,937,354	3,975,485
	16,849,476	18,143,700

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)

14. SEGMENTED INFORMATION

Operating segments

The Company operates and reports in two separate segments (a) the Fleet Management segment and, (b) the Non-Core segment, to reflect differing characteristics of assets and operations from core fleet management. 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 June 30, 2019			Three-month period ended June 30, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Net interest income and rental revenue	216,663	15,619	232,282	201,840	14,084	215,924
Interest expense	114,209	14,528	128,737	100,423	11,221	111,644
Net financing revenue	102,454	1,091	103,545	101,417	2,863	104,280
Servicing income, net	124,236	46	124,282	112,179	784	112,963
Syndication revenue, net	21,743	—	21,743	2,197	—	2,197
Net revenue	248,433	1,137	249,570	215,793	3,647	219,440
Operating expenses						
Salaries, wages and benefits	82,797	1,735	84,532	81,338	733	82,071
General and administrative expenses	29,148	(556)	28,592	28,343	490	28,833
Depreciation and amortization	9,802	668	10,470	5,972	—	5,972
	121,747	1,847	123,594	115,653	1,223	116,876
Net segment operating income (loss) (before tax)	126,686	(710)	125,976	100,140	2,424	102,564
(Income) loss on investments	—	(238)	(238)	—	4,601	4,601
Net segment income (loss) (before tax)	126,686	(472)	126,214	100,140	(2,177)	97,963
Share-based compensation			5,410			5,191
Amortization of convertible debenture discount			4,492			3,480
Amortization of intangible assets from acquisitions			9,112			11,936
Restructuring and transformation costs			21,949			1,306
Provision for (recovery of) income taxes			21,190			(3,046)
Net income for the period			64,061			79,096

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	Six-month period ended June 30, 2019			Six-month period ended June 30, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Net interest income and rental revenue	433,306	34,992	468,298	386,118	26,949	413,067
Interest expense	228,321	29,545	257,866	191,314	21,843	213,157
Net financing revenue	204,985	5,447	210,432	194,804	5,106	199,910
Servicing income, net	242,195	215	242,410	226,226	1,436	227,662
Syndication revenue, net	38,955	—	38,955	3,211	—	3,211
Net revenue	486,135	5,662	491,797	424,241	6,542	430,783
Operating expenses						
Salaries, wages and benefits	161,018	3,629	164,647	162,873	1,463	164,336
General and administrative expenses	56,896	1,494	58,390	61,697	976	62,673
Depreciation and amortization	19,542	1,288	20,830	11,252	—	11,252
	237,456	6,411	243,867	235,822	2,439	238,261
Net segment operating income (loss) (before tax)	248,679	(749)	247,930	188,419	4,103	192,522
Loss on investments	—	1,092	1,092	—	14,905	14,905
Net segment income (loss) (before tax)	248,679	(1,841)	246,838	188,419	(10,802)	177,617
Share-based compensation			10,580			9,738
Amortization of convertible debenture discount			8,147			6,904
Amortization of intangible assets from acquisitions			18,288			23,807
Restructuring and transformation costs			28,687			42,117
Provision for (recovery of) income taxes			36,602			(5,804)
Net income for the period			144,534			100,855

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)

Segmented financial position

	As at June 30, 2019			As at December 31, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select condensed consolidated statement of financial position information						
Finance receivables	12,065,620	38,881	12,104,501	13,147,971	55,617	13,203,588
Equipment under operating leases	1,847,938	371,065	2,219,003	1,778,868	382,795	2,161,663
Other investments ⁽¹⁾	—	—	—	—	99,590	99,590
Goodwill and intangible assets	2,070,504	—	2,070,504	2,156,669	—	2,156,669
Total select segment assets	15,984,062	409,946	16,394,008	17,083,508	538,002	17,621,510
Other assets			1,378,469			1,342,496
Total assets			17,772,477			18,964,006

1. Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., ("ECAF") 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 FVTPL and no longer considered an earning asset. The ECAF investment was sold on April 12, 2019.

Geographic information

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

Select geographic assets are as follows:

As at	June 30, 2019				December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	11,493,466	396,986	214,049	12,104,501	12,555,816	425,581	222,191	13,203,588
Equipment under operating leases	400,671	1,272,799	545,533	2,219,003	410,356	1,313,434	437,873	2,161,663
Goodwill and intangible assets	2,038,514	31,840	150	2,070,504	2,123,244	33,425	—	2,156,669
Property, equipment and leasehold improvements	72,649	28,224	9,048	109,921	49,506	8,671	2,792	60,969
	14,005,300	1,729,849	768,780	16,503,929	15,138,922	1,781,111	662,856	17,582,889

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

15. LEASES

The Company leases its office space and certain office equipment. Leases with an initial term of 12 months or less are not recorded in the statement of financial position and lease expense is recognized on a straight-line basis over the lease term for these leases. For existing leases as of January 1, 2019 and leases commencing

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

on or after January 1, 2019, the Company accounts for the lease components (fixed payments including rent and variable payments that depend on an index or rate) separately from the non-lease components (e.g. common-area maintenance costs).

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or more. The exercise of lease renewal options is at the sole discretion of the Company. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of the Company's leases include rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

		As at January 1, 2019	As at June 30, 2019
		\$	\$
Assets	Classification		
Right-of-use assets	Land and buildings, net of accumulated depreciation ⁽¹⁾	79,688	70,365
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	79,688	71,279

1. As at June 30, 2019, right-of-use assets are recorded net of accumulated amortization of \$6,307.

		Three-month period ended June 30, 2019	Six-month period ended June 30, 2019
		\$	\$
Lease Cost	Classification		
Amortization of leased assets	Depreciation and amortization	3,263	6,572
Interest on lease liabilities	Interest expense	588	1,220
Net lease cost		3,851	7,792

Maturity of lease liabilities	As at June 30, 2019
	\$
2019	5,637
2020	11,507
2021	11,316
2022	10,367
2023	9,061
Thereafter	23,391

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	<u>As at June 30, 2019</u>
Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	7.5
Weighted-average discount rate	3.41%

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities the Company can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.
- Level 2 – Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation techniques where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.
- Level 3 – Non-observable or indicative prices or use of valuation techniques where one or more significant inputs are non-observable.

Valuation methods and assumptions

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

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Convertible debentures

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

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.

Derivatives

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

Investments

The FVTPL investments are valued based on bids received in the private market or using valuation techniques and/or inputs that are based on unobservable market data.

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	As at June 30, 2019				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non- observable market inputs	
	\$	\$	\$	\$	
Financial assets					
Assets not carried at fair value					
<i>Finance lease receivables</i>	11,992,415	—	—	11,992,415	11,992,415
<i>Finance loans receivables</i>	112,086	—	—	112,086	112,086
<i>Notes receivables</i>	10,081	—	—	10,081	10,081
Assets held at fair value					
<i>Derivative financial assets</i>					
<i>Interest rate swaps</i>	48,645	—	48,645	—	48,645
<i>Interest rate caps</i>	794	—	794	—	794
<i>Investments classified as FVTPL</i>	9,748	—	—	9,748	9,748
Total financial assets	12,173,769	—	49,439	12,124,330	12,173,769
Financial liabilities					
Liabilities not carried at fair value					
<i>Secured borrowings on finance receivables</i>	12,200,817	—	—	12,200,817	12,200,817
<i>Convertible debentures</i>	711,305	—	757,170	—	757,170
Liabilities held at fair value					
<i>Derivative financial liabilities</i>					
<i>Interest rate swaps</i>	51,557	—	51,557	—	51,557
<i>Equity swaps</i>	3,602	—	3,602	—	3,602
Total financial liabilities	12,967,281	—	812,329	22,070,792	22,883,121

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	As at December 31, 2018				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non- observable market inputs	
	\$	\$	\$	\$	
Financial assets					
Assets not carried at fair value					
<i>Finance lease receivables</i>	13,089,965	—	—	13,089,965	13,089,965
<i>Finance loans receivables</i>	113,623	—	—	113,623	113,623
<i>Notes receivables</i>	13,698	—	—	13,698	13,698
Assets held at fair value					
<i>Derivative financial assets</i>					
<i>Interest rate swaps</i>	28,700	—	28,700	—	28,700
<i>Interest rate caps</i>	6,052	—	6,052	—	6,052
<i>Investments classified as FVTPL</i>	109,138	—	—	109,138	109,138
Total financial assets	13,361,176	—	34,752	13,326,424	13,361,176
Financial liabilities					
Liabilities not carried at fair value					
<i>Secured borrowings on finance receivables</i>	10,924,763	—	—	10,924,763	10,924,763
<i>Convertible debentures</i>	897,435	—	959,065	—	959,065
Liabilities held at fair value					
<i>Derivative financial liabilities</i>					
<i>Foreign exchange forwards</i>	18,288	—	18,288	—	18,288
<i>Interest rate swaps</i>	39,684	—	39,684	—	39,684
<i>Equity swaps</i>	10,495	—	10,495	—	10,495
Total financial liabilities	11,890,665	—	1,027,532	10,924,763	11,952,295

17. PROVISIONS

During the three and six-month periods ended June 30, 2019, the Company recorded a restructuring provision of \$21,949 and \$28,687, respectively with respect to transformation. All amounts have been incurred and paid or expect to be paid by the end of the fourth quarter of 2019. During the three and six-month periods ended June 30, 2018, the Company recorded a restructuring provision of \$nil and \$40,811, respectively for severance and other termination costs of employees.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

The changes in the provisions during the current period were as follows:

Nature of expenses	Q1 2019	Q2 2019	Total	Remaining liability
	\$	\$	\$	\$
Severances	589	\$ 3,954	4,543	6,958
Professional fees	7,431	11,089	18,520	6,016
Other	(1,282)	6,906	5,624	559
Total	6,738	21,949	28,687	13,533

18. COMPARATIVE FIGURES

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